

Poverty Reduction Strategies



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1. Introduction

The Swedish Policy for Global Development¹ states that the Poverty Reduction Strategy (PRS)² shall be the starting point for Swedish development cooperation with a given country. In the Paris Declaration one basic principle is donor alignment with partners' strategies³. This Position Paper aims at giving some general guidelines on how Sida should relate to the PRSs. It must however be emphasised that the PRS processes are country specific and always have to be treated on a case-by-case basis.

The PRSs are primarily linked to Sida's processes at country level. The cooperation strategies shall as far as possible be adapted to the PRSs⁴. The strategies should include a formulation of the Swedish position towards the PRS of the partner country. The country plans are main documents for providing specific guidance for Swedish support to the PRS and issues and

1 *Shared Responsibility*, Sweden's Policy for Global Development, Government Bill 2002/03:122

2 Poverty Reduction Strategy (PRS) in this paper refer to national development strategies with focus on poverty reduction. The strategies have different names and they can be formulated in one single document (e.g. a Poverty Reduction Strategy Paper) or in several documents (including sector strategies). The underlying principles formulated by the World Bank could be applied to all PRSs, but it is important to separate the national PRS-process from the lending processes by the Bretton Woods Institutions (BWIs). See also Annex 1 for a short background information on PRS.

3 *Paris Declaration on Aid Effectiveness*, High Level Forum Paris February 28-March 2, 2005. The term 'national development strategies' includes poverty reduction and similar overarching strategies as well as sector and thematic strategies.

4 *Guidelines for cooperation strategies*, Ministry for Foreign Affairs, 2005.

forms for dialogue. The annual country reports should be used for monitoring of the PRS from a Swedish perspective.

Sida's position towards PRS will be reflected in the selection of areas for cooperation and dialogue as well as in the selection of aid modalities. Budget support is the form of cooperation which is directly aimed at supporting the PRS. However, Sector Wide Approaches (SWAPs) and other Sida contributions should also be seen as part of the PRS framework.

Sida should always aim at maximum alignment behind a PRS, given the specific country situation. As a minimum, the major part of the government-to-government cooperation should be related to the PRS framework and procedures be adjusted to the national processes, e.g. the budget process and the annual progress review of the PRS. Sida should also always consider supporting capacity development of the partner country's analysis, implementation and follow-up of the PRS.

When conditions are assessed as sufficient, Sida should use the PRS as the framework for its cooperation. This implies that the cooperation strategy is based on the PRS and all activities are related to the PRS framework. In this case Sida should also:

- formulate goals and targets for its development cooperation as much as possible on the basis of the PRS.
- primarily use the partner country's system for monitoring of the PRS, for monitoring of the Swedish development cooperation,
- as much as possible base its dialogue and conditions on the PRS framework,
- adjust the forms and the content of its development cooperation in order to achieve the most efficient support to the implementation of the PRS. This includes moving towards an increased share of predictable budget support and concentration of programmes in accordance with a division of labour agreed between the partner country and the donors (complementarity).

2. Assessment of the PRS

Sida shall assess the PRSs on the basis of the Swedish Policy for Global Development and development cooperation. The policy is based on the application of two perspectives – the rights-based perspective and the perspectives of poor people. The point of departure shall be that poverty is a cause, a symptom or a consequence of situations which have arisen as a result of insufficiencies with regard to: respect for human rights, democracy and good governance, equality between women and men, sustainable use of natural resources and protection of the environment, economic growth, social development and social security and peace and human security.

Sida's assessment should as much as possible be carried out jointly or in close coordination with the partner country and with other donors. A separate Swedish assessment should be made when a new Swedish cooperation strategy is being formulated. Sida should also follow the PRS and make informal assessments continuously, mainly based on the country's own monitoring. Major findings could be presented to the partner government and to other donors in connection with annual progress reviews of the PRS. In case other recent assessments of the PRS are available the Sida assessment should use these as background material and complement them when needed.

A Swedish assessment of a PRS shall primarily include assessment of:

- a) The content (including the implications for poor women and men) and the underlying poverty analysis.

- b) Ownership and the process for preparation, implementation and monitoring of the strategy.
- c) The consistency of the strategy, including prioritisation, costing and financing plans.
- d) The capacity for implementation of the strategy, with special emphasis on its integration into the national and local budgets.
- e) Monitoring and results framework.

a) The poverty analysis

A PRS is always based on an understanding of the poverty situation in the country and should be linked to the Millennium Development Goals. Sometimes one or several explicit analyses have been made, sometimes the analytical background is included in the strategy document. Sida shall make an assessment of this based on the view of poverty expressed in Sweden's Policy for Global Development and Sida's *Perspectives on Poverty*⁵. In this work, use of and support to analyses made by the government, research institutions and civil society in the partner country should be a main element.

Comprehensive guidelines for Sida's work with poverty analysis at the country level are given in *Country Level analysis for Poverty Reduction*.⁶

Some questions to be covered by Sida's assessment of the poverty analysis in the PRS are presented in Annex 2.

b) The PRS process

The issue of participation in the PRS process has been much in focus during the early period when the first generation of national Poverty Reduction Strategy documents was elaborated. The "second generation" of PRSs have to move beyond a limited civil-society consultation and towards a more holistic approach to supporting government accountability to citizens, especially poor women and men. The PRS-process must become an integrated part of the formal democratic processes and openly debated in media and parliament and elected bodies at local level. The parliament should ideally also formally endorse the document.

⁵ *Perspectives on Poverty*, Sida October 2002.

⁶ See *Country Level Analysis for Poverty Reduction*, Sida 2005.

Some questions to be answered by the assessment of the participation process are presented in Annex 3. In countries in which a national PRS document has been in place for several years, the same questions can be asked regarding the APR, including assessment of not only the absolute level but also the trend for government and national ownership.

c) The consistency of the strategy

The PRS is normally formulated in a PRSP-document. Although too much attention has been given to this document as compared with the actual processes, it remains an important paper. Some questions for assessment of the consistency in the formulation of the PRS are presented in Annex 4. The fundamental issues are the realism of the macroeconomic framework, appropriate costing of programmes and clear prioritisation against different scenarios for resource availability.

d) The capacity for implementation of the strategy

It is necessary that the PRS becomes an integrated part of the budget process in the partner country. The resources for implementing the PRS (including donor funding) must mainly be channelled through the country's national budget and local governments' budgets. Donor support to the partner government should be channelled either as budget support or as integrated programmes and projects. Efficient, transparent, accountable and predictable public finance management in partner countries is a necessary prerequisite for long term and sustainable reduction of poverty and effective use of scarce financial resources. Sida's assessment of the implementation of PRSs is therefore closely linked to the assessment of the PFM systems⁷.

Sida must also assess the country's implementing capacity in more general terms. Capacity should be seen in a broad context, including formal rules and institutions as well as informal structures, social capital and cultural factors. The extent of corruption, as well as the government's will and capacity to tackle it, shall be assessed, in accordance with Sida's manual.⁸

Implementation of a PRS is however not only a question of public expenditure. It is a risk that donors in their assess-

7 See *Position Paper on Public Finance Management*, Sida 2005.

8 *Sida's Anticorruption Regulation, A Manual*, December 2004

ment of and support to PRS concentrate primarily on social expenditure while not giving enough attention to issues of production and trade. But for sustainable poverty reduction to be achieved it is also necessary that an enabling environment is established for private sector and trade development.

It is important that Sida makes an assessment of the political situation and is aware of that aligning development cooperation with PRS makes it more sensitive to political changes. National programmes and strategies are by definition political tools and they will be reconsidered and even abolished when a new government takes over. It should be emphasised however that a PRS must be a political process and that it becomes ineffective if it is confined to merely a technocratic product.

e) Monitoring and results framework

The PRS concept, the Paris Declaration and not least the move towards increased budget support, build on the existence of national frameworks for monitoring of results. Since these are very weak in most developing countries, it is a key requirement that Sida and other donors support strengthening of the frameworks and use them for their own monitoring instead of creating parallel systems.

Some questions to be asked regarding the results framework are presented in Annex 5.

3. Conclusions

Based on the assessment Sida shall decide how it will relate to the PRS in its development cooperation with the country. Should the Sida assessment differ significantly from other assessments, the reasons for that should be elaborated upon.

The key issue in the assessment of a PRS is if the government is accountable to the citizens for the PRS. If this is the case, Sida should be prepared to use the PRS as a framework for Swedish development cooperation. This does not rule out that Sida will have its own views on the PRS, but these are not considered serious enough to question the PRS framework.

There may be two reasons why the government is not accountable to the citizens for the PRS:

- a) the PRS is only established for external partners, but accountability structures are in place for other policies,
- b) domestic accountability structures are generally weak or non-existent.

In the first case, PRS could still be used as a technical instrument, e.g. for donor coordination, but the primary objective should be to integrate the PRS into the national policy structure. In the second case, a further analysis is needed to find out if the PRS framework could be used as an instrument to strengthen accountability institutions.

Many partner countries are for different reasons classified as “fragile states”. In these countries state-building often must be

at the core of development efforts, but Sida should align behind government strategies if the government demonstrates political will to foster the development of the country. In cases where this is not possible because of particularly weak governance or lack of formulated strategies, Sida should consult with national stakeholders and seek opportunities for partial alignment at sectoral or regional level⁹. In conflict-affected countries security issues must be integrated into the process. Sida should make efforts to assure that the PRS is conflict sensitive and that it addresses root causes of insecurity, as well as potential or present violent conflict. Opportunities to use the PRS-process for consensus building should be exploited. In countries seeking a closer relationship with the European Union, Sida should support integration of this process with the PRS process.

If the assessment concludes that from a Swedish policy point of view there are serious insufficiencies in the PRS, various actions can be considered. The first option is to bring up specifically defined issues at the discussion in the next annual progress review. If this is not considered to be sufficient, Sida could, together with other like-minded donors¹⁰, agree with the government on improvements or amendments in the PRS process. If there is a significant lack in the diagnostic work in an area of importance for Swedish co-operation policy, specific support may be agreed upon with the government. Such support should preferably be provided jointly with other domestic and/or international stakeholders.

It is important to take both the absolute level of the PRS and the rate of improvements in the process into consideration. The degree of alignment with the PRS depends on the country context and will in the end be decided on basis of the summary of the various issues raised in this paper. The depth of the poverty analysis, the degree to which it covers different dimensions of poverty and how well the analysis is reflected in priorities and budget allocations are important issues in this context, as well as best possible assessment of political commitment and institutional capacity. It is however always necessary to secure that Swedish cooperation does not undermine efforts at strengthened national ownership and harmonisation.

⁹ See OECD/DAC, *Principles for good international engagement in fragile states*, draft April 2005.

¹⁰ "Like-minded donors" is here not defined as a fixed group of donors, but as a group of donors that in a specific country at a specific point of time agree on specific actions, issues for dialogue etc.

The concept of “dialogue” has a central position in Swedish development cooperation. It includes elements of identification of a common platform, result-oriented negotiation and mutual learning.¹¹ The Paris Declaration and the PRS framework means that the context of the dialogue changes. It can no longer be seen as primarily a bilateral relation. The partner country formulates its agenda through the PRS and donors are invited to align with this. Often a joint group of local development players is formed under government leadership, through which like-minded donors align their support programmes with the country’s policy and coordinate these programmes with each other.

Policy dialogue should primarily be carried out collectively and only at specific occasions and be adapted to the national processes¹². A bilateral donor like Sida should therefore mainly carry out its dialogue through coordinated donor groups. These groups can consist of all donors, a smaller group of “like-minded” donors or the EU group (Member states and the Commission). In this dialogue the values behind the Policy for Global Development are important points of departure. The two perspectives could be of special use in this context.

Dialogue and conditionality should also be:

- open and transparent and based on principles stated in advance,
- as much as possible based on a common agreed framework derived from the PRS,
- focused on results and processes, rather than on specific policy measures.

Donors should link their performance based monitoring to the PRS and preferably to a limited number of agreed benchmarks and/or criteria. This streamlined framework should be used by all donors when they select conditions to attach to their funding but it does not mean that all donors will have identical conditions. The same principle should be used for selection of dialogue issues. This is one example where a division of labour between donors can be useful.

11 *Sida at Work*, A Guide to Principles, Procedures and Working Methods, Sida 2005.

12 Dialogue will still be carried out bilaterally at project/programme level on e.g. technical and legal matters.

There will in some countries remain issues where Sida cannot agree with the partner country on the basis of its PRS. This mainly concerns peace and security and democracy and human rights issues, including gender equality. In these cases the dialogue could be based on international conventions or jointly agreed benchmarks outside the PRS. Also in such cases Sida shall as much as possible coordinate its position with other donors.

Annex 1

Background to PRS

The concept “Poverty Reduction Strategy Paper” (PRSP) was launched by the World Bank and the IMF in 1999 as a component of the debt relief programme for Highly Indebted Poor Countries (HIPC). The objective was to establish a strategy within which the resources allocated for debt relief could be used for poverty reduction. In order to benefit from the Initiative, countries had to present a PRSP for approval to the boards of the IMF and the WB. Later, an approved PRSP also became a condition for new concessional policy lending by the IMF and the WB¹³.

The World Bank has formulated some core PRS principles¹⁴. According to these, PRSs should be:

- *country-driven*, promoting national ownership of strategies through broad-based participation of civil society;
- *result-oriented* and focused on outcomes that will benefit the poor;
- *comprehensive* in recognizing the multidimensional nature of poverty;
- *partnership-oriented*, involving coordinated participation of development partners (government, domestic stakeholders, and external donors); and

13 IMF's Poverty Reduction and Growth Facility (PRGF) and the World Bank's Poverty Reduction Support Credit (PRSC)

14 *Balancing Accountabilities and Scaling up Results*, 2005 PRS Review, The World Bank 2005.

- based on a *long-term perspective* for poverty reduction.

Due to its importance for debt relief and concessional lending from the IMF and the World Bank, the PRS framework has become a key instrument for the poorest countries in their relations to the donor community. At present, more than 50 countries have started formal PRS-processes and several others are in preparation. In recent years, a number of developing countries have also taken an increased responsibility for their PRS and started to integrate them into their national development strategies.

Recently the PRS-process has been de-linked from the lending by the IMF and the World Bank and explicit endorsement of the PRSP by the Executive Boards of the two institutions is no longer required. Instead IMF and World Bank staff are to focus on providing feedback to countries on the PRSP and on linking more explicitly the lending operations of the IMF and the World Bank to the countries' own strategy and priorities.

This is a new situation. PRS has been established as the basic framework for poverty reduction, based on national ownership. Even if the situation differs substantially between countries, the concept is fully endorsed by the Low-Income Countries as well as by bilateral and multilateral donors. This was confirmed by the Paris Declaration on Aid Effectiveness in March 2005. One aspect of this consensus is that the PRSs are seen as the main instruments for achieving the Millennium Development Goals at the national level¹⁵. This has been reaffirmed at the UN Millennium Summit in September 2005.

¹⁵ See e.g. *In larger freedom: towards development, security and human rights for all*, Report of the Secretary-General, United Nations March 2005 and MDGs: *From Consensus to Momentum*, Global Monitoring Report, World Bank 2005

Annex 2

Sida's "Country Level Analysis for Poverty Reduction" is the key document for assessment of poverty analysis. Here are some examples of questions to be covered by Sida's assessment of the poverty analysis in PRS:

- Is the approach to poverty *multidimensional*? Are social indicators sufficiently covered? Does it analyse access to the formal and informal structures of power, including differences based on sex, age, ethnicity and geography? Does it describe the distribution of wealth? Does it include an analysis of key poverty-environment linkages? Does it take the different conditions in rural and urban areas into consideration? To what extent is the situation regarding human rights, security, vulnerability, inequality and freedom of choice and possibilities to take decision about one's own life covered?
- Is poverty explained in terms of *social exclusion*? Is the situation of e.g. disabled persons, migrants and ethnic minorities given sufficient attention? What social networks (social protection) exist? What assets do poor people possess and what do they invest/save in? What coping mechanisms are common in times of crisis? What characterises the informal sector and how do poor groups interact with this?
- Are economic, social, environmental and institutional *constraints* to poverty reduction identified, to what extent is a power analysis included? To what extent are processes and

institutions that perpetuate or promote poverty identified? Does the analysis clearly identify specific dimensions of poverty that affect women and children? Does the analysis take account of the consequences of HIV/AIDS for the poverty situation? Does the analysis incorporate the effects of environmental degradation on poor women and men?

- Does it analyse the *causes* of poverty or is it more of a descriptive poverty profile? Does it take a holistic perspective, including e.g. security and trade issues?
- Is the *quality of poverty data* sufficiently good? Are they disaggregated with regard to gender and geographical distribution? Are data accessible also to stakeholders outside the government? If good and disaggregated data is available, is it also used as a basis for decisions? Are gender dimensions included in the analysis and are conclusions drawn from this?
- Does the analysis integrate a *rights perspective* by applying the principles of openness and transparency, non-discrimination, accountability and participation? Does it analyse availability, accessibility and quality of services offered by the state to women, men, girls and boys?
- Is an assessment made of the *growth and distribution* effects of recent policies? (If results from Poverty and Social Impact Analysis, PSIA are available, they can be used in this context.). Are effects of e.g. macroeconomic policy and trade reforms on poverty taken into account? Are gender dimensions taken into account?
- Are the future *social and economic effects of the HIV/AIDS* situation sufficiently taken into consideration?
- Are *crosssectoral issues* (gender equality, environment, peace and conflict, private sector development etc.) sufficiently covered or is the analysis mainly structured according to sectors? Does the analysis cover overall development issues or does it focus narrowly on public expenditure?

Annex 3

Examples of questions to be asked by Sida's assessment of the PRS participation process:

- To which extent has different parts of the government been involved and how broad has this involvement been? Compare the role of the Ministry of Finance and that of other ministries.
- To what extent have local governments been informed and involved?
- To what extent has the parliament and local democratic institutions been involved?
- Has the public been informed about the process via media? Has this information been open and presented different policy options?
- How much participation from civil society and the private sector? What was the impact and influence of the stakeholders' interventions?
- How representative are the stakeholders from civil society and what are their respective mandates? Do they represent relevant categories of poor people (e.g. in terms of gender, employment, rural/urban etc.)?
- Has the PRS document been adopted by the parliament? Does the PRS process fit with domestic political cycles, such as elections?

- Has the degree of participation and consultations regarding the macro economic issues been as wide as for other parts of the PRS document?
- Is there a genuine political debate about different policy options?
- How has the agreed PRS document been disseminated?

Annex 4

Examples of questions for assessment of the consistency of the PRS

- Is the strategy based on a stable and consistent macroeconomic framework?
- Are the assumptions about growth, domestic revenue, international economic conditions and development assistance realistic?
- To what extent are longer-term structural issues like factor productivity, employment, viability of small-holder agriculture and agro-industrial linkages taken into account?
- Does the strategy clearly spell out prioritisation of realistic goals, expenditures etc. or is it primarily a wish-list?
- Is the strategy clearly linked to the national budget? Is it integrated into a Medium Term Expenditure Framework (MTEF)?
- Does the strategy provide different scenarios under different assumptions and do these clearly indicate prioritisation of poverty reduction?
- Does the strategy give attention to the impact on poor women and men of alternative policy options and does it propose measures to alleviate any negative impact?
- Are the costs of the proposed measures appropriately estimated and financing identified?

- Is there evidence of any trade-offs between policy choices and has there been any discussion as to how these should be resolved?
- Does the strategy integrate a long-term, environmentally sustainable perspective?
- Does the strategy have a credible framework for its implementation (e.g. that roles of different government branches and levels are clarified)?

Annex 5

Examples of questions to be asked regarding the results framework

- Does the country have a system for monitoring PRS?
- Is it sufficiently comprehensive and is the quality of data acceptable? Does it allow for annual monitoring of relevant indicators?
- Does the system integrate information at local level, including information provided by CSOs?
- Does the system relate to the MDGs and is progress towards achieving the MDGs studied in a local context?
- Are the results disseminated, discussed and used for policy changes?

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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