DRAFT DAC GUIDELINES ON POVERTY REDUCTION: EXECUTIVE SUMMARY

(Note by the Secretariat)

This document is submitted for REVIEW and DISCUSSION at the DAC Senior Level Meeting on 12-13 December 2000, under item 2b of the Agenda.

Ms. Raundi Halvorson-Quevedo: Tel: 33 (1) 45 24 91 59; Fax: 33 (1) 44 30 61 47; Email: raundi.halvorson-quevedo@oecd.org
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DAC GUIDELINES ON POVERTY REDUCTION

EXECUTIVE SUMMARY

I. The rising priority of poverty reduction

1. For about half a century the development assistance community has worked, in solidarity with others, to support development and improve living conditions in developing countries. There is, though, surprisingly little recognition of the remarkable progress has been achieved by the combined efforts of governments and societies, aided by this external support. In the last thirty years alone, life expectancy in developing countries has increased by more than twenty years (from forty-one to sixty-two years). Infant mortality rates have been halved and primary school enrolment rates have doubled. Improvements in income levels, as well as in health and education, exceeded the performance of industrialised countries. Many major developing countries, such as Korea and China, passed rapidly from low to middle-income countries.

2. These results are highly encouraging. They demonstrate that poverty can be overcome. But the battle is far from over. Extreme poverty still ravages the lives of one out of every four persons (or 1.2 billion people) in the developing world\(^1\). Progress in tackling poverty has been uneven. In particular, Asia has made rapid progress (although it still accounts for most of the world’s poor), while Africa has struggled under the combined weight of slow growth, governance problems, violent conflict and (more recently) the HIV/AIDS pandemic. The root causes of poverty pose continuing challenges: in addition to those cited above, there is the increasing marginalisation of ethnic and other minorities, growing inequality within and among nations, and the exclusion of the poor from economic and political life in many countries and the global mainstream. Both the challenges, and the stakes, for eradicating poverty are high - and they are rising.

3. Changing global dynamics are adding additional, troubling dimensions to the poverty problem. In a rapidly globalising world, the social ills associated with poverty -- disease, crime, conflict, terrorism, illicit migration, political instability, environmental degradation -- can spread with greater ease and impunity across borders and continents. This trend will be exacerbated in many countries by the pressures of population growth: 97% of the estimated population growth of 2 billion people over the next twenty years will live in the developing world. To longstanding convictions that poverty must be countered on moral and humanitarian grounds, there is now an increasingly powerful incentive: enlightened self-interest. The scope for strengthening human security, increasing global prosperity, and reducing social and environmental stresses will more and more turn on the extent to which poverty can be vanquished.

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\(^1\) As measured by the international standard of US $1 per day. This figure would be 2.8 billion people, or six out of every ten persons using the US $2 per day standard.
4. Broader developments heighten the urgency of addressing poverty. The accelerating pace of economic integration among nations will fuel future growth in incomes and jobs (see Box 1) and create unprecedented opportunities for learning, communicating and sharing knowledge with others. Globalisation holds great promise for empowering people and for promoting greater political dialogue and understanding of country differences, which in turn will promote security and regional partnerships. It is leading to unprecedented growth in export-related jobs, in both the “new economy” linked to information technology and the “old economy” of e.g. shoes and textiles. But it also threatens to widen the divide between rich and poor and to increase the risk of a two-track world, where some countries and some regions fall increasingly behind. Globalisation will not deliver its potential benefits if it works for only a few.

5. The current conjuncture for confronting poverty is promising. There is now broad global commitment to halving the proportion of people living in extreme poverty by 2015. Developing countries are establishing and implementing strategies to achieve this goal. The development community is putting together a co-ordinated and focused response, mustering the political will and establishing the necessary frameworks and mechanisms for organising a more concerted and effective assault on poverty.

6. The time is right to seize the opportunities at hand: rising political will to tackle poverty, economic prosperity in OECD countries, the potential of globalisation for all and technological advances in telecommunications, information and the life sciences. It is essential to deliver on our promises and our convictions, following through with commitment, resources and well-founded efforts on the ground. Everyone has a stake in working more effectively, with greater scope, to reduce global poverty.

II. Implementing the DAC 21st century strategy

7. The OECD/DAC strategy *Shaping the 21st Century: The Contribution of Development Co-operation* set out a vision of development co-operation based on partnership around development strategies owned and led by developing country governments and civil societies. This model has been reaffirmed in emerging international frameworks for organising poverty reduction support. The principles underpinning this vision -- partnership, ownership, country leadership, broad-based participation, development effectiveness and accountability -- have far-reaching implications for the way development agencies conduct business. They call for working in a much closer, more co-ordinated way with a wider range of development partners; for tailoring assistance to partner country priorities and needs; for being accountable to partners and publics for actions and commitments, and for working as facilitators in a supportive -- rather than leadership -- role. This is the ideal to strive towards: the rate at which it can be realised depends in part on partner country commitment, in word and deeds, to poverty reduction.

8. Implementing the 21st century strategy presents a broad challenge for the bilateral community. Faced with this challenge, and committed to working more effectively to reduce poverty, DAC Members have developed a set of guidelines to help orient, concert and improve their individual and collective efforts. The *DAC Guidelines on Poverty Reduction* cover five major themes: poverty concepts and approaches, partnership issues, country programming, policy coherence and development agency institutional change. The following sections of this summary highlight the key conclusions, commitments, and challenges they contain.

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Developing countries in this text are referred to as “partner countries” or “partner governments”, as opposed to “recipients”, to indicate the importance attached to partnership processes and modalities. Similarly, the bilateral assistance community is referred to as “development agencies” or “agencies” (and not “donors”). “Stakeholders” refers to those who have an interest and/or a concern in reducing poverty.
III. Common concepts and approaches for understanding, measuring, and focusing on poverty

9. The Guidelines begins with an overview of poverty concepts and approaches, developing a framework for thinking about and understanding the nature of poverty. It clarifies the multidimensional nature of poverty, who the poor are, and how anti-poverty measures can be shaped, combined and monitored. Key messages are:

10. **Poverty encompasses many dimensions of well-being**: Poverty concepts should define the nature of poverty, its causal factors, and the dynamic interactions among different causes that give rise to impoverishment processes. Poverty is best understood as encompassing a range of different dimensions of deprivation where people are unable to meet adequate standards of human well-being. These dimensions of poverty cover several distinct aspects of human capabilities, including economic (income, livelihoods), human (health, literacy), political (empowerment, human rights, voice), socio-cultural (participation, dignity) and protective (insecurity, vulnerability). It is also important to understand and address poverty by focusing on gender equality and environmental sustainability, two cross-cutting aspects of socio-economic development which have considerable influence on the extent and effectiveness of poverty reduction actions. A common understanding of poverty and agreement on priorities for tackling it helps build a common agenda among all development partners and increases the effectiveness and coherence of strategies for reducing it.

<table>
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<tr>
<th>Box 1. The need for fast and pro-poor growth</th>
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<tr>
<td>Inadequate economic growth – in terms of pace and poverty orientation-- is a fundamental cause of income poverty. Vigorous and sustained private-sector-led economic growth creates jobs and earnings for the poor and generates public revenues for financing anti-poverty programs. Efforts to strengthen growth by promoting competitive markets and an enabling institutional environment are a key component of poverty reduction strategies.</td>
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<td>But even vigorous and sustained growth can leave people behind. Policy research has demonstrated that growth explains only about half of the increase in incomes of the poorest fifth of the population. Growth needs to be “pro-poor”: it should create opportunities for poor women and men, and it should be supplemented by policies mitigating the effects of shocks and sudden sharp economic adjustments. Growth that is not “pro-poor” can slow and even reverse potential poverty reduction: the inequality it generates can retard future growth.</td>
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<td>Achieving pro-poor growth requires policies and programs that will enable poor people themselves to make use of their assets and capabilities to enhance their livelihoods through, for example, microfinance programmes or private-sector-led growth of labour-intensive manufacturing or agricultural exports. Governments also need to tackle the inequalities of opportunity that face poor people by improving access to basic social services (particularly education and health) which are essential human capital investments required for achieving broadly-based growth. Further, governments should design fiscal policies that are aligned with the overarching commitment to poverty reduction.</td>
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<td>Pro-poor growth requires macroeconomic stability, in particular sustained low inflation. Recent experience, including in the East Asian financial crisis, shows that sustainable growth also requires effective institutional frameworks and capacities. Key requirements in this regard include corporate governance systems that promote a sound environment for private investment, and a regulatory environment that fosters both competition and systemic stability, with particular attention to the financial sector.</td>
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11. **Results depend on sound approaches:** The basic approach for formulating a poverty reduction strategy calls for a sequence of steps involving i) seeking broad-based agreement within the country on the most important dimensions of poverty that need to be tackled, ii) identifying and ranking the causes of these dimensions, iii) designing and prioritising policies and actions to address these causes, and iv) specifying the indicators or goals to be attained as a basis for monitoring progress. To achieve results it is necessary to analyse poverty causes in local as well as national contexts; to design appropriate policy responses; to combine analysis, participation and action at national and local levels; and to assess the likely effectiveness of different policy instruments and actions. Poor people themselves are a key resource in learning about and understanding poverty in a given context.

12. **What causes poverty?** Factors giving rise to poverty vary widely from one country to another. Deficient governance and historical antecedents and development patterns are fundamental causes of poverty at the national level. Wars, armed conflicts and state collapse cause and aggravate poverty in all of its dimensions. Entrenched corruption and rent-seeking elites, inefficient institutions and bureaucracies, and a lack of social cohesion and political will to undertake reforms are other basic features of governance environments that are inimical to poverty reducing development. Crumbling physical and social infrastructure and counterproductive economic policies cause economic stagnation and decline, which increases poverty. Other important and prevalent causes of poverty are environmental degradation, gender discrimination and high population growth. HIV/AIDS is emerging as an absolutely critical poverty issue requiring urgent and wide-ranging action.

13. **Pro-poor growth and reduced inequality are needed:** Asset and income inequality is a major impediment to poverty reduction. Reducing poverty calls for fast and pro-poor growth led by the private sector and based on efficient markets: inequality tends to lower both the pace and quality of growth and, in many countries, to undermine the effect of growth on poverty reduction (see Box 1). When it gives rise to conflict and violence, inequality has disastrous consequences for growth and, even more so, on the well-being of the poor. Pro-poor and engendered structural change, such as land tenure reform or improved access to education by all, is a key component of poverty reduction strategies. Development agencies should focus attention on these issues and help develop and strengthen coalitions supporting reforms furthering the reduction of inequality.

14. **Creating an enabling environment for participation and opportunity:** Approaches for reducing poverty should encompass the broad array of policies that establish a wider enabling environment for opportunity, empowerment and security. Such a focus, which deals with levelling the playing field within and across countries, should include support for developing viable, competitive private sectors; debt relief; improved governance (for example, rule of law, transparency and accountability, preventing violent conflict); broader participation of society at large; and capacity building (for example, for poverty reduction or trade). There should be a considered balance and partnership between the three main spheres of society: government, business and civil society. Emerging issues of critical importance such as globalisation, global public goods and digital needs and opportunities must be addressed with greater urgency.

15. **Empowerment is decisive for achieving impact:** Powerlessness, injustice and exclusion from social participation accentuate and perpetuate poverty. The capacity of the poor needs to be enhanced to enable them to influence state institutions and social processes that affect their lives. Key elements here include strengthening popular participation in formulating and implementing policy and in assessing impact; promoting democratic and accountable governance with respect for human rights and marginalised

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3 Recent research suggests that high inequality countries would need to grow twice as fast a low inequality countries in order to halve income poverty by 2015, which is unrealistic. See Will Growth Halve Global Poverty by 2015?, ODI Poverty Briefing, 8 July 2000.
groups; increasing the scope for civil society interaction; supporting a free press; reinforcing the rule of law and giving the poor greater voice and control over the type, quality and delivery of services they receive.

16. **Ensuring higher quality, easily accessible social services:** Improved social welfare and capabilities call for a strong and unwavering focus on increased, higher quality and more widely available social services, including health, education, water and sanitation. Investment in these services should be accompanied by determined efforts to improve the allocation of spending within each social sector, addressing, in particular, choices (for example between basic and higher education, or between primary and curative health care). Primary education and functional literacy -- especially for girls and women -- is widely considered to be the single most important factor for reducing poverty. The poor, especially women and rural inhabitants, are often bypassed in public service delivery systems. Thus crucial social service expenditures need to be coupled with incentives and opportunities to improve the quality and reach of essential public goods for poor people. Pro-poor methods of financing public social services with taxes and, in some cases, user fees, should be carefully studied, designed and monitored to ensure access, affordability, and quality of services rendered. Recent experience shows that for some services, particularly water supply and sanitation, the private sector can help to improve coverage of the poor as well as efficiency.

17. **Reducing vulnerability and managing shocks:** Human security means protecting people from deprivation as a result of disruptions or shocks both at the macro/national level and at the household level. Poor people see insecurity both as a major dimension, and a principal cause, of poverty. A human security approach addresses the sources of risk that affect poor people, breaking out of the increasingly artificial separation between conflict prevention and resolution, post-conflict reconstruction, natural disaster preparedness and relief, and rights-based governance work. In several parts of the world, actions that concentrate on reducing multiple sources of risk, including the environmental risks caused by increasing shortages of fertile land, clean water and fresh air, and assisting poor people to contend with them, are likely to remain an important approach to anti-poverty action.

IV. **Forging effective poverty reduction partnerships**

18. The emphasis on partnership calls for a comprehensive re-thinking of development co-operation practices. Experience with good practice in building partnerships has been distilled in Part II of the Guidelines, including basic principles for working as partners, how agencies can deal with diverse partner country situations and how they can interact most effectively with other partners. Major conclusions and guidance are:

19. **Key underlying principles:** Seven basic principles should govern agency actions in working with partners: i) national ownership of development strategies, policies and priorities is essential for development effectiveness and should be consistently respected and promoted in all interactions with partners; ii) partnership approaches, which facilitate and strengthen ownership, should be the basis for all assistance; iii) agency support for national poverty reduction strategies should be based on a sound assessment of the merits, drawbacks and trade-offs of the chosen approach; iv) increased participation and empowerment are key; v) gender should be mainstreamed in all policies and programmes for reducing poverty; vi) better co-ordination and long-term commitment is necessary to strengthen partnerships and impact, and vii) development efforts should be monitored and evaluated with government partners and poor people themselves in order to assess partnership performance and to secure and maintain pro-poor effects.
20. **The ingredients of effective partnerships:** Sound, productive partnerships between governments, civil society and the development community are based on trust, mutual accountability, and a shared commitment to the goals, objectives and results to be achieved. They work most effectively when they are based on reciprocal relationships characterised by clear understandings about the roles and responsibilities of the different partners and where there is open, inclusive dialogue among them.

21. **Criteria for assessing partnership performance:** Working in partnership creates a need for partners to mutually assess their performance in meeting agreed-upon responsibilities and obligations. Reciprocity of this sort strengthens the trust and commitment of other partners. As an example, partner country performance could be appraised in such areas as the scope and pace of government efforts to orient strategies in a pro-poor, gender-aware direction; the quality of the policy dialogue, the extent and quality of consultative processes in developing national poverty reduction strategies and the impact of poverty reduction policies and programmes. Similarly, development agency performance could be assessed in terms of such factors as the extent to which i) planning and implementation activities support partner-country-led strategies and are co-ordinated with other partners; ii) agency actions respect and foster local ownership iii) resources are provided more flexibly and predictably, and iv) projects are integrated in partner government expenditure frameworks, and v) their support has had an impact on reducing poverty.

22. **Allocating resources where there is greatest scope for reducing poverty:** Generally, resources should be allocated where there is greatest scope for reducing poverty, while reserving a nominal share for poor performing partner countries. Countries with strong poverty reduction potential are those with large numbers of poor people and with relatively good policy performance. Past government performance in implementing policies will usually be a good indicator of future performance. More specific relevant factors include the extent to which a partner country is committed to reducing poverty, the extent to which that commitment is reflected in budgets and their outcomes, and the extent and depth of poverty in a country. The legitimacy, adequacy and appropriateness of partner country poverty reduction strategies are also important criteria to be factored into agency planning and budget allocation decisions.

23. **The local context is determinant:** Each partner country presents different and changing opportunities and challenges for reducing poverty and has its own view of necessary policies and priorities. Agency country strategies should be adapted to the specific context of each partner country, reflecting local social and political conditions, the strength and capabilities of national institutions, the depth and breadth of poverty and its geographic and spacial character. The partner country’s poverty reduction strategy will determine the contents of each agency’s country programme. Agency support should reflect national goals and plans, taking into account the specific comparative advantages that agency resources and expertise can contribute.

24. **Dealing with dilemma situations:** Working as partners in ways that promote country ownership -- and yet ensure that development co-operation is effective and has an impact in reducing poverty -- is likely to be problematical. Difficulties will arise when a partner government does not comply, or only partially complies, with its stated intentions or commitments. At the same time, conditionality and other efforts to encourage partner governments to move in specific directions have generally not been effective, sustainable, or conducive to country ownership. Agencies need to work out how to deal with different dilemma situations and different types of “poor performers” (for example, active/post conflict countries; failed or “captured” states; countries characterised by poor governance, high corruption, weak capacity, etc.). Support for poor performers will necessarily be limited to support to local authorities and NGOs for relieving poverty among particular, targeted populations, reducing vulnerability and satisfying humanitarian needs. Judgements about how to proceed in dilemma situations would best be worked out among all agencies involved in the partner country concerned. Helpful actions include reacting promptly and decisively to dilemma situations, working to build consensus among external partners, supporting local coalitions for reform, and strengthening local research capacity and social dialogue.
25. **Marshalling the efforts of all potential partners:** In every developing country there is a host of current and potential partners whose diverse talents, capacities and energies could be brought to bear in the fight against poverty. Civil society, the private sector, local government, poor people, external agencies -- all these groups should participate in designing, funding and implementing poverty reduction strategies. Clarity about the relative strengths and comparative advantages of different partners can help to focus efforts most effectively.

26. **The key role of community organisations:** Non-governmental organisations and private sector-based entities such as Chambers of Commerce and the enterprise sector can spearhead effective and innovative initiatives for reducing poverty. Supporting the advocacy, lobbying and networking activities of local NGOs representing the poor is helpful for creating and maintaining an enabling environment for poverty reduction by giving “voice” to the poor. Key challenges for improving the effectiveness of these social actors include strengthening their administrative competencies, building their analytical capacity and extending their reach to the very poorest segments of society.

27. **Partnership means dialogue with and beyond government:** More partners, and a broader range of partners, should be engaged in the policy dialogue process running alongside efforts to develop poverty reduction strategies. Participation is key to ensuring ownership, sustainability and effectiveness. Extra effort will be required to ensure the quality of consultation processes in the sense of ensuring genuine, *ex ante participation that informs policy decisions and outcomes*. This includes identifying *bona fide* civil society agents who can legitimately speak for the poor and be accountable to them. In supporting local dialogue, agencies should exercise care not to undermine the legitimacy of partner governments; there is an overriding need to respect partner efforts to build and consolidate their own constitutional and democratic institutions should be emphasised.

28. **The political reality of poverty reduction:** Efforts to undertake pro-poor structural and policy reforms in partner countries often raise difficult political issues given inevitable tensions between groups clinging to power, privileges and rents and groups that are more amenable to pursuing reform and to implementing pro-poor policies. By engaging in development co-operation, agencies cannot ignore these tensions. Supporting government efforts to engage society in dialogue on development options and choices will enable agencies to understand better local social and political dynamics and build strategic alliances and partnerships with reform-minded individuals and institutions. Efforts to encourage pluralistic, participatory democracies wherein the poor can exercise voice can help address this challenge.

29. **The need to develop efficient and effective ways of collaborating:** Aid co-ordination in the context of partnership is the joint responsibility of all partners, although it should be initiated and led by partner governments. Bilateral and multilateral agencies should make determined and sustained efforts to share information and work with one another with a view to assuring coherent and consistent messages and focusing on fundamental needs and collaboration opportunities. At the same time, external agencies should share information with other partners in order to catalyse genuine co-ordination and enable other partners to use their frameworks to fullest advantage. The challenge for the development community is to find ways of collaborating that do not undermine country ownership nor create additional work for partner countries.

30. **Interacting more effectively with other external partners:** Closer and more supportive collaboration with multilateral and regional institutions is key to leveraging development co-operation resources and impact. Practical approaches include i) initiating early and continuous contact with relevant multilateral staff, ii) agreeing the respective roles, responsibilities and obligations of different external partners in country-specific poverty reduction strategy processes, iii) keeping periodic co-ordination meetings informal, operational and focused on results and iv) streamlining and simplifying funding and disbursement arrangements.
31. **Reducing the burden we create for partners:** The multiple procedural requirements of the bilateral community greatly encumber partner governments. Each agency has its own administrative, financial and accountability requirements that raise transaction costs, impede more programmatic financing arrangements and generally lessen development effectiveness. They also seriously undercut the ability of partner countries to exercise ownership. Greater harmonisation and simplification of development agency practices is required, but this needs the commitment by all agencies to work together to maximise comparative advantage, to identify the best allocation of scarce resources and to ensure overall coherence in the delivery of development assistance to the partner country concerned.

V. **Country programming: frameworks and instruments**

32. Development agencies have experienced difficulty in translating their poverty reduction policies into more effective programming and operations in the field. Part III of the *Guidelines* assesses key frameworks and instruments for organising and implementing poverty reduction partnerships, including how to improve the focus and impact of country programming. Highlights of its contents are:

33. **Build on existing planning frameworks:** Country programming approaches should build on partner country development frameworks and planning instruments, including national budget processes and medium-term fiscal and policy frameworks. These national frameworks frame policies, set priorities, convert them into spending decisions and assess outcomes and accountability in relation to national poverty reduction goals. Efforts are required to ensure that the various strategic development frameworks currently in use (such as CDF and PRSP, CCA/UNDAF, NSSD,) are coherent with one another and supportive of partner-led poverty reduction. The multiplicity of these frameworks can create substantial additional tasks and strains for partner countries: the international community must rationalise the activities and documents generated by these diverse, often interlocking planning schemes.

34. **Guidance for participating in country-led poverty reduction strategies:** Country-led processes for elaborating poverty reduction strategies (of which the PRSP is the leading current vehicle) provide a sound framework for prioritising and channelling bilateral assistance. Attention is needed to ensure i) that such processes support and improve -- not duplicate or undermine -- national efforts to develop poverty reduction strategies; ii) that differing partner country formats and standards are tolerated; iii) that the pace of poverty reduction strategy development processes accommodate country capacity and local ownership needs; iv) that bilateral agencies participate as full partners in these processes, and v) that requirements established as part of elaborating the strategy are flexible, recognising that sustained poverty reduction cannot be achieved in the short-term.

35. **Sharpening the poverty reduction focus and impact of agency country programmes:** Agency country strategies should i) focus primarily on the priority poverty-reduction goals that have been identified by the partner country and be justified in terms of these, with appropriate senior-management screening; ii) be aligned with the partner country’s strategy for reducing poverty, which should be the basis for programming and implementation by all partners; iii) be based on differing agency comparative advantages; iv) reflect knowledge of what other development agencies are doing in the country and what aid co-ordination mechanisms exist, and v) be genuinely strategic and informed by the best available knowledge of the poverty situation in the country.

36. **Strategic approaches for choosing and combining instruments:** Each instrument and form of development co-operation has its advantages and disadvantages, depending on the partner country situation. There are important synergies that can be achieved by co-ordinating different instruments of development co-operation at the national and local levels.
37. **Maximising the poverty reduction impact of programme support:** Programme support provides financial resources with minimum transactions costs to those partner countries committed to using them effectively in implementing a sound strategy for reducing poverty. It is a form of development co-operation that puts into practice the principles of partnership and ownership. In the right political, economic and institutional environment -- for example, in a country committed to poverty reduction and with a feasible strategy to implement it -- programme aid supporting a sound poverty reduction strategy is most likely to reduce poverty on a large scale. Given resource fungibility, agencies should ensure that their programme support is part of an agreed reform programme supported by the IMF and World Bank and that poverty reduction concerns and objectives are effectively implemented in these programmes. Structural reforms of special relevance from a poverty reduction perspective -- beyond those needed to accelerate growth and make it more pro-poor -- include fiscal management reform, public service reform, decentralisation, social sector reform, private sector development, land tenure reform and support for civil society. The political viability of reform policies and programmes should be a key factor considered when selecting areas for programme support.

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<th>Box 2. An action agenda for the bilateral community</th>
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<td>The Guidelines set out the following priority actions for bilateral agencies in supporting partner efforts to reduce poverty:</td>
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<td>- Allocate more development assistance to countries where there is greatest scope for reducing poverty given the number of absolute poor, the strength of government commitment to tackle poverty and demonstrated policy performance.</td>
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<td>- Support country-owned, country-led strategies for reducing poverty.</td>
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<td>- Use the partner country’s poverty reduction strategy as a template for agency programming decisions.</td>
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<td>- Reduce the burden that development co-operation creates for local partners by: combining efforts (for example, joint missions, collaborative research, common diagnostics, shared costs, etc.); easing administrative requirements (for example, simplifying, streamlining and, where practicable, harmonising paperwork and procedures), and co-ordinating agency approaches and actions.</td>
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<td>- Invest the time and resources needed to build genuine, reciprocal, poverty reduction partnerships.</td>
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<td>- Adapt development agency structures and working methods to the challenges and needs of poverty reduction partnerships (for example, strengthen field presence; enhance decision-making flexibility; accept partner design for documents and strategies wherever possible; increase transparency and accountability to other partners; lengthen programming timeframes; develop staff “facilitation” and consensus-building skills).</td>
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<td>- Work more intensively to develop human and institutional capacity in partner countries.</td>
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<td>- Ensure a gender perspective in all policies, programmes, instruments and modalities.</td>
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<td>- Integrate sustainable development, including environmental concerns, in poverty reduction strategic frameworks.</td>
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<td>- Adopt, to the greatest extent possible, a multi-year timeframe for poverty reduction programming and funding as a complement to multi-year partner government fiscal planning and budgeting.</td>
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<td>- Assess development co-operation performance in terms of poverty reduction impact, and develop the requisite monitoring and evaluation systems and methodologies.</td>
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<td>- Foster and strengthen local efforts (for example, civil society, Parliament, government bodies) to monitor poverty reduction programmes and the use of debt relief.</td>
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<td>- Encourage the development of local poverty reduction indicators and targets and strengthen local statistical, analytical, monitoring and evaluation capacity.</td>
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38. **What’s needed to improve sector support?** Sector programmes, including Sector Wide Approaches (SWAps), are a potentially strong instrument for enhancing local ownership, strengthening partnership, co-ordinating external and domestic resources and establishing a conducive institutional environment for reducing poverty and achieving development objectives. The likelihood of success depends on partner government commitment to and leadership of the agreed programme and its capacity to implement it. Initial experience suggests that in order to maximise these attributes, attention should focus on i) poverty reduction needs and objectives when formulating sector development plans; ii) emphasising capacity-building components and collaboration with civil society; iii) seeking synergies with other sector policies; iv) harmonising accounting and reporting procedures and v) facilitating co-ordination with local government. It is also important for sector programmes to be consistent with the priorities set out in the overall poverty reduction strategy.

39. **What’s needed to ensure the projects are effective and sustainable?** Projects will have greatest impact when they are embedded within a broader development framework and when they promote ownership, participation and sustainability by increasing local capacities to organise, mobilise, discuss problems and demand action. They should be compatible with the surrounding institutional and cultural framework and accepted by central government, local authorities, and civil society. Projects should be designed such that there is a realistic prospect they will continue to function at the end of the implementation period, and to avoid an excessive number of small projects which place disproportionate burdens on scarce partner government capacity.

40. **Technical co-operation (TC) is indispensable for strengthening local “partnership capacity”:** Many partner countries require functioning institutions and skilled human capacity to carry forward and sustain reform programmes in macroeconomic management, good governance and social development, areas of crucial importance for reducing poverty. Technical co-operation, either free-standing or embedded in projects or SWAps, can play a helpful supportive role. Good practice includes i) focusing on long-term capacity building and effective use of existing capacity in the public sector, the private sector and civil society; ii) focusing consistently on building capacity rather than just using TC to get tasks accomplished; iii) integrating TC in local strategies and sector programmes; iv) making use of local expertise and deepening existing capacity, as opposed to promoting parallel structures, and v) ensuring recurrent costs are covered by national budget resources. The devastating impact of HIV/AIDS in decimating national administrative and technical capacity calls for renewed efforts to strengthen support both to build capacity and to address the HIV/AIDS pandemic.

VI. **Policy coherence across OECD/DAC Member governments matters**

41. Success in reducing poverty requires coherent development co-operation policies as well as overall policy coherence across OECD Member government policies. Only this will ensure that Members’ efforts to reduce poverty are not undermined by the policies and actions of other parts of their governments. Better policy coherence can substantially augment agency efforts to help partner countries reduce poverty. To cite just one example, agricultural and industrial protectionism in industrial countries are estimated to cause annual losses to developing countries in the same order of magnitude as annual flows of Official Development Assistance. These foregone resources could have been used to improve human capabilities and well-being in the developing world.

42. Policy coherence is profoundly political. It will be a continuing challenge for development co-operation agencies to exert influence on other parts of their governments in pursuing policy adjustments. Nevertheless, given the strong repercussions DAC Member government policy decisions have on developing countries in a range of policy areas, it is vital for agencies to focus more deliberately on ways and means of elevating policy coherence on their respective national policy agendas. Impact on poverty
reduction will be determined as much by diverse government departments and ministries (for example finance, trade, agriculture, defense) as it will be by development co-operation agencies. A key step for establishing government-wide commitment to policy coherence will be for government to decide the level of emphasis to be given to international development concerns and objectives, and then for all parts of government to be consistent with this when formulating and implementing policies. Development agencies have a role as advocates for development and for ensuring that mechanisms exist for achieving coherent policy co-ordination and implementation across government. These mechanisms will help achieve both development and other national objectives.

43. Good practice, conclusions and recommendations regarding policy coherence from the Guidelines are summarised as follows:

44. **Policy areas for focusing efforts to improve coherence:** The Guidelines highlights six priority thematic areas for policy coherence, selected for their potential impact on poverty reduction and the likelihood that policy changes can be achieved. They are international trade and direct investment, agriculture and food security, global capital movements, natural resources and the environment, social issues and governance and conflict.

45. **Lessons from experience in OECD countries:** Policy coherence requires effective consultation with public agencies and private interests based on strong links between development co-operation agencies, a wide range of government ministries and agencies, and civil society. Formal sessions are an invaluable tool for improving coherence, but providing a suitable organisational culture for informal contact is also critical. It is important for the highest political authorities to be committed to policy coherence and to communicate this message to others. A clear official statement of the government’s goal of reducing poverty, and its view of how the different parts of government can contribute to that goal, will enhance policy coherence.

46. **Drawing on civil society:** It is important for policy makers and stakeholders to reach out broadly to acquire the knowledge necessary to improve coherence. NGOs and the media can play a major role in informing the public. They should have information that is reliable, based on facts and containing sound analysis. A basic principle of policy coherence is to broaden decision-making processes so that women, as well as men, especially poor ones, have full “voice” in determining important issues and priority needs. Developing countries need to have the capacity to participate as full-fledged partners in negotiating and implementing international agreements and to reap benefits as a consequence.

47. **Leveraging policy coherence throughout OECD governments:** There is a need for careful analysis of the role of each policy, its impact on poverty, and where within government a policy can and should be adjusted for enhanced coherence. This requires adequate resources for policy analysis. The results of the analysis should form part of the brief to policy makers engaged in inter-ministerial policy co-ordination and in international negotiations. Policy coherence is complex, but there are areas where much can be achieved with relatively little effort (such as systematically vetting legislation for its policy coherence with poverty reduction, establishing cross-Ministerial task forces for emerging issues such as conflict prevention, appointing a Parliamentary commission in a watch dog role, developing a government-wide policy brief on poverty reduction, etc.).

48. **The DAC checklist of questions on policy co-ordination processes:** In May 2000 the OECD Ministerial Council and the DAC High Level Meeting agreed to develop a checklist for policy coherence that could serve as a reference point for public policies throughout the OECD. In approaching this task, the Guidelines sets out a tentative checklist with questions relating to the way processes for co-ordinating government policies are structured and carried out. This checklist will be revised in the light of extensive
discussions with other OECD Committees and will subsequently be presented to OECD Ministers as a benchmark to guide public policies throughout the OECD.

VII. Changing the way we think and act

49. Agencies should consider how they will address the systemic institutional change needed if the traditional **donor-recipient country** relationship is to be reconstructed to one based on partnership, led by the developing country government’s own priorities, and facilitated through policy dialogue. This will often call for changes at the core of their institutions: their organisational structures, practices, incentive systems and cultures. A successful change agenda will address the following issues:

50. **What is needed to mainstream poverty reduction throughout agency operations?**

- **Determined leadership** at both political and policy-making levels should capture and channel the interest and commitment of all staff, other government bodies and civil society to focus more resolutely and forcefully on supporting the poverty reduction efforts of partner countries.

- **Leadership must develop a clear agency vision, policy framework and strategy** for helping partners reduce poverty, including through country programming, sector approaches and project interventions. The goal of poverty reduction should inform all relevant agency planning processes and be a criterion in agency programme and project screening and approval procedures.

- The multidimensional approach also highlights the need to reconfigure organisational structures to facilitate better co-ordination and cross-fertilisation of expertise and the exchange of knowledge within agencies. Good practice combines two approaches: i) making all staff responsible for promoting poverty reduction, and ii) appointing poverty reduction “focal points” or “champions” to propel action and institutional change. Resources and authority must be vested in agency poverty reduction advocates.

- **Agencies will need staff with broader ranges of specialist skills** (including knowledge relevant to the cross-cutting concerns of gender, governance, environment and participatory approaches). They will have to provide a number of specialists (including some with macroeconomic and technical skills) to field offices. Training programmes dealing with poverty reduction issues and techniques will be needed for developing staff capacity to respond with wisdom and perspective.

- **Mainstreaming also calls for encouraging team-work across professional boundaries** to address more effectively the multidimensional nature of poverty and to overcome sector-driven, supply-led approaches. This will have implications for the way agencies deploy and manage staff.

- **Evaluation and monitoring are key tools for assessing performance in mainstreaming poverty reduction and in extracting best practice.** As with all development co-operation activities, greater attention to the important role played by evaluation and monitoring in terms of accountability and learning is needed, as well as stronger efforts to diffuse information about development experience more broadly throughout agencies and the rest of the development community.
51. **How can agencies work more effectively with diverse partners under government leadership in the field?**

- **Reduce the confusing and taxing obligations created by the administrative and financial requirements of multiple development co-operation agencies and poor agency co-ordination of policies and activities.** Efforts should focus on streamlining, simplifying and harmonising practices, procedures and reporting requirements in line with agency accountability requirements. Such changes are essential to respond to the challenges of country ownership of poverty reduction strategies and partnership arrangements. Support for developing local capacity (for example, in financial management, accounting, monitoring, etc) will strengthen agency confidence levels and facilitate moves to align agency systems and procedures with those of their developing country partners.

- **Decentralising staff resources and decision-making to the field** will help Members to improve their understanding of local poverty conditions, heighten their responsiveness to changing local circumstances, strengthen team-working across disciplines and promote better dialogue and partnership through close and continuous interaction with other local partners. Decentralisation decisions will have to balance these benefits against potential downside factors. These include increased costs and over-stretched or excessively dispersed institutional technical expertise. Moreover, increased decentralisation is not necessarily a feasible and/or appropriate solution for smaller development assistance agencies. This argues all the more strongly for due consideration to be given to increasing collaboration and sharing expertise and information among all agencies, and to relying more on local expertise.

- **Enhanced country ownership and broader stakeholder participation** requires agencies to develop their capacity to support government in elaborating its own poverty reduction strategy and enhance government capacity to interact with other partners and stakeholders. This may require a change in agency attitudes towards the role of civil society in policy formulation processes, and a corresponding change in agency behaviour. Members should be realistic about the time required to generate broad-based support for strategies to reduce poverty and the resources this involves for partner governments, especially where capacity is weak.

52. **How can agencies strengthen staff capacities and motivations to work in partnership?**

- **Management should stress the development of skills that foster partnership** (for example, facilitation, diplomacy, negotiation, consensus-building, co-ordination experience, social interaction) and create opportunities for staff exchange, learning and team-working.

- **Staff recruitment and incentive structures** (for permanent, temporary and diplomatic staff) should focus on poverty reduction skills and performance, team-working capacities, and efforts to initiate and sustain co-ordination with other staff and partners. These skills also include those related to encouraging pro-poor growth.

53. **How can agencies gear their organisational structures and practices to promote better policy coherence across their governments?**

- Efforts to improve policy coherence call for creating or improving mechanisms to resolve contradictions or to mitigate the effects of conflicting government policies. It also calls for a concomitant commitment of staff time and resources for identifying and analysing issues and for interacting in different national and global forums. Closer, more coherent interaction between
agencies and other parts of government dealing with multilateral institutions is key to enhancing the broader coherence of development co-operation efforts.

VIII. Achieving our goals

54. Focused development co-operation efforts and broader OECD Member country policy coherence can play a crucial role in reducing poverty in developing countries. Yet impact will be modest without the initiative, the efforts and the resources of other partners, including partner governments and civil society -- and in particular the poor themselves. Achieving the goals we have set will require a coalition of all the forces that can be mustered. These Guidelines provide knowledge, experience and shared views and orientations that can be important as we work with partner countries, with one another and with multilateral agencies in increasingly co-ordinated and collegial ways. We must strive together to ensure that development progress in this new century is truly partner-driven and inclusive of all.