

## Preface

Developing or strengthening a poverty reduction strategy is on the agenda of about 70 low-income countries, most immediately in the countries receiving debt relief under the enhanced HIPC (Heavily Indebted Poor Countries) Initiative. The resulting Poverty Reduction Strategy Paper (PRSP) will be broadly endorsed by the Bank and Fund Boards as the basis of concessional assistance from the two institutions.

This Sourcebook is a guide to assist countries in the development and strengthening of poverty reduction strategies. It is intended only to be suggestive and to be selectively used as a resource to provide information about possible approaches. It does not provide “the answers,” which can only emerge as a result of analysis and dialogue at the level of the individual country. The Sourcebook reflects the thinking and practices associated with the Comprehensive Development Framework, lessons emerging from the forthcoming World Development Report on Poverty, and good international practices related to poverty reduction.

An effective poverty reduction strategy would be expected to: (a) be prepared by the country; (b) focus on faster and broad-based economic growth, which requires macroeconomic stability; (c) reflect a comprehensive understanding of poverty and its determinants; (d) assist in choosing public actions that have the highest poverty impact; and (e) establish outcome indicators that are set and monitored using participatory processes.

It is expected that most low-income countries will not immediately be in a position to fully address each of the elements. While poverty reduction strategies are being developed, concessional assistance from the Bank and Fund can be based on an interim PRSP. Interim PRSPs will lay out the process for producing a fully developed PRSP, identify the gaps that need to be filled, and outline how this might be done, including the use of external assistance.

The usefulness of the Sourcebook in a particular country context will depend on, *inter alia*, whether well-developed strategies to address poverty already exist. A range of other materials will also be available in-country, including, most obviously, the country’s own poverty diagnostics, sectoral and rural development strategies, national human development reports, situation assessments of women and children, and other materials and activities supported by external partners. The existence of the Sourcebook should not be taken to imply a need to create an entirely new national blueprint—in fact the opposite is the case, and national authorities are encouraged to draw upon existing materials as much as possible.

The current draft of the Sourcebook has been prepared mainly by Bank and Fund staff and reflects their experience working in various sectors and regions, although it has benefited from feedback from government officials in several African countries and from staff of related UN organizations. While the drafts have been reviewed by the heads of the relevant sectors at the Bank and Fund, they *do not* necessarily represent official World Bank/IMF policy.

The version circulating for discussion is a draft, and it will continue to be an evolving document that will be revised in the light of comments received, as well as country experience in developing and strengthening poverty reduction strategies. We invite your active participation in its formulation. Please send your comments to [prsp\\_sourcebook@worldbank.org](mailto:prsp_sourcebook@worldbank.org).

## **The Process of Developing or Strengthening Poverty Reduction Strategies**

The evolution of the PRS approach in a particular country will depend on, *inter alia*, initial conditions and the social and political forces that shape the process of building a poverty reduction strategy. These include cross-country variations in the type of government and in the degree of institutional and technical capacity to design and implement sectoral programs and policies to tackle poverty.

Nonetheless, certain building blocks are likely to be useful across countries. For example, understanding the nature of poverty and its causes, identifying obstacles to pro-poor growth and ascertaining whether key sectoral policies and programs are working to reduce poverty, are all likely to be among the priority areas for consideration. It is hoped that the approach will foster the development of reliable fiscal, macroeconomic and poverty data systems over the long run. The current statistical capacity of the country will determine which types of analyses are used to support the PRSP process in the short and medium run.

The table that follows provides some guidance in this respect, highlighting the most critical questions for national policy makers charged with developing a PRS. Associated with each essential building block are specific data needs, the involvement of key domestic agents, and the potential for drawing on other sources, as well as capacity building issues. The table also suggests where the Sourcebook could offer some guidance. While the type of data required will generally be similar across countries, the essential domestic agents, the data sources, capacity building issues, and the engagement and activities of external partners will vary from country to country. In this sense, the table is only meant to be illustrative.

While the table seeks to set out some of the important questions, this does not detract from the fact that developing a PRS will be a challenging task— not least because there are important linkages between areas. How macro, structural and sectoral policies can be integrated in a poverty reduction strategy is of crucial importance. This involves the important and necessary task of evaluating tradeoffs (and synergies) between alternative policy and program options. Another part of the challenge will be to resolve differences in opinion and perceived priorities that emerge during the participatory process. The primary objective of the process is not the (PRSP) paper itself but building better policies and programs to reduce poverty.

Table 1. Key Building Blocks for a Poverty Reduction Strategy

Building Block	Data needs	Key domestic agents	Other sources of diagnosis (Examples)	Key capacity building issues	Sourcebook Chapter References
<p><b><i>Who are the poor and why?</i></b></p> <ul style="list-style-type: none"> <li>•Constructing a basic poverty profile – Who? Where? For how long? – and identifying key patterns of poverty and vulnerability</li> <li>•Examining regulatory and spending policies, and institutional factors, that contribute to the lack of opportunities among the poor – based on information about their sources of income, their assets (human and physical) and their access to key services</li> <li>•Assessing the main needs and vulnerabilities of the poor, and prioritizing based on, for example, the number of people with unsatisfied needs and/or facing risks, and the magnitude of their needs/risks</li> </ul>	<ul style="list-style-type: none"> <li>•Consumption data (by region, rural/urban location and household type) from surveys and census</li> <li>•Administrative data disaggregated by gender and age</li> <li>•User surveys</li> <li>•Qualitative assessments</li> </ul>	<ul style="list-style-type: none"> <li>•Statistical agency</li> <li>•Poverty working group(s)</li> <li>•Civil society, NGOs, etc</li> </ul>	<ul style="list-style-type: none"> <li>•Poverty assessment</li> <li>•Social and situation assessments</li> <li>•Human Development Reports</li> </ul>	<ul style="list-style-type: none"> <li>•Frequency of multi-topic surveys</li> <li>•Building up capacity for poverty analysis</li> </ul>	<ul style="list-style-type: none"> <li>•Poverty Measurement</li> <li>•Gender</li> <li>•Rural Poverty</li> <li>•Urban Poverty</li> <li>•Governance</li> <li>•Macro</li> </ul>
<p><b><i>What policies are needed to support more rapid growth?</i></b></p> <ul style="list-style-type: none"> <li>•Determining how macrostability can be achieved/sustained: fiscal and monetary policy, inflation rate, exchange rate, transparency, and accountability in fiscal management</li> <li>•Identifying sources of non-inflationary finance</li> <li>•Determining whether framework for private sector growth is present: institutional arrangements, governance, functioning markets, public ownership role, regulatory environment, property rights, judicial system, corruption, banking system, trade regime, regulatory, tax system, infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>•National accounts data</li> <li>•Revenue data and projections</li> <li>•Data on business conditions from surveys of small operators</li> </ul>	<ul style="list-style-type: none"> <li>•Ministry of finance</li> <li>•Central bank</li> <li>•Tax administration</li> <li>•Sectoral ministries</li> </ul>	<ul style="list-style-type: none"> <li>•IMF/WB staff reports</li> <li>•Analysis supported by external partners</li> </ul>	<ul style="list-style-type: none"> <li>•Improving the reliability of macro data</li> <li>•Enabling private sector development</li> </ul>	<ul style="list-style-type: none"> <li>•Macro</li> <li>•Trade</li> <li>•Governance</li> <li>•Public Spending</li> <li>•Energy</li> <li>•Private Sector</li> </ul>
<p><b><i>What are the major obstacles to the poor's participation in more rapid growth?</i></b></p> <ul style="list-style-type: none"> <li>•Examining the poverty focus of government spending: size of nonproductive, military spending, amount and effectiveness of poverty-focused spending, the distributional impact of the regional and rural/urban spending mix</li> <li>•Examining the level of transparency and accountability in public expenditure systems</li> <li>•Assessing the tax system's impact on the poor and its efficiency</li> <li>•Identifying obstacles to participation of poor in growth: lack of assets (education, health land), regulatory environment, discrimination, access to credit, infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>•National accounts data</li> <li>•Administrative data by region and level of service in urban and rural areas</li> <li>•Data on income, expenditure, and employment sources (by gender, region &amp; age) from household surveys</li> </ul>	<ul style="list-style-type: none"> <li>•Ministry of finance</li> <li>•Central bank</li> <li>•Tax administration</li> <li>•Sectoral ministries</li> <li>•Local governments</li> <li>•Core poverty working group</li> </ul>	<ul style="list-style-type: none"> <li>•Poverty action plans</li> <li>•UN-supported reports</li> <li>•IMF staff reports</li> <li>•WB Public Expenditure, Social and Structural Reviews</li> </ul>	<ul style="list-style-type: none"> <li>•Improving reliability of fiscal data and expenditure monitoring</li> <li>•Fostering private sector development</li> <li>•Improving service delivery</li> </ul>	<ul style="list-style-type: none"> <li>•Macro</li> <li>•Governance</li> <li>•Public Spending</li> <li>•Health</li> <li>•Education</li> <li>•Transport</li> <li>•Private Sector</li> <li>•Rural poverty</li> </ul>

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Building Block	Data needs	Key domestic agents	Other sources of diagnosis (Examples)	Key capacity building issues	Sourcebook Chapter References
<p><b><i>How can governance arrangements be made more effective?</i></b></p> <ul style="list-style-type: none"> <li>•Identifying the main barriers to more effective public expenditure management; e.g., low real wages in the public sector; lack of unity in the budget preparation process or between sectoral plans</li> <li>•Determining the possibility of decentralized planning for budget priorities and allocations</li> <li>•Establishing safeguards to ensure the transparency and accountability of public budgeting and expenditure</li> </ul>	<ul style="list-style-type: none"> <li>•Disaggregated actual expenditures by sector</li> <li>•Expenditure tracking surveys (by level of service)</li> <li>•Public accounts and information dissemination</li> </ul>	<ul style="list-style-type: none"> <li>•Ministry of finance</li> <li>•Parliaments &amp; representative assemblies</li> <li>•Civil society, NGOs and public</li> </ul>	<ul style="list-style-type: none"> <li>•National institutional reviews</li> <li>•Public expenditure management reviews</li> <li>•Corruption surveys</li> </ul>	<ul style="list-style-type: none"> <li>•Improving accounting practices</li> <li>•Using poverty-oriented fiscal analysis</li> </ul>	<ul style="list-style-type: none"> <li>•Public Spending</li> <li>•Governance</li> <li>•Participation</li> <li>•Gender</li> </ul>
<p><b><i>How can broad-based participation in dialogue and decision making be enabled</i></b></p> <ul style="list-style-type: none"> <li>•Assessing the current status of participation, including the representativeness and accountability of governance structures</li> <li>•Disseminating information on poverty diagnostics, policy options and goals to facilitate participation</li> <li>•Seeking involvement in strategy design at the national and local levels and consulting civil society and private sector</li> <li>•Analyzing feedback on program implementation and budget execution</li> </ul>	<ul style="list-style-type: none"> <li>•Data gathered during program monitoring and impact evaluation (by gender, region and locality)</li> <li>•Data on actual expenditures by economic classification</li> </ul>	<ul style="list-style-type: none"> <li>•Parliaments and representative assemblies</li> <li>•Civil society <ul style="list-style-type: none"> <li>• NGOs</li> <li>• Public</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•National institutional reviews</li> <li>•User surveys</li> </ul>	<ul style="list-style-type: none"> <li>•Improving structures to disseminate information and enable feedback</li> </ul>	<ul style="list-style-type: none"> <li>•Governance</li> <li>•Participation</li> <li>•Monitoring and Evaluation</li> </ul>

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<p><b><i>Are key sectoral policies and programs— e.g. health, education, rural development and infrastructure—working to reduce poverty? What is needed?</i></b></p> <ul style="list-style-type: none"> <li>•Examining distributive impact of major programs—distribution of spending across households, regions and urban/rural localities</li> <li>•Isolating sources of any problem(s), whether supply side ( cost effectiveness of provision, input mix etc.), or demand side (constraints facing individuals, households and local governments)</li> <li>•Assessing effectiveness and efficiency of public spending. What are the poverty-reducing arrangements for transparency and accountability?</li> <li>•Considering potential for private sector solutions, and the need for regulatory reforms to facilitate expansion</li> <li>•Considering financing needs for pro-poor priorities, based on intra- and intersectoral reallocations, as well as increased expenditures as appropriate</li> <li>•Establishing linkages between key sectoral and structural policies and programs and identifying a priority list of policies to be enacted/changed</li> <li>•Setting intermediate/ final outcome targets for poverty reduction associated with the sectoral interventions</li> </ul>	<ul style="list-style-type: none"> <li>•Administrative expenditure data (by region and level of service)</li> <li>•Household consumption/income data by region from representative household survey</li> <li>•User surveys (by sector and level of service)</li> <li>•Participatory assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Statistical agency</li> <li>•Universities and think tanks</li> <li>•Private sector</li> <li>•Sectoral and finance ministries</li> <li>•Coordinating external assistance</li> <li>•Parliament</li> <li>• Cabinet</li> <li>•Local participatory processes</li> </ul>	<ul style="list-style-type: none"> <li>•Benefit incidence analysis (along gender region, and urban/rural lines)</li> <li>•Poverty map</li> <li>•WB Public Expenditure Reviews</li> <li>•Poverty Assessments</li> <li>•Focus groups</li> </ul>	<ul style="list-style-type: none"> <li>•Capacity for benefit incidence analysis</li> <li>•Capacity of sectoral ministries and local governments to deliver services to the poor</li> <li>•Appropriate regulatory capacity</li> </ul>	<ul style="list-style-type: none"> <li>•Public Spending</li> <li>•Rural Poverty</li> <li>•Transport</li> <li>•Health</li> <li>•Education</li> <li>•Social Protection</li> <li>•Energy</li> <li>•Participation</li> </ul>
<p><b><i>Can we measure progress in poverty reduction and the impact of policies and programs?</i></b></p> <ul style="list-style-type: none"> <li>•Setting measurable indicators</li> <li>•Ensuring data is being collected to monitor indicators—e.g., national accounts, actual budget expenditures, administrative systems, surveys and qualitative studies—and assessing the involvement of civil society</li> <li>•Establishing whether the relevant data is being analyzed and the results disseminated. Are major policies and programs being evaluated? If not, identifying key candidates for evaluation</li> <li>•Analyzing data, disseminating results, and getting feedback on policy/program design/redesign</li> </ul>	<ul style="list-style-type: none"> <li>•Data on consumption/income and employment from household surveys</li> <li>•Data on educational attainment &amp; health service utilization from administrative records</li> <li>•National accounts data</li> <li>•Administrative data</li> </ul>	<ul style="list-style-type: none"> <li>•National statistical Agency</li> <li>•Sectoral ministries</li> <li>•NGOs</li> <li>•Civil Society</li> <li>•Ministry of Finance</li> <li>•Core poverty working group</li> </ul>	<ul style="list-style-type: none"> <li>•As above for poverty measurement</li> </ul>	<ul style="list-style-type: none"> <li>•It may be necessary to regularize, and plan for new, data collection</li> </ul>	<ul style="list-style-type: none"> <li>•Monitoring and Evaluation</li> <li>•Poverty Measurement</li> <li>•Participation</li> <li>•Governance</li> </ul>

Preparing or strengthening a PRS is expected to be an interactive, iterative process. National authorities are expected to take the lead in the various dimensions. Key elements in these interactive processes would likely be seminars/workshops both internal to the country and, where relevant, on a regional basis. It is recognized that many countries face key capacity constraints--in their governments, and within their own private sectors and civil societies.

There are diverse elements of potential support outside of governments, including private sector agencies and civil society, and outside sources, such as technical assistance from the United Nations Development Program and bilateral agencies engaged in the country, and related training possibilities. External partners—bilateral and multilateral— may be invited to facilitate dialogue; to engage in longer-term capacity-building; and to finance data collection, civil society involvement, participatory assessments, and so on.

### **How to Use the Sourcebook**

The Sourcebook seeks to provide guidance *both* on the process aspects of the PRS and on substantive aspects of poverty diagnosis and the formulation of a strategy to address poverty in its various dimensions. As emphasized above, however, the Sourcebook is not intended to be prescriptive: it is not expected that any country would seek to apply the whole Sourcebook. Nor does it contain a “magic bullet” that will address all the difficult issues that countries will face in putting together a poverty reduction strategy, because the PRSP represents a learning experience for Bank and Fund staff just as it does for national authorities.

It is expected that the vast majority of readers will use this document very selectively. The sectoral chapters in Part II (macro and sectoral policies) are likely to be useful mainly for staff in the respective line ministries. For example, staff in the ministry of education may be interested in particular aspects of the education chapter (to help determine whether the input mix for schools is appropriate) and in cross-references to the chapters on public spending (to assess expenditure trade-offs) and monitoring and evaluation (to establish methods to track changes over time).

Some aspects of the core techniques in Part I are likely to be useful for many people involved in preparing poverty reduction strategies—but here again, only staff having the relevant responsibility are likely to examine any one chapter in its entirety. Hence readers concerned with a specific sector or topic are encouraged to refer directly to their area of interest, although there are cross-references in each of the chapters to important related areas.

Each chapter seeks to adopt a layered approach:

- a. a short summary providing overall guidance on issues that could be discussed at senior levels and at the level of a participatory steering committee;
- b. structured questions and guidance on developing or strengthening a poverty reduction strategy within and across sectors; and
- c. technical notes on what to do; suitable for persons with technical expertise in a country; case studies; resource material; and references.

The chapters are structured as follows. The sourcebook is an evolving document that will be revised in light of the comments and feedback received, as well as country experience in developing and strengthening poverty reduction strategies. The web site, <http://www.worldbank.org/poverty/strategies/index.htm>, will contain regular updates of the sourcebook.

Preface

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- 5. Public Spending

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