DRAFT DAC GUIDELINES ON POVERTY REDUCTION

(Note by the DAC Informal Network on Poverty Reduction)

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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
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<tr>
<td>CCA</td>
<td>Common Country Assessment</td>
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<tr>
<td>CDF</td>
<td>Comprehensive Development Framework</td>
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<td>CG</td>
<td>Consultative Group</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CS</td>
<td>Country Strategies</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DHS</td>
<td>Demographic &amp; Health Survey</td>
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<tr>
<td>EC</td>
<td>European Commission (manages the European Community Aid Programme)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDI</td>
<td>Gender-related Development Index</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GEM</td>
<td>Gender Empowerment Measure</td>
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<td>GSP</td>
<td>Generalised System of Preferences</td>
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<tr>
<td>HDI</td>
<td>Human Development Index</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>HIV</td>
<td>Human Immune Deficiency Virus</td>
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<tr>
<td>HPI-1</td>
<td>Human Poverty Index (Developing Countries)</td>
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<tr>
<td>HPI-2</td>
<td>Human Poverty Index (OECD and Transition Countries)</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technologies</td>
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<tr>
<td>IDG</td>
<td>International Development Goal</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IRDP</td>
<td>Integrated Rural Development Programme</td>
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<tr>
<td>ITC</td>
<td>International Trade Centre</td>
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<tr>
<td>IWG</td>
<td>Interdisciplinary Working Group</td>
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<tr>
<td>LDC</td>
<td>Least Developed Countries</td>
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<tr>
<td>MTFF</td>
<td>Medium-Term Fiscal Framework</td>
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<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
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<tr>
<td>NSSD</td>
<td>National Strategies for Sustainable Development</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>RT</td>
<td>Round Table</td>
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<td>Sida</td>
<td>Swedish International Development Co-operation Agency</td>
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<td>SPA</td>
<td>Strategic Partnership with Africa</td>
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<tr>
<td>SWAp</td>
<td>Sector Wide Approach</td>
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<tr>
<td>TRIPS</td>
<td>Trade Related Intellectual Property rights</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCED</td>
<td>United Nations Conference on Environment and Development</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNDAF</td>
<td>United Nations Development Assistance Framework</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organisation</td>
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<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WDR</td>
<td>World Development Report of the World Bank</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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GENERAL INTRODUCTION

Global poverty in perspective

1. Remarkable economic and social progress has been achieved over the past thirty years throughout the developing world. Life expectancy in these countries has increased by more than twenty years (from forty-one to sixty-two years) during this time period. Infant mortality rates have been halved and primary school enrolment rates have doubled. The share of rural families with access to safe water has risen from 10% to over 70%. Average incomes, health and literacy improved more in developing countries during this time period than they did in OECD countries over the past century.

2. So far as income poverty is concerned, progress is mixed. Recent evidence suggests that the proportion of people in extreme poverty in the overall population of developing and transition countries fell slightly over the past decade, from 28% to 24%. Unfortunately, however, despite notable progress in East Asia, the number of poor people steadily increased in most other regions of the world. And extremely poor people continue to be heavily concentrated in certain regions: South Asia has the largest number of the world’s poor (43% of the total), while Africa has the highest proportion of its population living in poverty (48%).

3. Despite these recent gains, extreme poverty still ravages the lives of one out of every four persons (or 1.2 billion people) in the developing world. Poverty continues to be pervasive, intractable, inexcusable. In the last ten years alone, the number of poor people in Sub-Saharan Africa rose by more than a third. One in every three children in developing countries still does not complete five years of education -- the minimum required for basic literacy. One out of every twelve children born this year will die of disease or malnutrition before her or his fifth birthday. And HIV/AIDS continues its relentless spread, erasing decades of development progress and exacting immense and tragic costs from children, families, communities and societies across the developing world. Unless strong and decisive actions are taken, these trends may well deteriorate over the next twenty-five years as developing countries struggle to meet the additional burdens that approximately two billion more people -- 97% of the expected increase in the world’s population -- will create.

4. The progress that has been achieved over previous decades gives one confidence that poverty can be overcome and development achieved. And yet, there is no cause for complacency. Eradicating poverty will call for sustained, adequately resourced and co-ordinated actions across the full spectrum of government policies and development co-operation activities. It will also call for the best efforts of all development partners. These Guidelines, which distil the accumulated knowledge and experience of the development community in addressing poverty reduction, are intended to inform these actions and point the way to the future.

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1 This figure would be 2.8 billion people, or six out of every ten persons using an international standard of US$2 per day.
A renewed commitment throughout the international system to fighting poverty

5. In 1996, OECD development ministers adopted a path-breaking policy framework for development co-operation. 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. The 21st century strategy also committed DAC Members to work with their partners towards achieving explicit, quantifiable and time-bound International Development Goals (IDGs)2 based on economic, environmental and social development goals agreed upon by the international community during the UN-sponsored global conferences of the 1990s.3 Taken in their totality, these goals address many of the key dimensions of poverty. DAC Members subsequently reaffirmed this vision in their May 2000 statement *Partnership for Poverty Reduction: From Commitment to Implementation*. As an important step in implementing the 21st century strategy, DAC Members also agreed to synthesise their collective knowledge and expertise on reducing poverty in this set of Guidelines.

6. In developing this guidance, DAC members have sought to put partnership into practice by sharing texts with a broad cross-section of poverty experts from government, civil society and academia in a series of consultations held in Africa, Asia, Latin America and Europe. The insights, concerns and views emanating from these exchanges have shaped the contents of the Guidelines and, in particular, the prescriptions it contains for working in partnership.

7. The result is a challenging agenda for the partnership era, calling for changes in the way agencies think about poverty, plan and implement related assistance, organise themselves in the field and at headquarters, and strengthen internal capacities to respond more effectively to the tasks at hand. At the same time, in setting out the rights, responsibilities and obligations implicit in partnership approaches, the Guidelines goes far in fleshing out the substance and delimiting the boundaries of the emerging partnership compact DAC members signed on to when they endorsed the 21st century strategy.

An overview of the *DAC Guidelines on Poverty Reduction*

8. These Guidelines are intended to help development agencies put the reduction of poverty at the centre of all their policies and to translate it into operations in the field. They clarify concepts and definitions, suggest priorities, and describe best practice policies, programmes, instruments and channels for reducing poverty. They set out new directions in a number of areas, including:

- **Common concepts and approaches for understanding, measuring, and focusing on poverty:** The opening section sets out a functional overview of poverty concepts and approaches and develops a framework for thinking about and understanding the nature and

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2 The seven international development goals to be achieved by 2015 or earlier include: reducing the proportion of people living in extreme poverty by half; universal primary education; eliminating gender disparity in primary and secondary education; reducing infant and child mortality by two-thirds; reducing maternal mortality by three-quarters; universal access to reproductive health services; and implementing national strategies for sustainable development. An additional goal subsequently set at the 1995 World Food Summit calls for halving the number of undernourished people by 2015.

causes of poverty. It aims to help the reader achieve clarity about the multidimensional nature of poverty, about who the poor are, and about ways in which anti-poverty measures can be shaped, combined and monitored.

- **Forging poverty reduction partnerships**: A crucial challenge for the development community remains the need to align development agency support squarely behind the poverty reduction objective and partner government leadership. Part II discusses how agencies can best co-operate with others in building strong partnerships in diverse country situations and support national efforts to devise sound strategies for reducing poverty.

- **Effective country programme, frameworks and instruments**: Part III discusses practical ways of working in partnership, focussing more closely on existing frameworks for organising and implementing development co-operation. It illustrates a wide array of instruments and effective approaches, discussing their merits and challenges in the light of evolving practice and prospects for impact on reducing poverty.

- **Ensuring that the full range of OECD Members’ policies are coherent with the poverty reduction objective**: Policy coherence across DAC Member governments (for example, trade, agriculture, and environmental policies) is crucial to (i) ensure that Members’ efforts to reduce poverty are not undermined by the policies and actions of other parts of government and (ii) enhance Member country policy interactions with developing countries. Part IV deals with coherence at the national level between aid and non-aid policies and with coherence at the international level involving regional and global co-operation.

- **Institutional learning and change**: The DAC 21st century strategy is creating a strong impetus for development agencies to transform the way they conduct business in accordance with partnership, ownership and accountability. The final section of the Guidelines focuses on the inner workings of development agencies, examining how organisational structures, management practices, and institutional cultures can be changed to increase their capacity to contribute effectively to reducing poverty.

9. While the Guidelines specifically address the concerns and functioning of the OECD bilateral development assistance community, its practical information and its insights into how development partners can work together to reduce poverty are of value to all development practitioners. It consists of two documents: an executive summary extracting main concepts, principles, priorities and conclusions, and the Guidelines themselves, a concise, policy-focused document highlighting key themes and issues for understanding poverty and attacking it more effectively through partnership.

### The role and purpose of the Guidelines

10. The **DAC Guidelines on Poverty Reduction** are designed to help bilateral development agencies to support the efforts of their partners in addressing poverty in the developing world. It expresses a unity of purpose and commitment among DAC Members to work with greater resolve to reduce poverty in solidarity with poor people and in the interests of securing universal human rights.

11. In endorsing it, agencies agree on the importance of reducing poverty as an overarching objective of development co-operation. They also adopt a common view and understanding about poverty and appropriate approaches, frameworks and priorities for combating it. Their efforts will consequently be more coherent and mutually reinforcing, both among DAC Members and across the international system, given the full compatibility of the Guidelines with similar international frameworks.
12. DAC Members also undertake their best efforts to apply Guidelines principles to their work, such as using partner poverty reduction strategies as the basis for their country programming, reducing the burden their procedures and requirements create for partner countries, and improving policy coherence within and across their agencies and governments. They also agree to strive, so far as institutional opportunities and constraints permit, to implement Guidelines recommendations such as decentralising decision-making to the field, working through medium-term partner country budget and planning frameworks, and phasing out projects not reflected in government budgets or requiring parallel management structures.

13. DAC Members recognise the diversity of strengths and resources each agency can bring to the fight against poverty and the value of responding flexibly and creatively to needs and priorities as determined by partner governments and stakeholders. They agree on the continued importance of vibrant private sectors for jobs and income, of financial market development for price stability, of good governance for promoting inclusion and participation and of institution-building for developing local capacity and administrative systems. While these broader aspects of development co-operation do not fall within the purview of these Guidelines, Members note their potential role in reducing poverty and agree to work towards integrating poverty concerns and dimensions when formulating policies in these areas.

14. Adoption of the Guidelines also signals important messages about how the development co-operation community views emerging challenges -- in the world at large and, more narrowly, within their own organisations -- that have growing significance for the fight against poverty. This includes focused and committed efforts to explore new opportunities for reducing poverty, to address imbalances and needs arising from globalisation, global public goods and the digital divide, and to align their own institutional structures and cultures with the requisites of partnership.

### How to use the Guidelines

15. The Guidelines provide, in a condensed format, practical information about the nature of poverty and how it is best tackled. They are thus of value to bilateral agency operational staff in the field and at headquarters. They also provide guidance on appropriate policy formulations and priorities, how to work with different partners in developing countries and the international system, and how bilateral agencies could best be directed, reconfigured and retooled to mainstream poverty reduction effectively and to work in partnership. This information is of use to bilateral agency leadership, operational managers, and policy and human resource staff.

16. At the same time, given space constraints and the vastness of the subject at hand, the Guidelines remain broad and generic. The DAC will subsequently deepen their scope and substance by exploring key aspects of poverty reduction strategies and developing additional good practice. An electronic “living and renewable” companion volume reflecting evolving improvement of development co-operation policies and practices for reducing poverty will be developed in participatory consultation with partners in due course.

17. While considerable effort has been expended to ensure the Guidelines reflect contemporary research, knowledge and experience, it is not the last word. Indeed, in many respects -- such as in promoting empowerment, better governance, participation and institution-building -- development practitioners are at the incipient stage of knowing how best to act and to interact to reduce poverty. Further, each partner country is different and unique, defying a “one size fits all” approach to poverty. There is still much to learn about good practice in this evolving area of development co-operation, including from listening to -- and heeding -- the voices of the poor themselves.
I. CONCEPTS AND APPROACHES

A. Introduction

18. Effective poverty reduction calls for strategic thinking based on clear and consistent concepts and approaches. Different ways of understanding poverty lead to different ways of dealing with it. A common and clear understanding of poverty helps build a common agenda with development partners. Part I presents current notions of poverty and well-being in a conceptual framework that links poverty reduction objectives with key causes of poverty and suitable policies and actions.

19. A strategic approach to poverty reduction may involve six analytical stages:

   i. What is poverty? -- Clarifying and defining the concept.
   ii. How can poverty be measured? -- Assessing methods and data availability.
   iii. Who are the poor? -- Identifying poverty lines and social categories.
   v. What is meant by poverty reduction? -- Specifying indicators and goals to be attained.
   vi. How can the indicated goals be achieved? -- Formulating policies and programmes.

20. Development agencies need to think about these questions and produce answers based on experience and the available evidence in partnership with other organisations that work towards poverty reduction, including government departments at any level, other bilateral or multilateral agencies, and civil society organisations.

B. What is poverty?

a) The widening meaning of poverty

21. The concept of poverty includes different dimensions of deprivation. It denotes the lack of capability of people to meet adequate standards of human well-being in terms of economic, social and human security levels. This understanding of the multidimensional nature of poverty is now widely accepted and is solidly based on research that includes major participatory studies of what poor people themselves mean by well-being and poverty. It covers absolute poverty measures such as the income level US$ 1 per day or child and infant mortality rates, for example in the International Development Goals (IDGs), as well as relative poverty as defined by the differing standards of each society.

22. The World Summit for Social Development (Copenhagen 1995) and the IDGs adopted by the DAC in 1996 both assumed that poverty is multidimensional. Similarly, the World Bank has defined poverty as unacceptable human deprivation in terms of economic opportunity, education, health and
nutrition, as well as lack of empowerment and security. UNDP has introduced two relevant concepts: **human development** defined as a process that enlarges people’s choices including freedom, dignity, self-respect and social status; **human poverty** meaning deprivation of essential capabilities such as a long and healthy life, knowledge, economic resources and community participation.

23. Many-stranded concepts of poverty reflect the reality of the poor. But, they also make the tasks of identifying the poor and of monitoring progress more complicated. Some dimensions lack good measures, and one strand may be inconsistent with others. Furthermore, there may be a risk that policies and activities merely get poverty labels with no real changes towards more effectively pro-poor policy action.

24. The Guidelines address both of these concerns and present a conceptually adequate as well as practical definition of poverty and place it within a broader framework including causes and appropriate policy actions. Identifying causal linkages and assessing the likely effectiveness of different policy instruments is necessary if results are to be achieved in the effort to reduce poverty.

b) **Defining poverty: relevance and utility**

25. An adequate concept of poverty should include all the most important areas in which people in different societies and local contexts are perceived as incapacitated. It should also encompass the causal links between the key dimensions of well-being and poverty as well as the central importance of environment and -- more comprehensively -- of gender (see Figure 1).

26. **Economic capabilities** mean the ability to earn an income, to consume and to have assets, which are all key to food security, material well-being and social status. These points are often raised by poor people in their own assessments. So, too, is their access to financial and physical resources, like, for example, land, implements and animals, forests and fishing waters, credit and decent employment.

27. **Human capabilities** include being healthy, literate, nourished and having access to clean water and to shelter. These are the ends of development as well as means. Education, especially of girls, has been rated as the single most effective factor for reducing poverty, excessive fertility and illness, especially AIDS. Disease and illiteracy are major barriers to productive employment and well-being. Reading and writing facilitate communication with others, which is crucial in social and political participation.

28. **Political capabilities** means having human rights, access to power, a voice and some influence over public policies and political priorities. Deprivation of basic political freedoms or civil rights is a major aspect of poverty. Power, or its lack, also affects other dimensions of poverty. The politically weak have few entitlements to the resources needed to lift them out of poverty and cannot influence public policies.

29. **Socio-cultural capabilities** concern the ability to participate as a valued member of a community. They refer to social status, dignity and other cultural conditions for belonging to a particular society -- conditions highly valued by the poor themselves. Participatory assessments indicate that geographic and social isolation is the main meaning of poverty for people in many local societies, with other dimensions being seen as contributing factors.

30. **Protective capabilities** is the ability to withstand economic and external shocks. Insecurity and vulnerability are crucial dimensions of poverty with particularly strong links to all other dimensions. Poor people themselves indicate that hunger and food insecurity are core concerns along with other risks like illness, crime, war and destitution. Poverty is, to a large extent, experienced intermittently in response to seasonal variations and external shocks; for example natural disasters, economic crises and violent conflicts. Dynamic concepts of poverty are needed to grasp the fact that people move in and out of poverty.
Those who are poor today are only in part the same people as the poor of yesterday or tomorrow. Some are chronically poor or inherit their poverty; others are in temporary or transient poverty.

Figure 1. Interactive dimensions of well-being and poverty

31. The links indicated by arrows in Figure 1 are significant. Each box represents in itself an important dimension of well-being/poverty while also affecting all the others. Household members may consume little and be vulnerable partly because they lack assets, and this is often because of inadequate income, poor health and education and losses due to vulnerability to shocks, etc. Vulnerability and social exclusion hamper human and political capabilities, resulting in reduced incomes and assets and vice versa. The fact that different poverty dimensions are tightly interrelated, while distinct and imperfectly correlated, is a major reason for a multidimensional concept.

c) Poverty, gender and environment linkages

32. Poverty reduction, gender equality and environmental sustainability are complementary, mutually reinforcing and crosscutting facets of development. Mainstreaming gender is key to reducing poverty and environmental considerations determine whether poverty reduction is sustainable. At the same time, gender equality and environmental sustainability are international development goals in their own right.

33. Gender inequality concerns pervasive discrimination in all the dimensions of poverty. Processes causing poverty affect men and women in different ways and degrees. Female poverty is more prevalent and typically more severe than male poverty. Women and girls in poor households get less than their fair share of private consumption and public services. They suffer violence by men on a large scale. They are

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more likely to be illiterate as well as politically and socially excluded in their communities. Hence, women’s capabilities to overcome poverty in its various forms are generally different from those of men.

34. Women play a crucial role for the livelihoods and basic human capabilities of poor households. Through their efforts to provide for the children, they also reduce the risk of poverty in the next generation. However, women in general have less access than men to assets that provide security and opportunity. Such constraints to women’s productive potential reduce household incomes and in aggregate economic growth. Gender inequality is therefore a major cause of both female and overall poverty.

35. Gender-related time poverty refers to lack of time for all the tasks imposed on women and for rest and economic, social and political activities. It is an important additional burden with different meaning for women and men in many societies due to structural gender inequality.

36. Environment and poverty are linked in a variety of ways in both rural and urban settings. Poor people are affected the most by environmental problems. Increasing scarcity of good land and clean water causes conflict and instability at local, national and regional levels. Long-term sustainability in the use of natural resources, with peaceful and equitable reconciliation of competing needs of different users, is a necessary condition for sustainable progress in reducing poverty.

37. There are many critical interactions between environment and poverty that are amenable to policy, including those that restrict access to natural resources on which poor people disproportionately depend. The livelihoods and health of poor people in rural areas are largely at risk from land degradation, deforestation and declining fish stocks, along with water and air pollution. At the same time, the rural poor may have no other short-run livelihood choice than to use fragile lands for subsistence agriculture, cattle herding and woodcutting, which is often unsustainable and aggravates soil loss.

38. The urban poor often live in overcrowded and unsanitary conditions in the vicinity of contaminated areas, industrial sites and heavy road traffic. High-density and poor informal urban settlements are vulnerable to calamities like landslides and fire.

39. The poor in both rural and urban areas are highly vulnerable to extreme climatic events such as droughts, floods and typhoons/hurricanes, with devastating impact. The incidence and severity of these are likely to be aggravated by global climate change. Other rural and urban environment risks concern the safety of poor workers, e.g. commercial farm workers’ exposure to hazardous chemicals such as pesticides. And in both rural and urban homes, indoor smoke pollution causes serious health problems for the poor.

C. How can poverty be measured? Adequacy and practicality

40. The next issue is how to measure the different dimensions of poverty and well-being. Measurement is necessary for monitoring the degree to which policy goals have been met, for assessing the impact of particular policies and programmes and for identifying the poor. There are tools of varying complexity for measuring poverty, depending on the availability of data and the purpose of measurement. But the less tangible dimensions of poverty are difficult to measure and to quantify.

41. Composite indexes that include both economic and other dimensions of poverty and well-being may provide more solid comparable quantitative measures than measures in one dimension only. The most prominent ones have been developed by UNDP in the annual Human Development Report.\(^5\) However, the

\(^5\) The Human Development Index (HDI), the Gender-related Development Index (GDI), the Gender Empowerment Measure (GEM), the Human Poverty Index (HPI-1 for developing countries and HPI-2 for OECD and transition countries).
choice of indicators and the weights assigned to them is arbitrary to some extent, and trade-offs between them are not captured. Thus, discrete poverty measures are still more useful for specific planning purposes.

42. Both systems have their uses: relative, qualitative and multidimensional measures are best for understanding a specific situation and intervening in it effectively, but they are not very useful for comparisons, monitoring and impact assessments which require absolute, simple and quantified measures.

43. This trade-off can be portrayed as in Figure 2. The top represents the simple consumption measure available from household surveys in a large number of countries (or HDI/HPI). These are useful for comparative analysis of poverty over time in a country and among different countries, and for overall poverty monitoring. In other words, the top provides a bird’s eye view of global poverty.

44. The bottom section portrays the foundation for measuring poverty. Its structure is closer to the people and so is of more use in detailed planning and monitoring. Data on human development are routinely collected in surveys. For the remaining dimensions there are no good methods to standardise and quantify measures that would permit comparisons. But several countries have undertaken participatory poverty assessments that provide very useful qualitative and multidimensional information about poverty.

**Figure 2. Trade-offs in measuring poverty dimensions**

![Figure 2. Trade-offs in measuring poverty dimensions](image)

D. **Who are the poor? Poverty lines and social categories**

45. The narrow approach to measuring poverty permits the identification and statistical analysis of those households falling under an absolute poverty line, which is set at a minimum standard of nutrition and consumption. This is necessary for monitoring the numbers as well as the proportion of poor people over time and among countries, and the depth and severity of poverty. The most common poverty lines for international comparisons are US$1, 2 and 4 per day for low and middle-income and for transition economies respectively.

46. The question “who are the poor?” is relevant for different levels of society: individual, household, community, district, region, etc. National demographic and household surveys provide useful data on average levels of income or consumption and its distribution. However, the poor cannot be identified through national statistics without more specific information. Pro-poor planning needs to define social categories with attributes such as gender, ethnicity, religion/culture, location and livelihood status as well as household size, age distribution and sex of its head.

6 The difference is important: the International Development Goal for economic well-being refers to the proportion of people under $1 a day, which has been improving in the last decade. However, at the same time the number of people under this poverty line increased 1987-93 and 1996-98, but fell 1993-96.
47. Poverty assessments at country level use data mainly from household surveys but also national indicators of human development to draw poverty profiles in these terms. Participatory poverty assessments provide multidimensional profiles with both quantitative data and qualitative information. These are most suitable for designing policies and interventions in particular instances but cost much more.

48. This is true even when different poverty dimensions and measures are inconsistent, which may complicate identification of the poor. For example, people may be income poor although their children, including girls, are enrolled in primary school and the national child and maternal mortality rates may have been reduced in line with the IDGs. Illiterate people can earn more than US$1 per day, etc. The more information available about such trade-offs, the more suitable the design of policies and actions can be.

49. Despite the difficulty of precise measurement, knowledge from different sources can often be used to identify the poor. Thus, social categories known for severe poverty on several dimensions are indigenous, minority and socially excluded groups, refugees or displaced persons, mentally or physically disabled, elderly widows and other unsupported female-headed households. These groups are the poorest of the poor in many societies and require special attention in policy action for poverty reduction.

E. Why does poverty persist?

50. There are three further key steps in formulating poverty strategies: (i) identifying and ranking the particular causes of each dimension of poverty in a given area or country; (ii) designing policies and action to address these causes and (iii) specifying indicators and goals to be attained as a basis for monitoring the degree of success or failure.

51. The critical causes include those that are themselves dimensions of poverty as well as national governance issues and international economic factors such as protectionism, trends and volatility of the terms-of-trade or debt overhang. Some of the main causes to be taken into consideration are listed in Table 1 together with policy actions and indicators of poverty outcomes to be monitored.

52. Policy instruments are either separate activities to mitigate critical causes of poverty, or sets of complementary actions that engage with poverty’s multiple causes and dimensions. Each policy action may be linked primarily with one set of causes and outcomes but can also affect others. Similarly, each poverty cause may affect several poverty dimensions, and each of these may be a result of a number of causes. Several types of action can affect a set of causes and any action may affect several causes. To considerable extent outcomes, causes and actions mutually affect each other.

53. Ranking the most important causes of poverty in a country is far more complex than identifying the key social groups among the poor, or simply recording the available descriptive poverty profiles. For these reasons it is relatively rarely attempted. It is nonetheless essential for effective poverty reduction. All national poverty-reduction policies and agency strategies should involve an effort at categorising and assessing the causes of poverty. Strategic planning for poverty reduction requires decisions, choices and priorities. The ranking of policy instruments according to their likely impact makes the difference between a robust approach to poverty reduction and a superficial re-labelling exercise.

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7 The former causes are discussed above and in Part III, and the latter in Part IV.
54. Formulating a poverty strategy involves a great deal of uncertainty. Managers, agency staff and professional advisers need to ensure that their judgements are at least educated guesses -- that is, fully informed by the data and analysis that is available or could be easily commissioned at the country level.  

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<th>F. Policy action for poverty reduction</th>
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55. After having considered the meaning of poverty, who the poor are, how poverty can be measured and its causes assessed, the most important step for policy makers remains: designing and implementing effective policy action. Any strategy for effective and sustainable poverty reduction has to include the following six complementary priority areas:

1. **Pro-poor economic growth: rate, pattern and quality.**
2. **Empowerment, rights and pro-poor governance.**
3. **Basic social services for human development.**
4. **Mainstreaming gender and reducing gender inequality.**
5. **Environmental sustainability and sustainable livelihoods.**
6. **Human security: reducing vulnerability and managing shocks.**

56. This section is devoted to these critical policy areas, and the rest of the Guidelines to the role of development agencies in supporting the formulation, implementation and monitoring of them.

**a) Pro-poor economic growth: rate, pattern and quality**

57. The rate as well as the pattern and quality of economic growth are crucial for poverty reduction. Lack of economic resources is a key dimension of poverty and also a major cause of other dimensions. Equitable economic growth means reduction of income poverty at national and household levels. Effective strategies and policies for sustained poverty reduction also engender national income growth.

58. A national economy can grow in different ways that may involve more or less poverty reduction, gender equality and sustainable development. Effective pro-poor growth strategies and policies will differ among countries depending on resource endowments, levels of technology and human capability and the historical, institutional and socio-cultural context. In general, the following basic conditions are involved: (i) improved access of poor women and men to productive resources such as land, finance and human capabilities, (ii) labour-intensive forms of production, (iii) macroeconomic stability, (iv) peaceful social and political conditions and, as a result, (v) economic growth with equity and participation of poor people.

59. A good legal and institutional governance framework is essential for enhancing the opportunity of poor women and men to climb out of poverty. Structural reforms of policies, incentives and institutions are required in areas such as fiscal management, trade, labour market, financial sector, infrastructure and land use. Macroeconomic stability with limited price and output volatility, efficient competitive markets, and adequate policies to promote savings and investments - private and public - are key elements. An enabling policy environment for private sector initiatives and growth is crucial for creating employment, and should be pro-actively facilitated by public policy. There must be a considered balance and partnership between the three main spheres of society: government, business and civil society.

8 Further guidance to agencies on country programme management, and on institutional learning and change, is provided in Parts II and V.
For small poor economies, integration with the global economy offers great potential for poverty reduction. However, these countries are also at greatest risk of economic disruption from increased openness. Hence, the integration process requires prudent management to ensure that the poor benefit from trade-led growth. This involves building capacity and exploring opportunities for trade while taking policy action to mitigate the increased risks of globalisation for example from capital flight, environmental degradation, unemployment or undermining of core labour standards.

Asset and income inequality -- whether measured by gender or other category (ethnic, social, regional etc.) -- is a major impediment to poverty reduction. Inequality has a multiple negative impact on poverty by tending to lower both the pace and quality of GDP growth and the effect of growth on poverty. Moreover, sharp and rising inequalities increase the risks of conflict and violence. Public policy aimed at reducing inequalities requires tactful political coalition building to overcome vested interests. Development agencies can facilitate reforms by policy dialogue as well as by financial and technical support for pro-poor structural change like land reform.

Global poverty is predominantly rural. Hence, pro-poor sustainable rural development is a key priority for reaching the International Development Goals. Increasing rural poverty tends to increase the rate at which poor people move to the towns, increasing the supply of labour and the rate of urban unemployment. This leads to worsening urban poverty and causes major social, economic and political problems in the rapidly growing cities of developing countries, especially in Africa and Latin America.

Rural and urban poverty requires partly separate policies, although the urban-rural distinction is not always clear-cut and national definitions vary considerably. There are a variety of dynamic links between rural and urban areas through kinship, migration, trade and remittances. Moreover, urban agriculture is a valuable coping strategy and main employer for a considerable part of the urban poor.

Access to improved seeds, micro-irrigation, micro-finance, public works etc are important tools for helping poor women and men rise out of poverty. Increased agricultural yields and incomes generate demand and employment also in other rural activities as well as in urban ones. Growth in small-scale agriculture and services is particularly effective for reducing poverty both in rural and urban areas.

Urban poverty is especially complex and challenging. It must be addressed with a view to raising the productivity of poor women and men and providing social services and utilities of good quality. This must be done without the distortional subsidies that could lead to a bigger influx of poor rural people and a consequent worsening of urban poverty. Market development through institutional reform and improved infrastructure is crucial. Land tenure is at least as important in urban as in rural areas for security and for the necessary collateral for starting small-scale businesses. The informal sector should be encouraged while paying increased attention to labour and environmental standards.

b) Empowerment, rights and pro-poor governance

Poverty is related to the powerlessness, injustice and exclusion from social participation, which result from a lack of democracy and from discrimination. The relevance of these causes varies a great deal from country to country, but gender is generally important. Empowerment of poor women and men requires democratic governance with respect for human rights, popular participation in policy-making and programme design and implementation, a civil society with representative community organisations and the rule of law. These factors have proved to be decisive in the reduction of poverty.

Empowerment means enhancing the capacity of poor women and men to influence state institutions and social processes that affect their lives. Poor people can mobilise to empower themselves to the extent possible under prevailing conditions for the exercise of human rights and the rule of law.
Improving framework conditions for the empowerment of poor and socially excluded groups is a key strategic approach to poverty reduction.

68. To this end, there is an increasing focus on rights-based approaches, which link empowerment to international agreements on human rights. These involve the strengthening of courts and other institutions to promote and protect the universal rights of women and men, including the right to adequate information, to decent work and to organise unions. A democratic parliamentary process and effective economic, legal and judiciary systems are important for underpinning successful poverty reduction efforts.

69. There must be a framework of effective and transparent governance institutions. Efforts to improve governance and reduce corruption by strengthening accountability and service orientation in the public sector are crucial. They need to be buttressed by civil service reforms to ensure an adequate incentive structure facing public sector staff, including decent and regularly paid wages.

70. Political devolution and increased participation by poor women and men in local or regional government promotes empowerment and pro-poor outcomes. A distinct but related reform is administrative decentralisation, which involves a potential to reduce major corruption and improve the efficiency of public service delivery. But decentralisation in highly inegalitarian societies, with weak social organisation among poor groups, may mainly aggravate misrule by unchecked local elites. To ensure a pro-poor impact of decentralisation, local governance and democratic accountability must be strengthened.

c) Basic social services for human development

71. Well-being means living long, healthy and gratifying lives. It requires access to quality services such as formal or informal schooling, preventive and curative health services, clean water and decent housing. Basic education, especially for girls is the single most important factor for poverty reduction. Poor women and men are often deprived of access to adequate social services because of insufficient allocation of public resources and weak governance.

72. The proportion of public spending allocated to primary education and health is often used as an indicator of the poverty orientation of government policies in poor countries. While public spending is important, increased resources will only help if accompanied by serious efforts to improve the efficiency of their use at all levels, e.g. by improving governance. Enhanced accountability and service orientation in the social sectors needs to be buttressed by adequate wages and proper incentives for public service staff.

73. Special measures are also needed to encourage outreach and better access to basic services for poor women, men and children. Pro-poor methods of financing social services with taxes and user fees, should be carefully studied, designed and monitored to ensure access, affordability, and quality of services.

74. Human development is based on pro-poor economic growth that both raises the income and consumption of poor women and men and provides resources for social sector services. At the same time, basic social services engender economic growth by increasing people’s productive capabilities. AIDS and other poverty-related diseases like malaria and tuberculosis imperil growth, poverty reduction and social stability. Political recognition of AIDS as an absolutely critical development issue and of the importance of sexual and reproductive health and rights, are necessary ingredients in a poverty reduction strategy.

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9 Primarily the UN Universal Declaration of Human Rights (1948) covering civil, political, social, economic and cultural rights; three International Covenants on (i) Civil and Political Rights (ICCPR, 1966), (ii) Economic, Social and Cultural Rights (ICESCR, 1966) and (iii) the Rights of the Child; and the ILO Declaration on Fundamental Principles and Rights at Work (1989).
d) Mainstreaming gender and reducing gender inequality

75. Gender inequality is a major cause of poverty. Reducing gender inequality means improving women’s access to productive resources and hence releasing their potential for increased household incomes. Women, children and men will all benefit from this and the aggregate result is pro-poor growth.

76. Strategies for reducing poverty must address the different capabilities of women and men. Outcomes are affected not only by the amount and variety of material and intangible resources available to a household, but also on their distribution within it. The evidence also makes clear that gender inequality is prevalent not only within poor households but also at all communal and national levels.

77. Mainstreaming gender into policy can be a fruitful subject of dialogue and co-operation among governments, civil society and development agencies. Together, they can reduce gender differences in access to basic services, to economic opportunities and assets such as land and finance, to labour markets, to political participation, to knowledge and technology.

78. Effective poverty strategies need to consider existing gender relations, for example women’s time poverty caused by the double burden of their work and their unremunerated care activities. Governments need to recognise gender exclusion when shaping legal, institutional and policy frameworks, for instance in reviewing public expenditure allocations. Work undertaken in several countries on gender-disaggregated national budgets provides good examples of benefits for household crop production, children’s health and education, and fertility change. To gain more insight into their effectiveness, such “gender budgets” need to be carefully monitored and evaluated.

e) Environmental sustainability and sustainable livelihoods

79. Poverty and environmental degradation are closely interlinked and should therefore be addressed at the same time. This often calls for broad cross-sectoral approaches, including increasing farm productivity and food security. These efforts should focus on the diversity of livelihood sources and address the systemic conditions that constrain the ability of poor women and men to overcome poverty. For example, increases in access to education, health, water, transport and communications directly affect the ability of the rural poor to pursue alternative incomes, both on and off the farm.

80. The concept of livelihood comprises the capabilities (both material and social) and activities required for securing socially adequate living standards. A livelihood is sustainable when it can cope with stresses and shocks without undermining its natural resource base. The means of livelihood available to poor women and men include, but are not restricted to, natural resources. These are affected not just by natural endowments but also by economic and governance factors. Recognising this provides a basis for action that combines the reduction of poverty with the protection of the environment.

81. Understanding the policy and institutional mechanisms that influence the availability and value of the resources on which poor women and men depend is critical. Interventions must consider all the specific circumstances affecting the livelihoods of actual groups of poor people, including power and dependency relations, rather than making assumptions based on broad generalisations or sector-specific policy. The sustainable livelihood approach entails working in bottom-up fashion, starting from the perceptions and priorities expressed by poor people. Their perceptions and needs must then be reconciled with the views of agencies and authorities, which are looking at the sustainability of development on a larger scale.
f) **Human security: reducing vulnerability and managing shocks**

82. Human security means protecting people from deprivation as a result of disruptions or shocks. Poor people see insecurity both as a major dimension, and a principal cause, of poverty. The risks facing the poor are substantial and have a variety of sources, including the additional risks for poor women from domestic violence. Vulnerability is rising as new sources of violent conflict and crime emerge, and as risks of natural disaster from extreme climatic shocks and seasonal variations increase.

83. Inequality between ethnic and social groups can and does lead to conflicts. Armed conflicts both cause and amplify poverty -- directly, through the toll they exact of dead, wounded, disabled and displaced persons, and indirectly, through their effects on infrastructure and other livelihood conditions, macro-economic performance and the social fabric. Conflicts invariably destroy social capital and deepen failures in governance, sometimes to the point of state collapse.\(^1\)

84. A human security approach seeks systematically to address 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, and assisting poor people to contend with them, are likely to remain an important approach to anti-poverty action.

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Table 1
Tackling the poverty complex:
An illustration of causes, policy action and outcomes

This table provides a summary of causes of poverty, policy actions to deal with these causes and indicators for monitoring the poverty outcomes. The table should not necessarily be read as a matrix with causality links going horizontally from left to right. Each poverty cause may require policy action in several areas. A policy action may be linked primarily with one set of causes and outcomes but can also affect others. To a considerable extent, causes, actions and outcomes mutually affect each other.

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<tr>
<th>Causes:</th>
<th>Policy action:</th>
<th>Outcomes:</th>
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<tr>
<td>• typical factors</td>
<td>• typical areas and measures</td>
<td>• typical indicators (and sources)</td>
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<tr>
<td>Economic structures:</td>
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<tr>
<td>• rates and sectoral patterns of investment and growth</td>
<td>• good economic governance: predictable, open policy making</td>
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<tr>
<td>• trade (market access, terms-of-trade trends and volatility)</td>
<td>• macro-economic stability</td>
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<tr>
<td>• inequality of asset distribution by class and region</td>
<td>• measures to counter urban bias/promote agricultural growth</td>
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<tr>
<td>• unequal access to markets and services</td>
<td>• pro-active management of global integration</td>
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<td>• labour market conditions</td>
<td>• asset creation and redistribution</td>
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<tr>
<td>• gender divisions of labour and institutional biases</td>
<td>• targeted measures to increase access/remove market distortions</td>
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<td>• unsustainable resource use</td>
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<tr>
<td>Demographic patterns:</td>
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<tr>
<td>• delayed demographic transition, frequent pregnancies</td>
<td>• rule of law under democratic governance</td>
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<td>• AIDS</td>
<td>• legal and advocacy work on human rights</td>
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<tr>
<td>• geographic isolation</td>
<td>• support for civil society and citizenship rights</td>
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<tr>
<td>Public goods and services:</td>
<td>• promotion of economic and social rights of/for the poor</td>
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<tr>
<td>• delivery of public goods and services is corrupt and/or ineffective</td>
<td>• community capacity building for enforcement of rights</td>
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<tr>
<td>• class, gender and ethnic biases in uptake of services</td>
<td>• the right to freedom of association and to decent work</td>
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<tr>
<td>• limited access and very low quality services for poorest</td>
<td>• prioritised national anti-poverty and gender-sensitive budgets and expenditure-management</td>
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Basic social services for human development:
• pro-poor allocation of resources within the social economic capabilities:
• incidence, depth and severity of household consumption-poverty (household surveys)
• asset portfolios of poorest (household surveys)
• consumption shares and time-use of men and women (in-depth case studies)

Human capabilities:
• stunting and wasting
• infant and child mortality
• maternal mortality
• HIV prevalence
• community-based disease monitoring indicators
• literacy
• gender balance in schools
<table>
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<tr>
<th>Causes:</th>
<th>Policy action:</th>
<th>Outcomes:</th>
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<tr>
<td>Blocked access to:</td>
<td>sectors</td>
<td>typical indicators (and sources)</td>
<td></td>
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<tr>
<td>• natural capital (water, forests, land etc.)</td>
<td>• review financing and incidence of taxes and user charges, impact on access and quality</td>
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<tr>
<td>• physical capital (animals, implements, equipment, infrastructure)</td>
<td>• good governance of social services with incentives to improve services</td>
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<td>• human capital (health, education)</td>
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<td>• social capital (benefits of association)</td>
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<td>• financial capital (savings, credit)</td>
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<td>• common-pool resources encroached upon/overexploited</td>
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<td>Social exclusion:</td>
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<tr>
<td>• those excluded experience cumulative limitations to access</td>
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<td>• erosion or non-existence of mechanisms to maintain minimal social functioning by poorest (aged, widows, the disabled, indigenous people)</td>
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<td>• distance and social bias silences voices of poorest</td>
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<tr>
<td>• economic poverty forces poorest into livelihoods incompatible with social dignity</td>
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<td>• patriarchal cultural and legal patterns</td>
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<tr>
<td>• alcoholism</td>
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<td>• violence against women</td>
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<td>Shocks and conflicts:</td>
<td>Mainstreaming gender equality:</td>
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<tr>
<td>• expulsion/displacement of populations due to war</td>
<td>• legal and educational work on women’s rights, including sexual and reproductive health and domestic violence</td>
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<td>• intra-state conflict</td>
<td>• poverty and gender-sensitive outreach services in agriculture, education and health</td>
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<td>• natural disasters</td>
<td>• support for advocacy on time poverty</td>
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<td>• economic shocks</td>
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<td>• state collapse/social disintegration</td>
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<td>Political capabilities:</td>
<td>Social capabilities:</td>
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<td>• self-assessed powerlessness (participatory poverty assessments)</td>
<td>• analysis of local well-being rankings (participatory poverty assessments)</td>
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<td>• survey evidence of local power relations and their dynamics</td>
<td>• evidence of social interaction patterns by gender, ethnicity and other social categories</td>
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<tr>
<td>• surveys of gender balance in decision-making at all levels</td>
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<tr>
<td>Environmental sustainability and sustainable livelihoods:</td>
<td>Human security: reducing vulnerability and managing shocks:</td>
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<td>• national strategy for sustainable development (nssd)</td>
<td>• support for peace building and reconstruction</td>
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<td>• implementing an environmental action plan</td>
<td>• support for state security sector reforms under democratic governance</td>
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<td>• bottom-up policy design</td>
<td>• promoting social coherence through civil society development and multicultural tolerance</td>
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<tr>
<td>• farmer-based research and extension</td>
<td>• building assets that provide security against disasters and economic shocks</td>
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<td>• good governance of commons and local services</td>
<td>• safeguarding functioning social protection systems</td>
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<td>• active monitoring and protection of natural resources</td>
<td>• community-level work to identify the socially excluded and invisible</td>
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II. FORGING PARTNERSHIPS FOR REDUCING POVERTY

A. Introduction

85. Achieving results in reducing poverty often pivots on what is done, and how, at the country level. Development agencies have historically experienced great difficulty in “operationalising” agency poverty reduction policies. Both this section of the Guidelines and Part III that follows are geared to bridging this gap by showing how development agencies can best co-operate with developing countries in building strong partnerships and translating policy into more effective programming and operations in the field.

86. The text begins by setting out basic principles underpinning an agenda for change geared at improving agencies’ performance as partners in the fight against poverty. The scope then narrows to focus on good practice in building partnerships, dealing with diverse partner country situations, and interacting most effectively with other partners. The conclusion summarises priority areas for follow-up actions by agencies in implementing poverty reduction partnerships on the ground.

87. Part III looks more closely at key frameworks and instruments for organising and implementing poverty reduction partnerships, including how development agency country strategies are best formulated and implemented.

B. Fundamental principles governing poverty reduction partnerships

88. Basic underlying principles that should govern agency actions in working with other partners to reduce poverty are spelled out below.

89. **National and local ownership of development strategies, policies and priorities is essential for ensuring development effectiveness.** Policies and programmes addressing poverty are political in that they seek to create opportunities for, and distribute resources to, particular groups in society. Progress will not be achieved unless key national and local stakeholders are committed to the necessary economic and political reforms. Accordingly, widespread ownership of pro-poor policies and programmes by partner stakeholders at both national and local levels is of prime importance.

90. **Partnership approaches are crucial for facilitating local ownership.** Successful development partnerships are characterised by certain requirements and modalities that challenge long-standing development agency practices (see section C below). Partnerships based on a clear understanding of the rights and responsibilities of each partner and agreement on a set of objectives and ways of achieving them have proved most successful. The evolving Poverty Reduction Strategy Paper (PRSP) process or similar local processes are key frameworks for building strong country-level working partnerships for tackling poverty (see Part III, section B).
Participation and empowerment must be emphasised. Participation at all levels and at all stages in development co-operation is now seen as a basic precondition for better pro-poor policies, greater accountability in implementation, and more sustainable outcomes through local ownership.

Gender is a key vector for reducing poverty. Experience and empirical fact have demonstrated the immense impact of activities supporting women’s rights, opportunities and empowerment on the reduction of poverty. Accordingly, all poverty-focused development co-operation must take gender into account. Gender-aware development co-operation has direct effects in improved livelihoods and reduced discrimination, and secondary effects on growth, literacy, child nutrition, etc.

Co-ordination and long-term commitment are considered important for building partnerships and making an impact on poverty. There are no quick solutions for improving the social, political and economic well-being of the poor. “Stop-and-go” policies are considered particularly harmful from both aid effectiveness and poverty reduction perspectives. Good practice, on the other hand, means long-term commitment within a clearly and mutually defined framework.

Development practices and outcomes must be monitored in order to assess partnership performance and to secure and maintain pro-poor effects. Monitoring is necessary not just to ensure that the desired objectives are being achieved, but also to examine whether development efforts have unintended consequences detrimental to poor people.

a) What does it take to establish good poverty reduction 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. Box 1 sets out some key parameters for building effective partnerships.

Working in partnership poses a number of challenges:

- Issues of substantial importance to development agency constituencies (such as environment, gender and governance) must be integrated into policy dialogue without imposing an externally-driven agenda.
- Genuine dialogue between central government and other parts of society (for example, with local government, the private sector, the organisations of civil society, women’s associations and NGOs working on gender issues, and, so far as possible, poor people or their organisations) on local strategies for reducing poverty should be facilitated in ways that do not undermine the legitimacy of partner governments.
- “Development effectiveness” strengthens the need for a more selective, more strategic approach to decisions on the allocation of assistance among partner countries based on objective criteria, demonstrated partner performance and a long-term timeframe.
Box 1. Good practice approaches for supporting Poverty Reduction Partnerships

Working in partnership calls for fundamental changes in the ways development agencies interact with other partners (for example, government, civil society) and with each other (multilateral institutions, other bilateral agencies). It also calls for important changes in the way they work at the country level. The following list suggests practical ways of working in partnership.

- Use the partner country’s poverty reduction strategy and the national budget as the framework for development co-operation.
- Be sensitive to government leadership.
- Clarify the roles and responsibilities of the different partners (government, bilateral agencies, international and regional financial institutions, United Nations agencies, civil society, labour, private sector).
- Never work alone.
- Invest in mechanisms for co-ordination (which should be country-led and used for co-ordinating ex ante strategic planning and joint implementation), including working out the details of how, when and where to interact with other external and local partners.
- Promote and consolidate joint work (data collection, analyses, missions, evaluation, management and accountability of aid flows) and share information with other partners.
- Simplify and rationalise development agency administrative and financial requirements (for example, reporting, tracking, procurement, auditing).
- Facilitate local mobilisation, participation, monitoring and assessment.
- Provide capacity-building to (i) strengthen government leadership of poverty reduction co-ordination and consultative processes and (ii) enable civil society, including women’s organisations and gender equality advocates, to engage effectively in the consultation process and to actively monitor and evaluate poverty reduction policies and programmes.

Reciprocity is a crucial aspect of working in partnership. Development agencies need to decide collectively, and in collaboration with developing country partners, how they will assess each other’s policy commitments, spending plans and contributions to poverty-reduction outcomes. Performance indicators should increasingly be applied to all partners, with development agencies being called to account -- in the same way as governments -- for the reliability of their commitments and the consistency of their policies.

b) Gauging commitment and assessing partnership performance

Criteria for assessing the commitment of partners to poverty reduction: Partnerships are likely to hinge on the quality of governance and, in particular, on government efforts to orient strategies in a pro-poor, gender-aware direction. Efforts to gauge quality and commitment in these areas must be tailored to specific country contexts (see Box 2).

Other important criteria concern the quality of the policy dialogue and the processes of consultation. As a general rule, accountability to domestic stakeholders, including elected officials, will be of critical importance. Although in practice many national parliaments and local assemblies have serious limitations, their existence implies a potential source of pressure against gross misuse of public funds and
in support of public spending priorities that reflect government’s commitment to reducing poverty. Policy
dialogue between government and development agencies should respect and strengthen local debate and
dialogue.

100. **Criteria for assessing the performance of development agencies in addressing poverty:**
Development agencies should also develop criteria for assessing their own performance in supporting
poverty reduction partnerships.

101. Successful poverty reduction outcomes are determined by many factors, most of which are
beyond the scope of bilateral agencies. At the same time, a key criterion for evaluating agency
performance will be to assess the impact that the development agency’s country strategy has had on
progress in achieving sectoral development targets and/or on improving poverty indicators as set out in
partner countries’ poverty reduction strategies. This places a premium on developing appropriate
evaluation methodologies for assessing poverty reduction impact.

**Box 2. Assessing partner government commitment to poverty reduction**

Assessing the quality of a country’s commitment to reducing poverty calls for difficult qualitative
judgements about the pace and scope of change and about government’s record in implementing its
stated policies. Responses to the following questions may be helpful in assessing the extent and quality
of government commitment and in identifying areas where progress is needed or agency support is
called for:

- Is there an agreed strategy for reducing poverty and is a medium-term action plan, drawn up in a
  participatory way, being implemented? Is there a significant role for the Parliament (or other
elected body) and its committees in formulating strategy?
- How representative is the stakeholder consultation process outside of government (for example,
  non-governmental organisations, regions, private sector, press, social groups including women’s
groups)?
- Is there evidence of a commitment to ensure that work to reduce poverty empowers poor women
  and increases their opportunities?
- Are plans and budgets transparent, with full publication in a timely way?
- Is there a clear, serious commitment of resources to poverty reduction?
- Is adequate weight given to poverty reduction criteria in review procedures for national investment
  and recurrent expenditure decisions?
- Does the policy framework distinguish the needs of particular socially or geographically
  disadvantaged groups? Does it identify specific measures to relieve the constraints they face?
- What incentives are there for government departments to be aware of poverty criteria and respond
  with improvements in basic services? What incentives are there for officials to work in rural areas,
  especially those that are remote?
- In federated or decentralised countries, are all key players indicating a commitment to poverty
  reduction?

102. Additional criteria might include the extent to which the development agency co-ordinates its
planning and implementation activities with other partners, reduces the administrative burden it creates for
them and facilitates collaboration (see Box 3). Efforts to increase the flexibility and predictability of
resources provided -- while recognising the constraints some development agencies face regarding in-kind assistance -- may also be considered for use as a measure of performance.

103. Agencies could also assess their performance in terms of the extent to which the projects they support have been fully integrated in partner government expenditure frameworks.

104. Finally, Member governments should be held responsible for the effectiveness of their aid (for example, progress in untying or increasing the proportion of local procurement) as well as their performance in promoting policy coherence across their governments (especially in development co-operation and trade policies) and in improving access to information and technology (see Part IV).

**Box 3. Assessing development agency poverty reduction efforts**

Working in partnership means giving serious attention to assessing one’s own performance in measuring up to agreed responsibilities and obligations. Reciprocity of this sort strengthens the trust and commitment of other partners. The following indicative criteria can be used by agencies conducting such self-assessments:

- Is the development agency’s country strategy based on the partner country’s own assessment and strategy for addressing poverty?
- To what extent does the agency’s country strategy address the multi-dimensional aspects of poverty?
- To what extent have the agency’s co-operation activities been carried out jointly with other bilateral and multilateral development agencies (for example, missions, appraisals, data collection, analyses, etc.)?
- To what extent have development agency administrative and financial requirements been adjusted to, or harmonised with, the partner country’s existing procedures or with those of other external partners?
- Has the agency supported and strengthened country-led planning, implementation and co-ordination processes?
- Has the Member helped facilitate civil society’s participation in debating and deciding on the contents of the country’s strategy for poverty reduction?
- Has there been a clear, serious commitment of resources to poverty reduction?
- Has a commitment been made to provide resources over the same timeframe as the government’s fiscal planning framework?
- Has sufficient care been taken to avoid duplication of effort and to build on complementarities across the external development community?
- Have efforts been made, and progress achieved, to improve policy coherence within the agency and, more broadly, across the full range of government bodies?
D. Strategic approaches for overall development assistance allocation and programming decisions

105. The role development co-operation can play in reducing poverty will depend on the specific needs and context of different partner countries. This section sets out general orientations for resource allocation and programming decisions.

a) The need to allocate more resources to the poorest countries

106. Achieving results in reducing poverty calls for establishing priorities as to how the development co-operation budget will be allocated among partners according to policy objective, partner country and instrument. Key considerations here should be the extent to which a partner country is committed to reducing poverty, the extent and depth of poverty in a country, and the needs of the poorest people. Allocation decisions will, to some extent, be based on qualitative judgements. Agencies should make best efforts to increase the proportion of development assistance provided for the poorest countries.

b) Supporting sound national strategies for reducing poverty

107. In a general way, the partner country’s strategy will determine the nature and extent of agency support. Each country has different needs and capacities for dealing with poverty and has its own view of necessary policies and priorities. Agency support should be tailored accordingly. The legitimacy, adequacy and appropriateness of partner poverty reduction strategies are important criteria to be factored into agency planning and allocation decisions. In some cases, past government performance in implementing policies will also be important.

c) The role of development co-operation in different country contexts

108. Each partner country presents different propensities and opportunities for reducing poverty, which makes generalisation or categorisation difficult. Nevertheless, as an organising principle it is helpful to set out an overview of contexts and options, a notional “partner country typology” to help guide agency staff in understanding the role that development co-operation can play in a given country setting. In general, partner countries, despite their considerable differences, will be subject to one of the following sets of circumstance:

109. Large and non-aid dependent countries: The role of development co-operation in reducing poverty in these countries may be marginal given the overall magnitude of macroeconomic balances, access to international capital markets and the fungibility of financial flows. Nevertheless, the needs of the poor -- which may be very considerable in some countries -- must be addressed and supported. A key priority will be to ensure development assistance catalyses additional local resources and actions to reduce poverty. In view of the reduced leverage of development co-operation in these countries, efforts to foster greater commitment and resources for reducing poverty should focus on dialogue with partners and efforts to strengthen the voice of civil society in policy formulation. In countries with federal structures, it may be possible to work at the sub-national level. Entry points for assistance include poverty-focused support for developing the private sector (for example, microfinance, business management skills), upgrading public sector performance, improving governance structures and institutions (including at the sub-national level) and promoting policy coherence across Member country governments (especially trade, agriculture and financial policies).
110. **Countries that have developed a poverty reduction strategy but that lack local implementation capacity:** In countries with a policy environment which functions reasonably well and where efforts to overcome the remaining shortfalls are being made, development agency strategies and programmes should be a sub-set of the country-led strategy and public investment priorities. It will be important to agree on how to account satisfactorily for results and outcomes of external financing without distorting national spending priorities. Agencies assessing their support for countries in economic transition should factor in the time required for social and economic change. Key areas for assistance for these countries include public sector institutional development (at the national, regional and municipal level), civil society capacity-building and technical co-operation for sectoral development.

111. **Countries striving to develop economic strategies and social policies for poverty reduction who also lack capacity and institutional mechanisms:** In countries still striving to articulate a coherent poverty reduction strategy, process indicators and intermediate measures of progress towards goals are particularly important. Context-specific process indicators -- including whether and how representatives of poor or vulnerable groups have been able to participate -- can help in assessing the degree of commitment to poverty reduction. Development agency programming in these countries should encourage domestic participation in the poverty analysis. Members should strengthen the capacities of these countries to analyse and interpret data, particularly the capacity to analyse and interpret social, economic and political data that bear upon gender inequality and other forms of disempowerment and social exclusion. If countries are committed to poverty reduction but are unable to articulate this, action to strengthen analytical capacity should be complemented by resource transfers in the form of project-level support. It may also be possible to support sector-wide approaches in some areas and to provide debt relief, foreign exchange or investment resources.

112. **Countries recovering from conflict or natural disaster:** In countries emerging from conflict or natural disasters, development agencies may focus on restoring damaged economic infrastructure and basic services as a means of mitigating the impact of such calamities on the poor. In these situations, taking actions to reduce the risks, vulnerability and insecurity associated with being poor can be part and parcel of emergency relief, rehabilitation or peace-building efforts. At the same time, while a credible commitment or track record on poverty reduction may be missing for such countries, development assistance (particularly capacity-building support) may be critical in creating the space which would allow their governments to begin to focus on poverty reduction needs. Development agencies should also consider giving support to media and civil society for building alliances for poverty reduction (particularly where countries are transiting from conflict) and to local projects focused on improving governance.

113. **Countries where government is not demonstrating adequate commitment to poverty reduction:** In countries where poor governance, conflict, or a government not committed to reducing poverty prevails, the kinds of support development agencies can provide will be severely limited. Serious concerns about governance, human rights and the effectiveness of aid will prevent government-to-government co-operation. Agencies can then only work with local authorities or through non-governmental organisations to help relieve poverty among particular, targeted populations. They can also provide more general support to reduce vulnerability and to satisfy humanitarian needs. Where governance is absent or very weak, community-based approaches may be the only possible response. Finally, bilateral agencies could consider how their support for local structures, civil society and the private sector could foster “pathways” for more serious country commitment to poverty reduction and development agency engagement in the future.
E. Helping partners to develop sound national poverty reduction strategies

a) A key locus of partner interaction: the policy dialogue process

114. The process of in-country policy dialogue is an integral element in ongoing efforts to establish strong, effective partnerships for reducing poverty. It is the arena in which the views and concerns of all partners regarding poverty reduction issues and choices must be aired, debated, reconciled and agreed. In general, agreements and decisions reached during the dialogue about economic, political and administrative reforms in partner countries will determine the terms of agency engagement. Agencies will need to be well-informed about local poverty in order to negotiate effectively with local counterparts.

115. The policy dialogue should build confidence and forge longer-term partnerships around shared objectives. As regards poverty reduction, this implies a more integrated and holistic dialogue combining diverse policies and programmes at national, sector and local levels as a way of addressing the different dimensions of poverty and its causes. The main issues and concerns to be discussed in a poverty-focused policy dialogue include support for pro-poor growth (for example, economic and structural policies and sustainable livelihood approaches), measures to promote equity, social inclusion and human development (for example, gender mainstreaming, better quality and reach of basic social services) and governance and institutional changes that create an enabling environment for reducing poverty (such as empowerment, rights and pro-poor governance). 11

116. In the short term, especially in those countries still in transition towards a fully articulated poverty reduction strategy with effective implementing institutions, intense dialogue between development agencies and countries is likely to remain necessary. Without this, priorities and performance cannot be expected to move in a more pro-poor, gender-aware direction.

117. Partner country poverty reduction strategies will contain implicit government commitments and responsibilities against which other partners can measure performance in terms of policy change and structural reforms. Agencies and their partner governments should aim to agree on relevant objectives and on benchmarks for assessing progress toward reaching those objectives.

b) Co-operation agency support for designing national anti-poverty strategies

118. Assistance is often required for elaborating national anti-poverty strategies and action plans. The nature and timing of such assistance can be crucial. Examples of appropriate assistance include:

- Help in developing diagnoses of the nature and causes of poverty to permit the most effective design of public actions, including better understanding of gender-specific issues and the implications for vulnerable groups.
- Support for developing guidelines for poverty-focused sector-wide and integrated programmes supporting decentralisation and an active role for local communities.
- Resources for monitoring and evaluating poor people’s access to services within sector and sector-wide programmes.

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11 See Part I, section F.
• Strengthening capacity for generating and analysing information and statistics, including funding for poverty assessments and the development of relevant statistical techniques and tools.
• Facilitating and building capacity for broader public participation in the strategy process, for example by supporting the work of parliamentary committees or independent public policy institutes.
• Reinforcing partner country capacities for managing and accounting for aid flows and for assessing impact and promoting institutional learning.

119. Every effort should be expended to ensure that partner country authorities are given adequate time and space to develop their own, widely shared, poverty reduction strategies.

120. It is important for development agencies to work with and through government: they should not "flood" government departments with expatriate technical advisers. Agencies should ensure close co-operation with the partner government and clear agreement on the selection, tasks and responsibilities of long-term technical advisers who should be hired by, and be directly accountable to, government. Studies underpinning national poverty reduction strategies, PRSP formulations or development agency country strategies should be locally commissioned wherever possible, and efforts made to ensure that they genuinely contribute to national capacity-building. Care should be taken to ensure that work is undertaken in accordance with local priorities and that information generated through development assistance is shared with local partners.

c) **Strengthening the empirical foundations of poverty reduction strategies**

121. National poverty reduction strategies should be based on the best available knowledge about poverty. Concerted efforts are needed to strengthen local capacity in the generation and management of data for diagnostic analysis and policy prescription. To this end, development agencies could provide direct and indirect support to build skills and knowledge and to mediate between partner countries and regional or international institutions. Sectors to benefit from such interaction include food security (early warning systems), agriculture, fisheries, environment and health (satellite data).

122. The critical and analytical use of data is a weak area for partner countries and agencies alike. It is necessary to match development agency concerns about gender equality with better country-specific empirical information. Gender disaggregated data are essential in order to produce a country-specific analysis of poverty-gender linkages and to shape proactive gender policies. Similar analysis and dissemination is required for environment-poverty linkages.

123. At the same time, partnership considerations argue for two priorities:

• Sharing openly and systematically with partner governments and other development agencies all analytical work, which should be used to develop **collective or shared poverty assessments**.
• Working closely with country institutions at all levels -- thereby taking advantage of scarce skills, benefiting from synergies and promoting active learning -- to develop **common diagnostic frameworks**.
d) Collaborating with other partners

124. **Casting the net wide:** In every developing country there is a host of real and potential partners whose diverse talents, capacities and energies could be brought to bear in the fight against poverty. Central ministries, local government, self-help groups, civil society organisations (from both North and South), trade unions, opposition movements, women’s organisations, the private sector, religious groups, bilateral and multilateral development agencies, and poor people themselves -- all these groups should participate in designing, funding and implementing poverty reduction strategies. Engaging all potential partners in a co-ordinated, concerted effort should be the goal.

125. **Making the most of partner contributions:** Clarity about the relative strengths and comparative advantages of different partners can help to focus their efforts most effectively. For example, civil society organisations can play a key role in mobilising local actors, catalysing self-help efforts, channelling additional resources, advocating empowerment and participation and reaching out to marginalised groups and communities. The private sector has a role to play in creating jobs, providing resources for development and promoting the transfer of technology and know-how. Labour organisations can help to promote decent work and improve working conditions. Multilateral agencies can contribute research capacity, resource flows and broader global and regional exchange and interaction. Bilateral agencies can contribute their strong field presence, long-standing relationships with government and local actors, additional resources and experience with political development and governance.

126. **Partnership means dialogue beyond government:** Many partners decry the exclusive nature of poverty debates in their countries. More partners, and a broader range of partners, should be engaged in the policy dialogue process running alongside efforts to formulate and implement strategies for reducing poverty. Extra effort will be required to ensure the quality of these consultation processes in the sense of ensuring genuine, ex ante participation that informs outcomes. Agencies can provide support for this essential dialogue, for example by backstopping the logistics, planning, information-gathering, facilitation, co-ordination and dissemination needs that will be required for different dialogues.

127. In supporting efforts to broaden local participation in the dialogue, agencies must exercise care not to undermine the legitimacy of partner governments and to identify bona fide civil society agents who can legitimately speak for the poor. Efforts to build more open relationships with civil society are especially important in countries where government policy is still considered unfavourable, or where there is as yet an ill-defined country-led poverty reduction strategy. In other situations, it is important from the point of view of strengthening government accountability to society at large.

128. **Genuine participation of local stakeholders is a challenge:** Working with local partners and stakeholders is time-consuming, labour-intensive and risky (for example, it may not lead to the expected results). Participation may be very difficult to facilitate and to manage given rigid programming and budget pressures that continue to prevail in development co-operation programmes and projects. At the same time, it is essential for ensuring ownership, sustainability and effectiveness. The participation and empowerment of women, socially marginalised and excluded groups, and the poorest of the poor must be squarely addressed by development agencies. Effective systems of monitoring and feedback are required to secure the participation of these groups. In a larger sense, agencies should support partner governments’ efforts to institutionalise participation throughout societies, building up participatory processes and mechanisms that will facilitate efforts to scale up participation beyond local levels.

129. **Engaging more effectively with multilateral partners:** Agencies need to work more closely and more collegially with multilateral partners, both at the corporate level through interactions in their decision-making bodies or in the field (see Box 4).
e) Supporting national poverty reduction strategies through better aid co-ordination

130. Co-ordination issues: 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. In this enabling context, the PRSP, national budget and Medium Term Fiscal Framework (MTFF) processes are very important for structuring and co-ordinating development assistance (see Part III, section B). Bilateral agencies must make determined and sustained efforts to share information and work with one another with a view to delivering coherent and consistent messages and focusing on essential needs and on collaboration opportunities. Increased delegation of decision-making to field offices will provide the impetus and margin of manoeuvre necessary for spurring more and better co-operation and co-ordination in the field. This co-ordination should include bilateral and multilateral agencies at country, regional and international levels.

131. The challenge for the development community is to find ways of collaborating that do not undermine country ownership nor create additional burdens for partner countries.

132. At the same time, agencies must pay closer attention to consistency across the development community and within their own agencies (whether they are composed of single or multiple government departments or agencies). Each agency must remain vigilant to risks of inconsistency, duplication and overlap with other external partners -- and within their own agencies -- in both policy dialogue and programming. Greater harmonisation of development agency practices at bilateral, regional and international levels 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.

Box 4. How bilateral agencies can work most effectively with multilateral institutions

A number of bilateral agencies consider their collaboration with multilateral and regional institutions as an important way of leveraging the scope and impact of their assistance programmes. Closer and more supportive relationships among external partners are an important goal for all concerned, especially in the context of PRSP. Options here include:

- Identifying and agreeing with multilateral institutions the respective roles, responsibilities and obligations of the different external partners in country-specific PRSP processes.
- Establishing feedback channels from the field to headquarters informing management of implementation opportunities, challenges and problems.
- Participating actively in bilateral and multilateral forums for co-ordinating assistance (for example, SPA, CGs, Roundtables).
- Being aware of missions and opportunities for policy dialogue and initiating early and prompt contact with relevant multilateral staff.
- Keeping periodic co-ordination meetings informal, operational and focused on results (for example, share experience, discuss options and possible scenarios, seek advice, co-ordinate activities and research, etc.).
- Looking for ways to streamline and simplify funding and disbursement arrangements (for example, having each development agency volunteer to fund a certain percentage of a programme, with the government providing periodic financial reports).
133. Consultative Groups and Round Tables are also mechanisms for aid co-ordination that can, at the same time, strengthen partner country capacity and ownership. These forums should be driven by the poverty reduction agenda. Efforts should be made to support partner country venues for these meetings, in which high-level agency headquarters staff should participate.

F. Priority actions for the bilateral community

134. Part II has set out basic principles underpinning partnership and described how agencies can apply these principles in diverse country situations as they help partners develop and implement sound national strategies for reducing poverty.

135. DAC Members have assessed these ideas and identified a number of priorities for agency action, particularly at the field level. These include stronger commitments to:

- Support country-owned, country-led poverty reduction strategies.
- Ensure that country programming reflects the partner country’s poverty reduction strategy.
- Reduce the burden development assistance 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.
- Invest the time and resources needed to build genuine, reciprocal poverty reduction partnerships and to sustain them through mechanisms and networks that are cost-effective and efficient.
- Adapt development agency structures and working methods to the challenges and needs of poverty reduction partnerships (for example, strengthen and deepen field presence; enhance decision-making flexibility; accept partner design for documents and strategies; increase transparency and accountability to other partners; lengthen programming timeframes; develop staff “facilitation” and consensus-building skills).
- Work more intensively to develop human and institutional capacity (for example, to improve governance and promote empowerment, to enable partners to manage and account for development assistance, to promote the use of information and communications technology, etc).
- Include a gender perspective in all policies, programmes, instruments and modalities (as opposed to having a discrete section on gender implications).
- 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.
- Assess development co-operation performance in terms of poverty reduction reach and impact, and develop the requisite monitoring and evaluation systems and methodologies.
- Foster and strengthen local efforts (for example, civil society, Parliament, government bodies) to monitor poverty reduction programmes and the use of debt relief.
- Encourage the development of local poverty reduction indicators and targets and strengthen partners’ statistical, analytical and evaluation capacity.
III. COUNTRY PROGRAMMING: FRAMEWORKS AND INSTRUMENTS

A. Introduction

136. Country programming processes and choices have a determinant impact on efforts to reduce poverty. Part III goes one step further in pointing to practical ways of working in partnership, focusing more closely on existing frameworks for organising and implementing development co-operation and on the instruments used for channelling assistance.

137. The text starts by outlining evolving partner country frameworks for shaping, implementing and monitoring national strategies linked to poverty reduction goals. It then describes the changing role of bilateral agencies’ Country Strategies for enhancing the focus and impact of country operations on reducing poverty. The text culminates with a broad overview of the relative merits of key development co-operation instruments and emerging good practice to increase aid effectiveness for poverty reduction.

B. The evolving partner country strategy framework

138. Approaches to country programming should, in the first instance, build on partner country strategic frameworks and planning instruments. This section describes and differentiates organisational arrangements in partner countries for framing policies, setting priorities, converting them into spending decisions, and monitoring outcomes in relation to poverty reduction.

a) Country-level strategic development frameworks

139. There is widespread convergence in the international community on the need to evolve comprehensive, country-level development frameworks integrating national anti-poverty strategies. In recent years, this has led to a number of initiatives from international bodies, which have proposed several closely related, often interlocking, frameworks. They include the National Strategies for Sustainable Development (NSSD)\(^{12}\) emanating from the UNCED conference in 1992, the United Nations Development Assistance Framework’s Common Country Assessment (UNDAF/CCA) introduced on a pilot basis in 1997, the World Bank Comprehensive Development Framework (CDF) initiated in early 1999, and the Poverty Reduction Strategy Paper (PRSP) processes launched by the Bretton Woods institutions in late 1999.

140. Taken together, these frameworks are the operational mechanisms for organising national efforts to achieve national and international development goals. Efforts should be made to ensure that these frameworks are comprehensive, coherent with one another and supportive of poverty reduction. In a best

\(^{12}\) At the United Nations Conference on Environment and Development (UNCED) held in Rio in 1992, governments were called upon to adopt a NSSD which would “build upon and harmonise the various social, economic and environmental policies and plans that are operating in the countries” (Agenda 21).
case scenario, they would coalesce into a single national plan integrating economic, social and environmental priorities within a holistic, strategic policy framework geared to ensuring that overall development -- including poverty reduction -- will be sustainable.

141. Recognising the added burden for partner countries of having to comply with multiple frameworks, the international community should find ways of rationalising the various documents and economic plans currently being prepared by partners, international organisations and bilateral agencies. Development agencies should also support the development of these strategies, particularly by strengthening local capacity for designing policy, for carrying out consultation processes and conducting relevant research and analysis (see Part II, section E). Strategies developed in these frameworks, and particularly the PRSP process, should be the point of departure for agency country-based poverty reduction programming and activities.

b) Poverty Reduction Strategy Paper processes

142. Most low-income countries are likely to develop Poverty Reduction Strategy Papers (PRSPs) over the short- to medium-term, either in the context of the Enhanced HIPC initiative or in seeking concessional assistance from the International Financial Institutions. The PRSP core principles, emerging out of the CDF, are fully congruent with the fundamental principles governing poverty reduction partnerships (outlined in Part II, section B). PRSPs are country-driven, based on participatory processes, comprehensive in scope, and results-oriented. In supporting the PRSP approach, it is important to be attentive to the following issues:

- PRSPs should support and improve but not duplicate or undermine national poverty reduction policy processes.
- Different formats and standards should be accepted for PRSPs.
- The pace of the PRS process needs to be adapted to suit country capacity, and to allow more local ownership to develop.
- The PRS process should be open to bilateral agencies to participate in an integrated way.
- PRSP requirements should be flexible recognising that sustained poverty reduction cannot be achieved overnight.

143. There are a number of challenges related to the widespread adoption of the PRSP approach which need to be considered, for example ownership and commitment by the partner country; its capacity to develop prioritised action plans, and the capacity of civil society to engage with government (as well as the willingness of government to engage with civil society); the quality and availability of poverty data; the challenges of identifying pro-poor growth paths, etc. Nevertheless, the PRSP process provides a sound framework -- in a spirit of learning by doing -- for the prioritisation and channelling of bilateral assistance. It is incumbent upon the development agencies, in consultation with partner countries, to work out the best modalities of support, building on the comparative advantage of each set of actors (see Part II, section E) on agency support for designing anti-poverty strategies).

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c) National budgets and public expenditure reviews

144. The national budget provides a useful framework for prioritisation and accountability in relation to poverty reduction objectives. It is an annual expenditure and revenue plan which has the advantage of reflecting government policy priorities, costed plans for achieving particular outcomes, and the total resource envelope considered consistent with macro-economic stability. Where possible, development agency funding commitments should be fully reflected in the budget, thus ensuring greater transparency in the allocation of external resources and allowing the government to set priorities for a larger share of development assistance. In this context, Public Expenditure Reviews carried out by external agencies are crucial in achieving a more effective and pro-poor use of resources, in rationalising the size of government and in targeting vulnerable groups.

d) Medium Term Fiscal Frameworks

145. In partner countries which have the capacity to put together a Medium-Term Fiscal Framework (MTFF), agencies may also rely on this country-owned forward-looking instrument. The MTFF approach is potentially helpful to poverty reduction because it links more closely the goals of the Poverty Reduction Strategy with spending decisions and at the same time creates the basis for the annual budgeting processes. It is a tool which can greatly enhance accountability if indicators are established and transparent processes developed which show whether, or not, spending has served the intended beneficiaries and whether the intentions expressed in the budget have been converted into outcomes.

146. Periodic reviews of an MTFF can usefully include both external partners and domestic non-governmental stakeholders. These may become important stocktaking exercises that provide an opportunity for governments and their partners to jointly review their shared commitments to reducing poverty. Where policies permit, development agencies should be willing to use the MTFF to signal the intended continuity of their assistance.

C. Development agency country strategies

147. The trend in partner countries towards developing strategic frameworks for reducing poverty should help focus development agency programming efforts. The long-term goal should be for agency country strategies (CS) to diminish in importance. In best-case circumstances the agency CS will be a “business plan” for the implementation of partner-led national strategies for reducing poverty. In the interim, agencies will continue to rely on their traditional, agency-specific planning frameworks when they confront the need to organise and fit their assistance within a given partner country context.

148. Essential requirements for developing a poverty-focused CS stem from the basic principles outlined in Part II. Specifically, country strategies should:

- Focus primarily on poverty-reduction goals and be justified in terms of these, with appropriate senior-management screening.
- Be aligned with the partner country’s strategy for reducing poverty, which should be the template for programming and implementation by all partners;
- Reflect knowledge of what other development agencies are doing in the country and what aid co-ordination mechanisms exist;
• Be genuinely strategic and informed by the best available knowledge of the poverty situation in the country, including the results of poverty assessments, gender and social analysis and consideration of environment-poverty linkages.

149. Box 5 sets out a possible outline for a development agency CS. It illustrates the need for agencies to make explicit choices and to justify them at several distinct levels showing how the agency’s interventions fit with the national poverty reduction strategy, how the agency’s comparative advantages are being used, and how programmes are buttressed with technical co-operation.

Box 5. Possible model for a bilateral development agency poverty-focused country strategy

| I. | The country’s poverty profile (nature, causes, dynamics, identification/location of poor) 1/ |
| II. | Description and assessment of the country’s commitment to poverty reduction 1/ |
| III. | Summary of key elements of the country’s poverty reduction strategy (for example, sectors, governance, participation/consultation, and targets, indicators, monitoring and evaluation) 1/ |
| IV. | Proposed development agency strategy |
| a) | Issues for the policy dialogue (priorities, responsibilities, performance, governance, etc.) |
| b) | Review of relevant “lessons learned” and good practice from inside and outside the agency |
| c) | Components of support (justify in view of national poverty reduction strategy, development agency comparative advantage, relevant capacity strengthening efforts) |
| d) | Modes of intervention and their financing |
| e) | Co-ordination mechanisms (government, external development agencies, local stakeholders) |
| V. | Policy coherence issues |
| VI. | Country performance indicators (agreed with partner government) |
| VII. | Development agency country strategy self-evaluation benchmarks (clear, monitorable and time-bound benchmarks to track implementation) |

1/ Taken directly from the partner country’s poverty reduction strategy documents
D. Key instruments of development co-operation

150. Development agencies rely on different instruments to support the efforts of partner countries to reduce poverty. These include support for programmes, sectors or projects, which are generally combined with policy advice and backed up with technical co-operation. In difficult situations, debt relief or humanitarian assistance may also be provided (see section E below).

151. Given the diversity of contexts in partner countries, it is not possible to say that one form of development co-operation will, in all cases, have a greater impact on poverty reduction than another. But in the right political, economic and institutional environment, programme or sector support at the macro level is most likely to reduce poverty on a large scale. Micro-level projects, which affect a limited number of people, can make a lasting impact on the livelihoods of beneficiaries provided they are financially sustainable and compatible with the macro-framework. The focus of development agencies on reducing poverty has rekindled a strategic debate on the relative merits of programme and project aid. This is leading to a growing emphasis on supporting sector programmes and a shift towards maximising the effectiveness of local projects.

152. Given the important synergies that can be achieved by co-ordinating different types of development co-operation at the macro, meso and micro levels, country programming ideally should consist of a mix of instruments. The choice of instruments and the balance between direct and indirect, wider and focused actions should flow from an analysis of the country’s needs, elicited through a dialogue with government and other stakeholders as outlined in Part II. It should not depend on internal agency dynamics. Above all, poverty-focused co-operation, in whatever form, should address in varying measure the key policy areas identified in Part I, section F.

a) Programme support

153. The role of programme support in reducing poverty is to provide financial resources, in the most efficient way possible, to a country which is committed to using them effectively in implementing a sound strategy for reducing poverty. It is the form of development co-operation which best puts into practice the principles of partnership and ownership. It signals the readiness of the development agency to respond to improved policies by providing more flexible financing, giving the partner country fuller responsibility for deciding how resources are spent. It substantially reduces the transaction costs normally incurred in earmarking and other donor procedures well known for unduly straining the administrative capacities of partner countries. Quick disbursement, a unique feature of programme support, also helps to meet the partners’ immediate financing needs in situations in which macroeconomic stability, as well as programmes important to reduce poverty, would otherwise be threatened.

154. Given the fungibility of the resources transferred under programme support, it is important to ensure that this form of co-operation takes place in the context of an agreed stabilisation and economic reform programme with the IMF and the World Bank. While recognising the special role of these international institutions in providing funding and advice for economic reform, bilateral agencies should be active in maintaining the prominence of poverty reduction objectives in the design of any reform programmes.

155. This is facilitated through programme support, which has the benefit of opening the way to a continuing dialogue on pro-poor policies in the critical areas of macro-economic reform and good governance. As indicated in Part I, section F, macroeconomic policies are critical to assuring macro-economic stability, not the least to containing inflation, which hurts the poor disproportionately. Support
for good governance is an area where bilateral agencies can play a strong role in supporting social inclusion through participation, reduced corruption and increased efficiency in public sector management. The main issues for governance in reducing poverty are to ensure that both poor men and women have greater influence in policy-making and greater access to basic services of decent quality.

156. Creating the necessary environment for reducing poverty and increasing the participation of the poor include reforms in policy areas such as fiscal management, public administration, decentralisation, judicial and legal systems, improved national and local accountability, facilitating the role of private sector and civil society as well as a range of other measures in support of democratisation (see Part I). The following are examples of the kind of reforms undertaken by partner countries, which deserve particular support from a poverty reduction perspective.

157. Fiscal management reforms are crucial in promoting a pro-poor allocation of resources between richer and poorer regions, urban and rural areas and between and within sectors. Reform measures particularly relevant to reducing poverty include (i) tax policy reforms leading to improved resource allocation (for example, reducing certain forms of taxation that have undesirable redistributive effects, or the improvement of tax collection), (ii) institutional reforms, (for example, tax legislation, setting up revenue authorities, improved treasury management, strengthening public accounts offices) and (iii) tax and customs administrations, which are also key to improving governance, maintaining economic stability, creating an environment for broad-based growth and, not least, increasing resources that can be channelled towards the poor.

158. Public Service reform to improve efficiency in public sector management and services is critical for the design and implementation of pro-poor policies. Reform should aim at strengthening accountability and inclusion. Means of achieving accountability include the selection, appointment and promotion of civil servants on merit, the development and enforcement of codes of conduct, the systematic scrutiny of government policies and performance by elected bodies and monitoring and reporting on the effectiveness and quality of service delivery. Inclusion means opening public offices to meet public need, instituting new approaches to consulting people living in poverty and setting minimum equitable and affordable standards for basic services.

159. Decentralisation can raise the quality of, and access to, services that benefit the poor. It allows closer involvement of representatives of the poor in public policy, thereby enhancing its pro-poor nature, its accountability and the sustainability of its outcomes. But it also involves some risks which should not be underestimated: local government can be captured by local elites, regional disparities can be deepened, or central government can ‘disown’ responsibility for the poor. The extent and phasing of decentralisation needs to take into account the special national, and sometimes sub-national, circumstances in any given country.

160. Land tenure reform is a necessary condition for reducing poverty in many agrarian economies, requiring legislative action to strengthen property rights and remove the gender bias. When politically feasible, the implementation of land reform can go a long way in achieving a more equitable distribution of assets. Good practice includes the use of market-based instruments; introducing legislation on security of tenure; fostering public-private partnerships to support agricultural production with training, credit, and technology; and linking land reform to the process of decentralisation.

161. Support for civil society is vital in reducing poverty. It is a way of strengthening the role of non-governmental organisations in protecting the rights of excluded groups and allowing representatives of the poor to achieve greater influence in pursuing poverty reduction objectives (for example, by fostering national support for universal basic education).
162. Country political analyses and, particularly, the assessment of the political impact of policies and programmes are essential in selecting areas for programme support.

b) Sector support

163. Recognition of the limits of the project approach (see section d) below) leads development agencies to seek other ways of optimising the effectiveness of co-operation. Under the new label of Sector Wide Approaches (SWAp), sector support is emerging as a potentially strong instrument for enhancing local ownership, strengthening partnership and establishing a conducive institutional environment for development and the reduction of poverty.

164. In essence, the SWAp is a mechanism for use by agencies and their partner countries to support the development of a sector in an integrated fashion. Agencies make their contributions towards a single sector policy and expenditure programme, under government leadership, using common management and reporting procedures to disburse and account for all funds. Although SWAps are fairly recent and still wrestling with the complexity of institutional reform and stakeholder involvement, they have come to be regarded as a most promising way to implement partnership strategies for reducing poverty.

165. Sector programmes imply a different approach to aid management from what development agencies are used to and organised for. This type of programmes is primarily the task for partner governments, which means the merging of accountability procedures and high levels of trust between the parties reinforced by the development of independent external auditing systems. It requires development agencies to set aside their own priorities and accept locally owned sector strategies. It certainly calls for greater modesty and an acceptance of what may be a slow process of change, relying on a process of partnership-building rather than on the implementation of a blueprint.

166. So far, the new approaches to sector support are still in the formative stages. In order to realise the distinct advantages of sector programmes for aid effectiveness and poverty reduction, limited experience points to the following challenges, which agencies committed to this kind of support should address.

167. **Focus on the poverty reduction objective:** Sector programmes provide a good mechanism for discussing the allocation of resources and the issues of equity and effectiveness in relation to poverty reduction. Policy dialogue on the rights of the poor and gender issues in specific sectors can influence political and administrative processes to be more responsive to poor people’s needs and demands. Sector funding also has the considerable benefit of internalising issues that are part of the environment of projects (for example, excessive expenditure on regional hospitals at the expense of primary health care). However, even in the social sectors it is often not easy to reconcile sector approaches with a strong focus on reducing poverty per se. Deliberate steps may be necessary to ensure that progress is made, not only in producing better services, but also in facilitating access to them and improving the well-being of the poor. It may be necessary to devise targeting mechanisms which disproportionately concentrate services on poor areas, disadvantaged communities and vulnerable groups.

168. **Emphasise capacity-building components:** The sector approach presupposes a more active role for national governments in co-ordinating agencies, formulating policies, setting priorities and implementing programmes. The implementation, alone, requires substantial institutional reforms including the need to redefine roles within the political-administrative hierarchy and to determine how responsibilities can be shared between public, private and community sectors. There are capacity constraints for such complex programmes in the public sector as well as among private and civil society actors, which create major bottlenecks in sector policy design and throughout programme implementation.
and monitoring. This underscores the need to add and integrate capacity-building and participation components right from the preparatory phases of sector programmes. This is essential for securing a well-grounded policy which most stakeholders have had the opportunity to discuss and have the capacity to implement.

169. **Facilitate co-ordination with local government:** National governments may be assuming increased responsibility for sector programmes, but this does not necessarily mean greater ownership by stakeholders below the national level or outside the public sector. Because sector programming is the responsibility of the central authority and its line ministries, local government, which tends to take a more multi-sectoral approach to resource allocation and to be more responsive to local needs, may loose influence. Development agencies should support better co-ordination between local and national administrations, particularly in the context of decentralisation which aims at the empowerment of local government authorities (see section a) above). As an integral part of sector programmes, technical co-operation agents in their dual role as moderators between different interest groups and as experts in supporting participation at all levels should also play a catalytic function in promoting results on the ground.

170. **Foster public-private partnerships:** Involving civil society in sector programmes is a major challenge. In the productive sectors (for example, in agriculture or infrastructure) the issue of privatisation features prominently, but sector programmes tend to be seen, and promoted, as public sector programmes. This seriously undermines the principle of building on the combined and complementary action of all the stakeholders involved. In the social sectors, the regulatory roles of line ministries (such as health or education) can be strengthened while the decentralised management of service delivery can be encouraged, giving a stronger role to private providers of services (NGOs, the private sector and community based organisations).

171. **Seek synergies with other sector policies:** A major rationale behind sector programmes is to overcome the fragmentation of unco-ordinated investments, in particular of donor-supported (and often donor-managed) projects, by bringing together all sector activities within a common framework. This is leading to considerable progress in co-ordination around country-owned sector strategies. But concentrating on a single sector may also mean that opportunities for co-ordination and synergies with other sector policies may be missed. This is particularly important in relation to reducing poverty since poor people do not live in sectors. Poverty cuts across sectors and needs to be tackled in an integrated manner. This is a real challenge given that co-ordination among line ministries is extremely complex, disrupting ingrained routines and taxing the limited institutional capacity of the different bureaucracies. Good practice makes concern for the poor and solutions to their problems, as defined in a wider and integrated strategy, an explicit priority in all sector programmes.

172. In this connection, it is important to rely on poverty assessments (see Part I, section D) which embrace both quantitative and qualitative data, disaggregated by gender, and covering geographical, cultural and socio-economic dimensions. In this way, the multidimensional nature of poverty and its causes can form the basis of sector programmes and provide essential links to the country’s overall strategy for reducing poverty.

173. **Harmonise accounting and reporting procedures:** Funding for sector support may use parallel financing mechanisms (budget lines) or may be deposited in a common basket. It is subject to agreement between the partners on certain broad principles governing the use of the sector budget. Ultimately, development agencies will have to adjust their disbursement and accounting systems in line with government procedures, thus easing the burden on partners of having to comply with a multiplicity of external systems. On the government side, this will require developing transparent systems for budgeting and independent expenditure control and auditing. On the development agency side, major efforts are
needed to achieve a degree of harmonisation in procedures for disbursement, accounting, reporting, auditing and procurement.

### Box 6. Sector support for dealing with poverty: the example of education in Uganda

The Ugandan Universal Primary Education programme is a good example of a SWAp for education which draws together the key elements of a partnership focused on reducing poverty.

- The programme was initiated by strong leadership from a Head of State committed to universal primary education.
- Policy was developed in a broadly participatory process, which included some consultation with groups in civil society and, at a later stage, representatives of the poor.
- High level political commitment was reflected in budget allocations to the sector, which were increased and protected as part of the Poverty Action Fund within the budget.
- The design of the programme was directly informed by in-depth poverty analysis, based on household surveys and participatory poverty assessments, which fed into expenditure priorities via the medium-term fiscal framework.
- Government ownership of this initiative attracted strong support from development agencies who shared the priority given to primary education.

The programme also provides a model of good practice in strengthening accountability in implementation. Key features included:

- Locating the analysis of poverty and monitoring within the powerful Ministry of Finance;
- Involving parliament, civil society and development agencies in both policy decisions and in monitoring the implementation of the programme.
- Insisting on transparency to enable users of the education services to hold the providers to account by means of multiple sources of information and channels for providing suggestions for improvement.
- Actions to deal with the diversion of resources (directed to schools but absorbed by districts).
- Efforts to empower communities by inviting their representatives to sit on school committees and giving them some financial responsibility.

174. Emphasis on sector support is leading to a more focused dialogue on social development policies and programmes particularly in the health and education sectors which are essential for poverty reduction. Box 6 draws together the key partnership elements of an education SWAp aimed at reducing poverty while Box 7 identifies good practice for enhancing the poverty focus of health sector programmes.
Box 7. Promoting pro-poor health programmes

Given that health is vital to reducing poverty and promoting social and economic development, three of the seven International Development Goals for 2015 focus on health outcomes: the reduction of infant and child mortality by two-thirds; the reduction of maternal mortality by three quarters; the universal coverage of reproductive health services. Recent analyses of the causes of growth have also called increased attention to the role of better health and lower population growth.

To realise these goals, it is critical to give much higher priority to protecting the health of the poor, which is their asset for sustaining their survival and livelihoods. The following have been identified as good practice for enhancing the poverty focus of health sector programmes:

- **Mobilise commitment, partnerships and resources for pro-poor health:** This includes: (1) bringing health to the centre of the dialogue on strategies for reducing poverty; (2) identifying policies outside the health sector that can improve health; (3) expanding partnership to involve civil society and the private sector (as in, for example, the eradication of polio); (4) increasing the very low level of aid to health (about 6% of ODA) in support of country-owned, poverty-focused programmes in the health sector.

- **Make health systems more responsive to the needs of poor people:** This requires: (1) providing health services of good quality; (2) establishing affordable and equitable payment systems; (3) training health staff to respect the dignity of poor people; (4) addressing the causes of deprivation such as gender, social exclusion or geographical isolation.

- **Focus on the health threats perpetuating poverty:** This includes major diseases prevalent among the poor (malaria, diarrhoea, tuberculosis), maternal morbidity and mortality, the AIDS pandemics, tobacco and environmentally-related diseases, violence and accidents. Health risks need to be assessed locally as well as nationally and should highlight the specific risks faced by men, women and children. Disaggregated health data by income, age, sex and locality should be complemented by participatory research that documents the health needs expressed by the poor.

In addition, action at the international level is needed to stimulate the development of global public goods in health (for example, vaccines).

c) Area-based approaches

175. Despite a historical legacy of inefficiency, integrated approaches limited to a specific rural area have recently re-emerged in the context of political and economic liberalisation in partner countries. Where local authorities have sufficient autonomy and where rural markets are liberalised, it becomes possible to operate without the top-down institutional framework that contributed to the failure of the former Integrated Rural Development Programmes (IRDP). Behind the renewal of interest in area-based approaches is also the desire of agencies to tackle the multidimensionality of poverty and to focus on sustainable livelihoods 14 by cutting across sectors.

176. Often focused on rural production (crops, livestock, fishery, forestry, conservation), area-based approaches support basic services like health, education and water supply as well as infrastructure (for example, rural roads) and small-scale off-farm employment. The starting point is to take a holistic approach and consider the diversity of factors which affect the income and well-being of the poor. This

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14 See Part I, section F for a definition of sustainable livelihood
assumes a good understanding of the social, institutional and policy contexts of poor people’s livelihood, including the dynamics of gender relations, and the use of participatory approaches to gather information. Many programmes focus on building capacities in both communities and local administrations, in some cases creating space for participatory negotiation where the voices of poor people or their representatives can be heard.

177. Provided that they are partner-country-driven and kept financially and institutionally sustainable, the new area-based approaches can help create an enabling local environment for reducing poverty. However, they raise the recurrent problem of scale and sustainability so long as these efforts are limited to externally-supported project areas. The relationship with government and compliance with national priorities will need to be carefully reviewed in order to avoid the sort of enclave development that prevailed in the past. Fundamentally, reforms to place local government on a secure and democratic basis should be regarded as key to the long-term success in area-based anti-poverty work. This issue involves the broader question of decentralisation, including devolution of responsibility and funding for basic service delivery and its relevance to poverty reduction.

d) Project support

178. Projects have a long history as an instrument of development co-operation. They have the advantage of being able to select a manageable set of problems from a complex and confusing reality and prescribing the specific inputs needed to achieve change and to foster local development. But experience shows that conventional, free-standing projects have serious limitations. They distort the pattern of national spending by using separate funding channels and impose high management costs. They are characterised by top-down donor management in both design and implementation phases, with resulting problems of sustainability after the withdrawal of external funding. They lead to the construction of enclaves with few spread effects to surrounding areas.

179. Not least, projects too often fail to make lasting positive pro-poor contributions in terms of their substantive content (income-generation, health, education, or water supply). Local projects are bound to make only a minimal contribution to a process of development that will need other, complementary inputs from both inside and outside the beneficiary community. Being dependent on the wider context and on a range of external factors, local projects have greater chances of achieving results in countries that provide the right political, economic and institutional environment.

180. For these reasons, development agencies are moving to project modalities which have the potential for more sustained outcomes and greater effects on poverty. The emphasis now is on designing activities within a broader development framework, for example as part of national-level support or sector-wide approaches. Empowerment-type projects are emerging which stress ownership, participation and sustainability. They aim at raising awareness and increasing local capacities to organise, mobilise, discuss problems and demand action. They also promote leadership by stakeholders in planning and implementation and in laying the foundations for financial sustainability. Two fundamental factors for success are the compatibility of the project with the surrounding institutional and cultural framework and its acceptance by local and central public authorities and by civil society.

181. Good practice in reducing poverty enables the multiple concerns of the poor (income, dignity, security, etc.) to be addressed while simultaneously encouraging and strengthening their abilities and capacities to achieve sustainable livelihoods. This includes: identifying the poor and their condition through poverty assessments and beneficiary needs assessments; drawing on the first-hand knowledge that poor people possess of their own situation, as well as the actions and coping strategies that they have devised; using participatory approaches to involve them in the identification, design, implementation and
monitoring of projects; elevating gender to a primary rather than a secondary concern throughout the project cycle.

e) Poverty-focused support and targeted interventions

182. Targeting poor people is a way of ensuring that projects take their point of departure in the actions and strategies of the poor (landless, slum dwellers, female-headed households, etc.). Development agencies provide targeted support through a variety of instruments such as food-for-work programmes, social funds or micro-finance. These micro-level interventions aim at assisting poor communities to reduce their vulnerability to risks (whether structural due to chronic poverty, or transitory owing to short-term shocks). They generally put a premium on grassroots mobilisation, participation, self-help and empowerment.

<table>
<thead>
<tr>
<th>Box 8. Ensuring a poverty focus in infrastructure projects</th>
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<tbody>
<tr>
<td>In order to ensure that projects focus on reducing poverty, they should be screened with respect to each of the following elements: technique, area, focus and organisation. The following are illustrations drawn from infrastructure projects where links with poverty reduction may not be as obvious as in the case of social projects.</td>
</tr>
<tr>
<td><strong>Technique:</strong> Labour intensive methods are often more pro-poor than equipment-based approaches. In road construction, labour-based methods are often cheaper and create important links to the local economy. In labour-based projects, it is also important to direct attention to women’s access to the jobs offered as recruitment procedures may create gender-based constraints.</td>
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<tr>
<td><strong>Area:</strong> Support should be directed to areas or regions where the poor predominate. For instance, rural electrification is more pro-poor than urban electrification, and infrastructure improvements in slums are more poverty focused than general urban development.</td>
</tr>
<tr>
<td><strong>Focus:</strong> Secondary and feeder roads are often, though not always, more important to the poor than primary roads. To access markets, the rural poor typically need better roads and more frequent transportation opportunities. Since the rural poor are often spatially scattered, a fine-meshed net of secondary roads is more important than high-quality inter-city transportation. Moreover, the latter is not a great concern to the urban poor. In some situations the financing of recurrent costs may be of greater importance to the poor than the initial investments, but agencies have generally been reluctant to finance them.</td>
</tr>
<tr>
<td><strong>Organisation:</strong> In supporting infrastructure, it is important to identify and to take into account local needs and priorities. While infrastructure improvements often have been approached from a national, technical perspective, it is widely acknowledged that the participation of poor communities substantially influences the long-term functioning and sustainability of infrastructure. Also, consideration of specific opinions of poor people on infrastructure programmes may help increase their poverty reduction effect.</td>
</tr>
</tbody>
</table>

183. *Food-for-work programmes* are examples of targeted interventions which appeal primarily to poor people. Because of the low level of benefits they provide, they tend to keep away, by self-selection, those who are better-off.
184. **Social funds** are grants provided by development agencies to finance small-scale projects managed by poor communities. They seek to empower the poor by actively engaging them in identifying their own development priorities (primarily in health, education and water supply), managing project funds and maintaining facilities and services beyond project completion. Experience with social funds is mixed -- they are difficult to sustain and are problematic when they are used to promote local political goals rather than concentrating on reducing poverty. They may bypass previously agreed budget priorities within a given sector (for example, by supporting the establishment of new health centres which are not in line with the national health sector programme). Experience is positive where the funds have a clear mandate to reduce poverty, to concentrate on local activities and to complement government-initiated activities without distorting established priorities.

185. **Micro-finance** schemes are often designed to reduce the vulnerability of poor households by widening their income-generating options, increasing their productivity and empowering women. However, micro-finance schemes often fail to reach those living in extreme poverty and, alone, rarely increases incomes sufficiently to raise people out of poverty. They have greater impact when combined with assistance to develop business and marketing skills, to identify markets for locally produced goods, and to purchase and utilise land in the best way. Plans to improve access to finance for the poor must also consider gender differences. This means overcoming the collateral issue when legal or cultural barriers prevent women from holding land title or other assets. It also means providing information on how to access and how to use credit for women who may be excluded from beneficiary groups, or lack the time to apply. Micro-finance schemes will have limited impact if not backed by macro policies that support financial markets and facilitate the spread of viable informal financial institutions. In rural areas most public credit systems are not organised to serve the poor and private sector banking institutions, which increasingly replace them, do not consider the poor to be good credit risks or a profitable market. As a consequence, special credit service strategies are needed to reach the poor.

### E. Special focus instruments

186. This final section provides guidance on the use of debt relief and humanitarian assistance, two development co-operation instruments of rising importance in agency portfolios that have significant linkages to poverty reduction.

a) **Debt relief**

187. In heavily indebted poor countries (HIPC), debt service payments in hard currency drain scarce domestic resources from investments in areas, like education and health, which are central to reducing poverty. Debt relief is, therefore, an integral part of the international community’s contribution to poverty reduction. Through the enhanced HIPC initiative, development agencies pledge to provide broader and faster debt relief with the specific objective of releasing funds for reducing poverty. The poverty reducing impact of this unprecedented effort depends, on the one hand, on progress made by HIPC countries in developing and implementing strategies for poverty reduction through a participatory process involving civil society and, on the other hand, on OECD member governments securing the required financing without reducing other aid flows. Monitoring systems are necessary to screen budget expenditure and ensure that the funds released by debt relief are properly used.
b) Assistance for conflict prevention and humanitarian aid

188. In helping to prevent violent conflict and, where it occurs, to restore peace, development co-operation should focus on addressing poverty and inequality as root causes of conflict. Simultaneously, it should engage in long-term support to strengthen governance and to build appropriate institutions and democratic mechanisms for resolving tensions without violence. In the case of acute emergencies, violent conflict or natural disasters, humanitarian assistance provides a quick response, often on a large scale concentrated on saving lives and relieving suffering.

189. Since poor people lack the means to avoid crises, such assistance is, by definition, poverty-focused. It may, however, undermine poverty reduction by creating dependencies and impeding the problem-solving and self-governing abilities of afflicted communities. Good practice in this respect includes planning such assistance so that it (i) integrates the long-term needs of beneficiaries and the coping strategies of the poor; (ii) incorporates gender analyses as standard practice; (iii) does not undermine local production and service delivery by flooding local markets with foodstuffs; and (iv) supports local capacities for the management of relief operations as soon as possible. A major challenge with respect to humanitarian assistance is to integrate the planning of relief and rehabilitation activities within the context of longer-term approaches aimed at fostering self-reliance.

F. Conclusion

190. Poverty reduction should be at the centre of policy dialogue and the starting point for planning and implementing development co-operation (financial/technical, programme, sector or project). Where there is political support in partner countries, pro-poor development co-operation should assess the following elements:

- The capacity to understand and to link the issue of poverty to governance and to economic and social policy -- particularly in the cases of gender and of other institutional systems that shape entitlements.
- The allocation of resources for the poor by sectors, and the access to, and quality of, public services. This calls for creating sufficient room in national budgets through the best possible use of domestic resources as well as debt relief.
- Political commitment and leadership as well as the capacity and willingness within the administrative system to implement the proposed reforms and monitor outcomes.

15 The DAC Guidelines on Conflict, Peace and Development Co-operation (1998) provide detailed guidance for development agencies in this area.
IV. POLICY COHERENCE FOR POVERTY REDUCTION

A. Introduction

191. Success in reducing poverty requires coherent development co-operation policies. Their internal consistency in this regard, the effectiveness in implementing them and the policy and institutional environment of partner countries are the subject of the other chapters of these Guidelines. But at least as important is the degree of overall policy coherence across OECD Member government policies in relation to the objective of poverty reduction.

192. To distinguish between the closely related concepts of policy coherence, consistency and co-ordination, the following definitions are provided in Box 9:

Box 9. Definitions: coherence, consistency and co-ordination

- **Policy coherence** refers to the mutual reinforcement and compatibility of development co-operation policies with those in other policy areas such as trade, foreign relations, national security, environment etc. (see Box 10) with reference to the particular objective of poverty reduction.

- **Policy consistency** refers to the extent to which the design and implementation of any policy contributes to the achievement of an objective, in this case poverty reduction.

- **Policy co-ordination** refers to the institutional and management mechanisms by which policy coherence is achieved among the various entities involved.

193. Achieving policy coherence in poverty reduction is inherently complex because the specific issues most often involve domestic interest groups and government agencies with primary concerns and responsibilities other than global poverty reduction. There may be conflict, for example, between a government’s efforts to meet the concerns of particular interests or communities and its commitment to reduce poverty in developing countries. The degree of policy coherence achieved tends to diminish with the domestic political sensitivity of such policy issues and associated interests, and increases when there is a strong domestic constituency for efforts to help the poor in developing countries.

194. Policy co-ordination is required to address conflicting interests and objectives, which are reinforced by the compartmentalisation of politics and public administration. Policy co-ordination is thus a political as well as an administrative process. Development agencies are often in a fairly weak position politically compared with most other government departments and public and private interests associated with areas such as trade, investment, agriculture, and national security. However, there are a number of reasons why poverty reduction might now receive more weight in relation to other national objectives, and become a higher priority for a broader range of policy makers:
Poverty is increasingly recognised as a “global public bad”, not only on moral grounds, but also as a source of dysfunction and disorder in the world, with adverse spillover effects in such areas as political instability, environmental degradation, migration flows etc.

The International Development Goals, including the goal of reducing the incidence of income poverty by one half by 2015, have been adopted as a common frame of reference by the IMF, World Bank, OECD and the UN as well as the G8 leaders.

Awareness is increasing that the OECD population is now just 1 billion out of a world total of 6 billion, and that global well-being depends increasingly on solving development problems.

As a corollary, it is also critical to secure the commitment and participation of developing countries in international systems and co-operation governing a wide range of social and economic policies. This means giving weight to their concerns and perspectives.

195. The effects on developing countries of improving the degree of policy coherence in OECD countries could be overwhelming. For example, in 1998, agricultural protectionism, enforced by industrial countries, caused welfare losses in developing countries worth close to $20 billion -- which is equal to 40 per cent of all Official Development Assistance (ODA). The sum is greater than ODA either to Africa, where poverty is most prevalent and severe, or to South and Central Asia, where most poor people live.

196. ODA has declined to less than 28 per cent of the total net financial flows to developing countries on average for 1996-98, while private flows rose to 65 per cent and went mainly to middle-income countries and for mineral extraction from low-income countries. Net resource transfers to heavily indebted poor countries (HIPC) also declined, from $10 billion per year in the mid-1990s to about $6 billion in 1998, as a result of a decrease in gross flows that exceeded the decline in debt service payments resulting from debt relief. This raises issues of development policy coherence with international financial policies.

197. It is crucial for achieving the International Development Goals that Members make further progress to ensure policy coherence. In adopting the strategic policy document *Shaping the 21st Century* the DAC stated that “we should aim for nothing less than to assure that the entire range of relevant industrialised country policies are consistent with and do not undermine development objectives.”

198. In the year 2000, the OECD Ministerial Council and the DAC High Level Meeting decided to draw up a checklist for policy coherence that could be a reference point for public policies throughout the OECD. It would serve to encourage Member governments systematically to integrate development and poverty issues into all relevant policy areas. [This checklist has been elaborated on the basis of the DAC Guidelines on Poverty Reduction and on extensive consultations with OECD Committees and Directorates.]

**B. Globalisation and policy coherence**

199. Policy coherence has to be looked at in the overall context of the process of globalisation. Rapid growth in the movement of people, goods, services, capital, technology and information across national borders is creating an increasingly integrated global economy. This is the core meaning of globalisation, and it has led to a world that is more interconnected and interdependent than ever before. This increasing openness and integration of the world economy is creating conditions that could make possible a massive reduction in poverty across the world. Globalisation is creating huge wealth and has the potential to generate benefits for all. However, this will only happen with purposeful policy action by the international community and governments.
200. Fast changing information and communications technologies (IT) are transforming markets, including financial markets, and require new methods of organising work, business and trade to harness the benefits of globalisation. At the same time, many people are seriously concerned about the rapid economic and technological changes now underway. The importance of addressing these concerns locally, nationally and internationally has been recognised by OECD Ministers.

201. Globalisation presents new opportunities as well as new challenges to all countries, regions, societies and people. While world exports of goods and services have grown at unprecedented sustained rates since the early 1980’s, the share of developing countries (78% of the world’s population) is only 18%. Despite their preferential market access, the share of the Least Developed Countries (LDC, 11% of world population) fell to 0.5% in 1999.

202. The poorest countries have not been, and will not be, able to secure significant benefits from increased trade opportunities without special measures to support economic and social development and institutional capacity building. Similarly, poorer regions and groups in all countries are at a disadvantage in the increasingly competitive world of economic and technological globalisation. Making globalisation work for the poor is a major challenge for the 21st century.

203. In the context of poverty reduction, the key challenge is to ensure that developing countries and especially poor people in those countries benefit from globalisation and are able to adapt successfully to this new environment. The lead responsibility for addressing this challenge rests with the governments of developing countries. However, more policy coherence among OECD government is essential for enabling developing countries to take advantage of the globalisation process and to reduce poverty.

204. The process of globalisation requires OECD governments, more than ever before, to take account of the broader development objectives in all policies and external relationships. In a world where there is no longer a clear distinction between domestic and international affairs, effective development co-operation programmes alone will not adequately reduce poverty. Development objectives need to be integrated throughout the full range of government departments not only in developing countries but also in OECD countries. The main areas for enhanced policy coherence are presented in the next section.

C. Policy areas

205. Policy coherence is important across the full range of OECD country policies and their impact on different dimensions of North-South relations. The number of ways in which policy coherence influences poverty reduction is vast. For practical purposes, that number needs to be limited by selecting the most important areas for these Guidelines while taking into account both the importance of the impact of policy coherence on poverty, and the likelihood of achieving changes in policy. The proposed priority areas are presented under six thematic headings in Box 10.

a) International trade and direct investment

206. International trade promotion is a powerful policy area for reducing poverty. The potential impact of eliminating or reducing remaining restrictions on imports from developing countries on raising their national incomes and welfare would dwarf recent ODA flows. While trade liberalisation reforms have been undertaken, further reforms are called for and possible even though they become progressively more politically difficult when key policy objectives like employment and regional development are affected. The major trade and investment policy areas of importance for enhanced policy coherence are (i) the
overall international trade regime, (ii) multilateral versus preferential trade regimes, (iii) export credits, (iv) foreign direct investment, and (v) transfer of technology. Food trade is covered in the next section.

i. **The international trade regime** is characterised by several constraints, which limit access of especially processed products from developing nations to markets in OECD countries. One is tariff rates with peaks for products in which developing countries are most competitive (even though the average level of tariffs has been reduced substantially). Another is tariff escalation with increasing rates for more processed goods, which impede industrial exports from developing countries. Third, non-tariff barriers such as product standards and regulations, non-transparent government procurement including aid tying, application of rules-of-origin, anti-dumping action, and subsidy discrimination.

### Box 10. Areas of policy coherence

- **International Trade and Direct Investment**
  - International trade regime for goods and services
  - Multilateral versus regional preferential trade
  - Export credits
  - Foreign direct investment
  - Transfer of technology, IT and the digital divide

- **Agriculture and Food Security**
  - Trade in food and domestic agricultural policy
  - Food aid and food security
  - Biotechnology and agriculture

- **Global Capital Movements**
  - International financial architecture
  - Portfolio investment
  - Debt relief

- **Natural Resources and the Environment**
  - Sustainable use of renewable resources
  - Exporting pollution
  - Global climate change
  - International fisheries

- **Social Issues**
  - Labour
  - Migration
  - Global public health
  - Illegal drugs

- **Governance and Conflict**
  - Human rights, participatory democracy, and good governance
  - Conflict prevention and resolution
  - Arms exports

ii. The coherence issue is complicated by the intrinsic incoherence of preferential regimes. The various multilateral trade preferences and processes have not been reconciled within the WTO, for example the ACP-EU Cotonou Convention, the US-Africa/Caribbean Trade and Development Act and the most basic preferential arrangement, the Generalised System of Preferences (GSP). It is mainly the middle income countries that take advantage of the preferences. The benefits may have been limited because they exclude sensitive products in some sectors, in which poor countries have the best opportunity to expand and diversify exports. Moreover, these schemes are too complex for weak administrations to understand.
and apply, and the preferences can be withdrawn unilaterally if imports from any country increase significantly. More comprehensive, predictable, simple, and transparent preference regimes would be more consistent with core WTO principles.

iii. **Export financing policies** and practices should be checked for coherence with debt relief, poverty reduction and sustainable development policies. Partly in this respect, the OECD Ministers have mandated the Export Credit Group to strengthen measures towards ensuring that export credit support to HIPC’s is not used for unproductive purposes. Members may consider extending this mandate in order to enhance its impact on policy coherence for sustainable poverty reduction.

iv. **Foreign direct investment** (FDI) has mainly benefited the emerging markets of East Asia and Latin America, with 10 middle income countries accounting for 70 percent of all FDI. Because low-income countries lack the policy environments, high growth rates, low transaction costs and the market size of better off nations, they attract little FDI. Much of what they do receive is channelled into extractive industries with limited or even negative impacts on poverty. Developing countries should be full partners in any negotiating process towards an international agreement on investment rules, which could secure enhanced access to development finance.

v. **Transfer of technology to developing countries** is a main advantage of FDI but also occurs in other forms. The relevant WTO agreement TRIPS\(^{16}\) regulates the transfer of technology. It was concluded to stimulate capital investment in research and development of new technology, but not with a view to reduce poverty. A number of policy coherence issues have been raised concerning patents affecting global public goods like forms of life, bio-diversity and life-saving drugs (see below). A particular area of interest for poverty reduction and pro-poor growth concerns the transfer of information technology (IT), which was addressed in 2000 by G-8 in the Okinawa Charter for Bridging the Digital Divide. There are major opportunities for developing countries through IT. In addition to economic benefits, the Internet brings with it the developmental potential of distance learning, “tele-medicine” and “e-democracy”. But there is a well-known risk that increasing domination of IT and e-commerce by developed countries may worsen global economic inequalities. There is a need for education, training and specific actions to facilitate access to the technologies, infrastructure, market conditions, legal frameworks and knowledge required.

b) **Agriculture and food security**

207. There are many issues of policy coherence related to agriculture and food security. Some of these concern international trade policies: (i) trade in food and its links with domestic agricultural policies. Two other sets of issues are (ii) food aid and food security, and (iii) application of biotechnology to agriculture.

i. The relationships between **food, agricultural, and trade policies** are important because they directly affect people who are poor and who lack food security. Policies related to the exchange of food products are politically very sensitive. A major issue is the effect a reduction in domestic price supports and export subsidies would have on world food prices and, thus, on the import costs faced by net-food-importing developing countries. Most of these countries have become more dependent on food imports and are in this way increasingly vulnerable to food price rises and hence, indirectly, to actual OECD agricultural policies. On the other hand, higher food prices would tend to stimulate their own food production in the long run and make them less dependent on food imports.

\(^{16}\) Trade Related Intellectual Property rights
ii. Substantial progress has been made in improving coherence in *food security* and *food aid*, shifting from disposal of surplus food stocks towards more flexible forms of food aid. These include greater availability of grant money for purchases in local or regional markets and more attention to avoiding disruption in them, a more appropriate product mix, and better forecasting of needs. However, problems still persist, such as using food aid to support domestic farm prices, lack of adequate supplies of both food and cash for food security, and incoherent policies among major food exporters.

iii. The World Food Summit target of halving the number of undernourished people in the world by the year 2015 seems increasingly elusive, given the decline in resources devoted to agricultural research and extension in the public sector over the past two decades. Nonetheless, increased research by private corporations on new *biotechnology* suggests that the potential for agricultural development is large. Its application in developing countries could improve their food security and their standards in health. However, applying and transferring this technology to poor countries is a major challenge requiring efforts to improve policy coherence, for two main reasons:

- Private sector research is driven by market demand in rich countries rather than by the needs of poor people and countries. Special measures are needed to ensure food security benefits for poor people and countries.
- There is considerable concern about the long-term environmental and health risks of using genetically modified organisms. This raises the question whether there are adequate international regulatory mechanisms in place to ensure that new technologies are properly tested for these and other possible adverse effects.

c) Global capital movements

208. The decade of the 1990s witnessed a major increase in the level of international capital flows to developing countries, with private capital becoming much more significant than ODA in total. Factors accounting for this include deregulation, regional integration, and advanced information technology. While this has provided much needed capital to mostly the larger and more developed of the developing countries, it has also led to increasing volatility of flows, debt crises and wider financial crises. The coherence issues concerned here are: (i) reforming the international financial architecture, (ii) portfolio investment and (iii) debt relief to poor countries. Foreign direct investment and export financing are considered above in section a).

i. **Financial sector reform** is important for partner countries to enhance incentives for efficient investment and economic growth and to minimise the risk of financial crisis. Orderly sequencing of reforms is crucial, along with prudential regulation of the banking sector, institutional capacity-building and better co-ordination between exchange rate policy, monetary policy, and controls or taxes on capital flows. A related issue of concern is that developing countries need to be adequately represented in international forums discussing financial architecture reforms.

ii. **Portfolio investment** provides valuable financial capital to developing countries with fair to good credit ratings, mainly middle-income countries. However, short-term capital movements are a major cause of volatility, which has been a major cause of increased poverty in recent financial crises around the world. Policy coherence in this area implies recognition of these risks and adequate prudential regulatory measures integrated in the international financial architecture and in the monetary policies of both countries that import and export capital.
iii. There is international consensus on the need to provide extended \textit{debt relief} to the heavily indebted poor countries (HIPC). These have in general received much less new capital than debt relief, so that net transfers have declined. To reverse this situation and avoid diversion of funds from other forms of financial transfers, debt relief must be additional and the amounts sufficient for debt sustainability, investments for economic growth and adequate expenditures of importance for reducing poverty. Lenders to poor countries must share the risks and responsibilities involved in providing credit.

\textbf{d) Natural resources and the environment}

209. Many of the policy issues involving management of natural resources and the environment must be dealt with primarily by the partner countries. However, some issues are regional or global in scope and raise policy coherence concerns. Four of these issues are (i) use of natural resources, (ii) relocation of polluting industries, (iii) global climate change, and (iv) international fisheries.

i. Coherence between poverty reduction and \textit{natural resource management} often is linked to the rules of trade, market access, and product characteristics. In most cases, trade does not in itself cause increased poverty or environmental degradation, but rather exacerbates or brings into the open existing distortions or inequities in resource endowments. Trade raises the value of natural resources, reinforcing incentives to manage them efficiently and on a sustainable basis. On the other hand, when regulatory mechanisms are weak, the increased demand for natural resources resulting from openness to trade can further accelerate unsustainable extraction patterns.

ii. OECD firms investing in developing countries often introduce improved technologies and management processes, which contribute to improving environmental management. At the same time, raising environmental standards in OECD countries can sometimes lead to the \textit{transfer of polluting industrial processes} to developing countries with negative impacts on environment and health, especially affecting poor people. A related issue concerns exports of hazardous waste materials, which needs to be strictly monitored to be coherent with sustainable development.\footnote{This is regulated by the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (1989). Similar problems have occurred with aid-supplied pesticides causing hazards to users and environmental contamination. See Guidelines for Aid Agencies on Pest and Pesticide Management, OECD/DAC Guidelines on Aid and Environment No. 6. 1995.}

iii. Most scientific evidence suggests that developing countries will experience greater hardship and uncertainty resulting from \textit{global climate change} than will the industrial countries, which so far have contributed the most to it. Particularly worrying is the rate at which climate change will take place, since rapid rates of change limit the ability of societies and ecosystems to adapt. Global climate change raises important coherence issues for OECD governments, both in terms of unilateral actions taken to reduce global warming and the positions they take at relevant international forums.

iv. \textit{Bilateral fisheries agreements} designed to assure a continued supply of raw materials for OECD countries’ processing industries can harm developing countries if they reduce local catches, though fishing conducted by foreign fleets without agreements or in contravention of agreed terms is a worse threat. And serious depletion of fish stocks may occur, particularly if subsidies are used to increase or maintain fishing capacity. This would result in higher fish prices and reduced local consumption of this important source of protein. Fishing and fish processing industries could also be affected by overfishing. These are often main sources of livelihood of local populations, especially communities in small developing island states, which may lack alternatives. Women, in particular, are apt to be involved in fish
processing. Policy coherence would require ensuring that large-scale fishing leads to reduced, or at least not increased, poverty in poor coastal communities and nations.\textsuperscript{18}

e) Social issues

210. There are a number of social policy issues that require coherence at the international and national levels with respect to poverty reduction. The most important issues concern (i) labour standards, (ii) migration, (iii) global public health, and (iv) trade in illegal drugs.

i. Demands for a social clause in the WTO, consequent on concern over the working conditions in developing countries threaten to disrupt international trade negotiations. The WTO is committed to the observance of internationally recognised core labour standards, while rejecting their use for protectionist purposes. Leadership on this issue is being exercised by the ILO, which has adopted a "decent work agenda"\textsuperscript{19} linking rights at work and social dialogue with employment policies and social protection, in cooperation with WTO, UNCTAD, the World Bank, the IMF and OECD.\textsuperscript{20} Eliminating child labour calls for development co-operation in support of policies to ensure that children have full access to education and that parents can afford to spare their work and incomes.

ii. OECD countries have restrictive immigration policies, except for skilled professional labour, while simultaneously encouraging poor countries to establish open markets in which resources can flow to the most productive uses. Selective immigration policies in favour of skilled labour, and the limitation of gainful and stable employment and career opportunities in developing countries contribute to the depletion of partner country human resources. Such "brain drain" impact of immigration policies is an important coherence issue. Development co-operation policies in support of increasing employment opportunities in partner countries may contribute to resolving the problem.

iii. Medical research, which is increasingly being conducted in OECD countries, is primarily directed towards their own health problems. Only 10\% of global medical research costs relate to diseases, like malaria and tuberculosis, which afflict 90\% of the world's population. Where medicines are available that could prolong poor peoples' lives, for example against HIV/AIDS, they are too costly. This has led to debate over the role of intellectual property rights where they conflict with important social issues. Although the TRIPS agreement under the WTO calls for general protection of these rights, it also provides for exceptions for the protection of public health. Some important steps to address these problems have been taken, but more coherent efforts are called for.

iv. Illegal drugs are closely related to poverty. Farmers often grow the plants used to produce illicit drugs because they have few good alternatives. Policies that aim to interdict and eliminate the trade may have negative consequences for the livelihoods of poor rural communities. Drug prohibition may only be effective in the long run if other sustainable sources of livelihood is found by the growers. Illegal drugs (and minerals such as diamonds) have become major sources of revenues for warlords, criminal organisations and some governments waging internal wars. Profits from this illicit industry are increasingly being used to finance armed conflicts. Thus there is a strong link between the struggle to reduce the drug trade and efforts to promote conflict prevention and resolution.

\textsuperscript{18} See Transition to Responsible Fisheries, OECD 1999, Development Impact of Fisheries Policies in OECD Countries, OECD and Impact of Government Financial Transfers on Fisheries Resource Sustainability [OECD/AGR/FI (99)/REV/CORR 1].


f) Governance and conflict

211. It is now generally agreed that sustainable poverty reduction requires good governance, economic and political stability and peace. Related policy coherence issues are (i) participatory democracy and good governance, (ii) conflict prevention and resolution and (iii) arms exports.

   i. Empowerment of the poor through human rights, participatory democracy and good governance is key for poverty reduction. Policy coherence generally exists relatively easily within OECD governments that both give priority to the goal of poverty reduction and value participatory democracy and good governance. However, OECD government policies addressing governance, transparency, and corruption in partner countries may arouse some political sensitivity. This may cause coherence problems with commercial or other foreign policy considerations.

   ii. Poverty is closely associated with armed conflict. Lack of opportunity or skills to secure employment, inability to pay school fees, scarcity of food and water, and lack of access to health care may be important inducements to poor men and boys to join an armed group. Policy coherence issues can arise if the causes of conflicts breaking out or persisting relate to commercial, foreign policy or national security interests of OECD countries. Doing the utmost to prevent and resolve conflicts, including support for the United Nations and its peace-keeping forces is a major plank in the platform of coherent policies for poverty reduction.

   iii. DAC governments sometimes provide material or technical assistance to a partner country’s military or permit, or fail to prevent, the sale of arms that are sooner or later involved in conflict. The 1990s have witnessed a marked increase in international trade in small arms, light weapons and land mines, with major impact on increasing poverty and the number of disabled women, men and children as a result. The annual figure for the arms trade is estimated at about $10 billion, most of it coming from a dozen or so countries. The abating of this trade is a major challenge to OECD policy coherence.

D. Lessons from experience in OECD countries

212. Several OECD governments have extensive experience in trying to enhance policy coherence related to poverty reduction. A review of this experience suggests several important conclusions. One major conclusion is that coherent policies substantially enhance the effectiveness of efforts to reduce poverty. It also promotes the credibility and legitimacy of OECD governments vis-à-vis their partners.

213. Policy coherence requires effective consultation with public agencies and private interests. The choice of a lead agency depends on the particular area of expertise at issue. There are many agencies that are not particularly concerned with reducing poverty, it is necessary to appoint some kind of authority, preferably high in the executive branch of government, whose particular remit it would be. Recent G-8 summits have shown that the poverty reduction message must be heard from the top. Once this message is enunciated clearly, channels for forging coherent policies are much more easily strengthened in relation to the centrifugal forces of sector and special interests.

214. A clear official statement of the government's goal of reducing poverty enhances policy coherence. For example, the United Kingdom published a White Paper on Eliminating World Poverty establishing principles for partnership and for consistent policies concerning a wide range of policy areas. Following publication of this White Paper, formal procedures were instituted to ensure the government linkages required for policy coherence. In addition, cabinet status was granted to the Secretary for International Development, thereby increasing the status of poverty reduction as a national objective (see Box 11). Finland has put poverty reduction at the centre of its national security interests in its
Comprehensive Policy on Relations with Developing Countries. Sweden has appointed a Parliamentary Commission on enhanced policy coherence for poverty reduction in the era of globalisation.

215. Coherent policies call for strong links between development co-operation agencies, a wide range of government ministries and agencies, and civil society. Formal contact sessions are an invaluable tool for improving coherence, but providing a suitable organisational culture for informal contact is also critical. In Germany, an informal network of development agencies, co-ordinates the activities of the various governmental (BMZ, GTZ, KFW) and non-governmental organisations in the field of poverty reduction. The Canadian International Development Agency is often directly involved in consultations with other government departments about non-aid policies related to debt relief, preferential import tariffs, and other areas. The New Zealand government is explicitly committed to assuring that the policies it formulates are consistent and coherent.

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<th>Box 11. Promoting policy coherence in the United Kingdom</th>
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The UK has taken far-reaching initiatives in promoting policy coherence. The main elements are: |
| • The Government made a clear political commitment. The Department for International Development (DFID) was established as a separate department within the Government, with its Secretary given full cabinet status. Then, following extensive discussions between government departments, a White Paper was elaborated by the Government, presented to Parliament and widely publicised. |
| • Resources were committed to policy coherence. The capacity of DFID was strengthened to analyse the implications for development of trade and investment issues and to engage in a process of debate within the Government. DFID also commissioned research related to the liberalisation of agricultural trade, food security, and biodiversity. |
| • Mechanisms for policy co-ordination between government departments were strengthened. At the Ministerial level, an Inter-departmental Working Group on Development was created to deal with cross-cutting issues. DFID was represented on an official group, chaired by the Department of Trade and Industry, which met regularly to discuss the UK’s approach to multilateral trade negotiations. |
| • DFID’s links were strengthened with multilateral organisations such as WTO, UNCTAD, ITC, and the World Bank, which are concerned with areas in which policy coherence is needed. |
| • DFID helped to build capacity in developing countries to prepare for and participate in international negotiations on trade, investment, and other areas. |

216. The complex supranational decision-making of the European Union consumes considerable amounts of staff effort. In addition to coherence among policies within the Commission, there is also the need to have coherence between the policies of the EC and those of its members. Once acceptable common positions are reached, however, the process of moving forward toward greater coherence is facilitated. An example is success in separating food security policy, which is strongly related to poverty reduction, from the disposal of Europe’s farm surpluses.

217. Some OECD governments are better able to assure policy coherence by concentrating their programs in certain areas or countries. This facilitates contact with other agencies. An example is Belgium, which formed an interdisciplinary working group (IWG) from ten government departments to achieve some measure of policy coherence. In order to concentrate its resources, the IWG chose the following key areas of concentration: food security, multilateral debt, conflict resolution, and the environment.

218. A basic principle of policy coherence is to broaden decision-making processes so that women, as well as men, especially poor ones, have full input into the definition of what is important and what poverty reduction needs should have priority. The United Nations World Conference on Women in Beijing in 1995 agreed that “governments and other actors should promote an active and visible policy of mainstreaming a gender perspective in all policies and programmes.” Policy analysis should consider the different potentials and opportunities available to women and men as well as the effects on them of any development activities. An important benefit from action of this sort is that involving women will positively impact poverty reduction, since women have a key role in poverty reduction as noted above. Particular attention must be paid to the range of barriers that have kept women out of international negotiations and other formal decision-making positions.

219. Selectivity in choosing partner countries for development co-operation can be an important instrument for increasing policy coherence, not only among development agencies and their partners but also within OECD governments. Policy coherence in this context refers to the allocation of ODA resources according to criteria primarily related to poverty reduction and not to other general policy objectives.

220. A number of OECD governments support institutional capacity building in partner countries, which enables them to participate fully in international negotiations leading towards agreements in the areas of policy coherence that exert an influence on poverty reduction. Also in this context, particular attention needs to be paid to the range of barriers that have kept women out of formal decision-making positions. There is a further need to establish mechanisms whereby the processes of international negotiations assure full participation of the partner countries in formulating and reaching agreements. Sweden and Switzerland have provided capacity building on debt management, budget, and comptroller systems. Australia provides technical assistance related to global trade negotiations.

E. Towards enhanced policy coherence

221. The defining principle of policy coherence in this context is the impact of any set of policies on the International Development Goals. Assessing progress towards policy coherence requires criteria and knowledge about the mechanisms that link a particular policy to international poverty. Substantial evidence is now available showing how lack of policy coherence in such areas as trade and investment, debt relief, agriculture and food security, and conflict resolution impedes poverty reduction.

222. There is a need for careful analysis of the role of each policy, its impact on poverty, and where within government a policy can 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 may never be perfect, but there are areas where much can be achieved with relatively little effort.

223. Policy adjustment in pursuit of greater policy coherence is likely to be part of a political process. It is important that the different policy makers and stakeholders have the knowledge necessary to make the case for this adjustment. In this respect, NGOs and the media can play a major role in informing the public, but it is important that the information they have be reliable and based on facts and sound analysis.
224. Gender-related differences in economic opportunity are often exacerbated by policy incoherence. For example, many of the producers and consumers most affected by opening up an economy to globalisation are women, who are often in a weak position regarding their access to the resources, information, and technology required to seize the opportunities afforded by globalisation. Thus, it is critical that gender analysis be central to both policy formulation and assessment of policy impact. Gender analysis can contribute to both an understanding of poverty and to the development of effective policies and initiatives. Adopting a gender perspective from the outset of the process of policy formation will help to ensure that positive outcomes are enhanced, and negative ones avoided or mitigated.

225. Policy coherence implies that OECD governments promote and support the participation of developing countries in various international forums, such as the World Trade Organisation, the Financial Stability Forum, and the Food Aid Convention. These forums need to be not only formally open to the developing nations, but also in terms of inclusion in informal meetings that are important for the outcome of negotiations. It will also require ensuring transparency and accountability in these deliberations, including those of the international financial institutions.

226. The capacity of developing countries to participate as fully fledged partners in negotiating and implementing international agreements, and the capacity to reap the benefits from them, needs substantial strengthening. Several DAC members offer programmes for capacity building related to international trade -- both in negotiating skills for civil servants and for developing the private sector’s ability to compete in the global economy. The successful promotion of the ability of developing countries to export may increase the competition of firms in OECD countries. Hence, trade interests and development policy could be in conflict. Such cases would be important tests for policy coherence.

227. The DAC has promoted member support to capacity development for trade negotiations by developing a set of Good Practices in this area. These are designed to enhance co-ordination and implementation on the ground, while assuring that trade capacity building is demand led and locally owned. Another effort to promote co-ordination is the Integrated Framework for Trade-Related Technical Assistance, a partnership among six multilateral agencies (WTO, World Bank, IMF, UNDP, UNCTAD, ITC) working to co-ordinate support for the integration of trade, trade-related technical assistance and capacity building into the national development strategies and plans of the least-developed countries.

228. In order to facilitate for Member governments to undertake policy reviews aimed at enhancing overall policy coherence, these Guidelines provide a tentative brief checklist with questions relating to the processes of co-ordination of government policies (see Box 12). [In a more elaborate form and after extensive consultations with OECD Committees and Directorates, this checklist will be presented to OECD Ministers as a reference to guide public policies throughout the OECD.]
Box 12. Checklist questions on policy co-ordination processes

1. Is there a clear official statement of the government’s goal of reducing poverty?
   - Is the government formally committed to achieving the International Development Goals?
   - How could such statements be used to enhance policy coherence?
   - What priority is given to reducing poverty?

2. Which policy areas are considered most important for policy coherence to reduce poverty?
   - What processes exist to identify such areas?
   - Are there any other important areas that need to be considered?

3. To what extent are policy decisions that affect poverty reduction made within a single agency and to what extent are they made across agencies?
   - In each case, what mechanisms are in place to assure greater policy coherence as these decisions are being made?
   - How effective are these mechanisms?
   - How can awareness of the consequences for poverty reduction of policies and negotiating positions in these areas be increased?
   - What informational linkages exist between different divisions within development agencies, across the full range of government agencies, and with civil society?

4. Is there agreement within government regarding the criteria used to evaluate policies with respect to their impact on poverty reduction?
   - If such criteria exist, are they linked to the International Development Goals? To the World Food Summit goal?
   - Are there mechanisms that exist for ensuring that a careful analysis, including gender analysis, is undertaken of the role of each policy, its impact on poverty, and where within government the policy can be adjusted?
   - Is there an understanding of how gender differences and inequalities intermesh with poverty and the implications of this for policy formulation and implementation?

5. Is there adequate authority high in the executive branch of government for reconciling policy inconsistencies?
   - Does this authority fully understand and is it able to articulate the poverty reduction message?
   - Is it capable of reining in the centrifugal forces of narrow special interests?
   - Does it give weight to the goal of reducing poverty?

6. To what extent is policy coherence an important area for consideration at aid co-ordination or consultative group meetings for individual recipient countries?
   - Do the development agencies report back to their governments on the problems of policy coherence that have been identified?
   - Are these reports taken into account in the policy making process in member countries?
V. DEVELOPMENT AGENCY INSTITUTIONAL CAPACITY AND CHANGE

A. Introduction

229. Partnership and ownership are in many respects at odds with traditional ways of conducting development assistance. The 1996 OECD DAC Shaping the 21st Century: The Contribution of Development Co-operation policy statement itself recognised this, noting that “We will need to change how we think and how we operate, in a far more co-ordinated effort than we have known until now”.

230. The approaches and modalities for reducing poverty set out in previous sections of the Guidelines are more complex than the project approaches of the past. Agencies face many challenges, particularly in view of the emphasis on country-owned development processes. Many DAC Members now recognise that successfully addressing these challenges calls for changes at the very core of their institutions: their organisational structures, practices, incentive systems and cultures.

231. Part V examines how agencies can best adapt themselves to the demands of partnership, of mainstreaming poverty reduction throughout their operations, and of equipping their staff to work more effectively. It describes fundamental institutional features and capacities where change is needed in development agencies and suggests priority areas for action. It also looks at ways of creating an enabling environment within agencies for promoting change and innovation.

B. An empirical basis for change: the findings of the DAC Scoping Study

232. In 1998 the DAC carried out a comprehensive assessment of the performance of each bilateral agency in addressing poverty reduction through its policies and operations. The findings of the DAC Scoping Study revealed that actual agency performance -- in terms of poverty reduction commitment, focus and follow-through -- fell short of stated agency policy aims.

233. The study outlined the following problems experienced in varying degrees by development agencies:

- A lack of leadership commitment to poverty reduction, which resulted in multiple, competing agency objectives, unfocused management systems and controls, and permissive country programming.
- Management and staff incentive systems that consolidated agency control functions, reinforced sector-driven and supply-led approaches to programming, perpetuated disbursement pressures and inhibited interaction with other development partners.

22 The DAC Scoping Study of Donor Poverty Reduction Policies and Practices (1999) detailed the results and conclusions of this in-depth comparative survey. The survey outlined issues, concerns and good practice that, in turn, provided the impetus for developing these Guidelines and shaped and informed their contents and scope.
Monitoring and evaluation systems focused on inputs and measurable outputs, with few linkages to agency or staff accountability for achieving agency or development goals.

Missed opportunities for institutional development (e.g. developing staff capacities and competencies through training, integration of lessons learned, etc.).

These problems suggest areas of focus for institutional change in the partnership era:

- Clearer leadership commitment and signals to prioritise poverty reduction, which will refocus institutional goals, realign management and information systems, and reshape staff attitudes and behaviour.

- Creating a supportive organisational and management structure to deliver the knowledge and capacity required for poverty mainstreaming.

- Revising incentives for staff performance, such as rewarding efforts to reduce poverty rather than disbursement performance and alleviating the pressures on time that tend to “crowd out” participation processes and co-operation with other development partners.

- Enhanced monitoring and evaluation efforts to increase and strengthen accountability against poverty objectives and policy coherence performance and to stimulate lesson-learning and feedback to partners and the development community at large.

This agenda for change is more fully developed in the remainder of Part V.

C. Tracking changes in institutional practices

Throughout the history of development co-operation, development agencies have taken responsibility for delivering aid to reduce poverty and achieve development. Now partner governments are responsible for their own national poverty reduction strategy and for co-ordinating and taking into account the poverty reduction efforts of a range of stakeholders. This reduces what agencies do to engaging in dialogue on policy, facilitating action, monitoring results, and sharing lessons learned with partners. Table 1 illustrates how this ongoing evolution in development practices is affecting the way development agencies formulate their approaches and country strategies for reducing poverty. These practices are organised around the principle elements of the emerging agenda for reducing poverty (left-hand column). There is widespread agreement on the principles underlying the practices set out in the right-hand column, especially on the need for broad-based country ownership of the national poverty reduction strategy, on the importance of strengthening partnerships and participation, and on the priority attached to poverty reduction as set out in the International Development Goals.

D. Gearing up for mainstreaming poverty reduction: institutional factors

Successful institutional change is usually driven by a clear perception of the need for change, a clear and collectively accepted goal, and a collective ‘enthusiasm’ in combining efforts to reach the goal. Strong leadership, supportive management behaviour and organisational structures and appropriate incentive systems are key elements in any strategy for changing institutional behaviour.

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23 The term *institution* generally refers to a set of rules or patterns of behaviour underpinned by norms and values. *Institutional analysis* focuses on trying to understand the existing rules and norms. *Institutional development* is the term frequently used to describe the process of institutional change by which organisations increase their capabilities and performance in relation to their goals, resources, and environment.
A review of the literature on organisational behaviour and development agency institutional arrangements suggests that efforts should focus on factors that are fundamental for fostering greater commitment and response to poverty reduction and on areas where agencies need to strengthen their capacities. Table 2 and Table 3 below indicate six possible areas for fundamental change and six possible areas for strengthening capacity, each of which are appended with explicit examples of changes that could be implemented.

**Table 2 Shifting emphases in the poverty reduction agenda**

<table>
<thead>
<tr>
<th>KEY CHALLENGES</th>
<th>DEVELOPMENT AGENCIES’ PREVIOUS INSTITUTIONAL EMPHASIS</th>
<th>DEVELOPMENT AGENCIES’ EMERGING INSTITUTIONAL EMPHASIS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Partnership</strong></td>
<td>Identification and preparation of projects, methods of project appraisal, use of logframe analysis</td>
<td>Working through partnerships and policy dialogue e.g. identifying partnership terms and defining issues, concerns and priorities for the policy dialogue</td>
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<td></td>
<td>Administrative and managerial approaches</td>
<td>Methods of stakeholder analysis, participatory approaches</td>
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<tr>
<td></td>
<td>Capacity for project management</td>
<td>Capacity to access knowledge for poverty analysis and policy dialogue</td>
</tr>
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<td></td>
<td>Decisions and control from agency headquarters</td>
<td>Decentralised decision-making and control</td>
</tr>
<tr>
<td><strong>Ownership and Participation</strong></td>
<td>Development agency ownership of projects for direct poverty reduction, often based on agency-managed project implementation units</td>
<td>Government ownership of national poverty reduction strategies through which all agencies integrate their activities; agencies focus on strengthening partner capacity to manage and account for development assistance resources.</td>
</tr>
<tr>
<td></td>
<td>Multiple agency missions, duplicative research and analysis, diverse and complex administrative requirements</td>
<td>Efforts to work jointly with others, to co-ordinate better, to reduce administrative burdens on partner country governments</td>
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<tr>
<td></td>
<td>Sector- and supply-led interventions</td>
<td>Support demand-driven partner priorities based on agency-specific comparative advantage</td>
</tr>
<tr>
<td></td>
<td>Collaboration with government and NGOs</td>
<td>Legitimacy through broad participation of different stakeholders</td>
</tr>
<tr>
<td><strong>Multi-dimensional Concepts and Approaches</strong></td>
<td>Poverty reduction promoted through economic growth, focused and high-quality social services and safety nets</td>
<td>A multidimensional and dynamic concept of poverty, greater recognition of equity, inclusion and governance and the need to facilitate an enabling environment for poverty reduction</td>
</tr>
<tr>
<td></td>
<td>Focus on technical specialists, administrative skills and qualitative data</td>
<td>Focus on cross-cutting expertise, new political/social skills, multidisciplinary teams and qualitative and quantitative data.</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>Accountability mainly by financial control and focus on delivering inputs</td>
<td>Accountability through reference to the International Development Goals and assessment of client commitment and performance in achieving results -- and the agency’s supportive role in this regard</td>
</tr>
<tr>
<td><strong>Policy Coherence</strong></td>
<td>Inward-looking</td>
<td>Greater concerns with coherence across agency governments regarding the impact of diverse policies (e.g. trade, agriculture, debt) on poverty reduction</td>
</tr>
</tbody>
</table>
Table 3 Key areas for fundamental institutional change

<table>
<thead>
<tr>
<th>AREAS</th>
<th>ISSUES FOR DEVELOPMENT AGENCIES TO ADDRESS</th>
</tr>
</thead>
</table>
| Vision, policy and strategy                | • Develop a clear agency vision, policy framework and strategy for reducing poverty, including through country strategies, sector approaches and project interventions. The goal of poverty reduction should inform all relevant planning processes within the agency.  
  • Greater reliance on agency comparative advantages in allocating resources and choosing instruments and modalities in response to country-owned strategies.                                                                                                                                                                                                                      |
| Leadership’s role in turning vision into reality | • Determined leadership at both political and policy-making levels must capture and channel the interest and commitment of all staff and external government and civil society to focus more resolutely and forcefully on supporting poverty reduction in partner countries.  
  • Convince and steer authorising and legislative bodies to mobilise and allocate sufficient resources and ensure the agency can account for its performance against the poverty reduction goal.  
  • Where a complex governance structure limits the autonomy of the agency, changes in governance arrangements should be considered.                                                                                                                                                                                                                   |
| Co-ordination and management of the external environment | • Focus agency approaches, actions and systems on achieving tangible results in reducing poverty that can be demonstrated to external audiences and opinion leaders.  
  • Defuse public concerns with conflict and corruption as symptomatic of the (in)utility of development co-operation by strengthening policy coherence and enhancing agency co-ordination with other institutions concerned with these issues.  
  • Develop tactical strategies to deal with possible criticisms of the agency’s poverty reduction focus coming from varying external forces (including legislative bodies and lobbying groups).                                                                                                                                                      |
| Organisational and structural change       | • Develop structures and mechanisms for mainstreaming poverty reduction. 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. Poverty reduction champions can be used to raise the profile of poverty, provide advice, strengthen communication between and across organisational levels, promote good practice and ensure that programmes/projects are systematically assessed for poverty reduction potential in agency screening and approval procedures. Resources and authority must be vested in agency poverty advocates.  
  • Decentralise agency operations and field staff by, for example, strengthening professional staff presence in the field (either local hires or agency staff); giving field-based staff the authority and capacity to negotiate with local partners; granting a degree of budgetary flexibility to decentralised levels; etc.  
  • Consider how to ensure compliance, at every level, with corporate policies on poverty reduction, gender, governance, and sustainability.  
  • Encourage team-working across professional boundaries to address more effectively the multidimensional nature of poverty and to overcome sector-driven or supply-led approaches.                                                                                                                                                                    |
| Transforming the institutional culture      | • There is a need for leaders at all levels of the agency to clearly flag their commitment to poverty reduction.  
  • Give attention to promoting an institutional culture that supports poverty reduction. A “disbursement culture” or a “permissive” culture that leaves discretion to programme managers can undermine effective approaches to poverty reduction. Develop approaches, instruments or strategies that accommodate/reduce disbursement pressures at the end of the agency fiscal year.  
  • Transforming the institutional culture requires detailed analysis, action at various levels, and time.                                                                                                                                                                                                                                                                  |
| Staff motivation and incentives            | • Staff recruitment and incentive structures (for permanent, temporary and diplomatic staff) must focus on poverty reduction skills and performance, team-working capacities, and co-ordination efforts. Incentives might be regulatory or facilitory rather than financial.  
  • Terms of reference for research, studies or programme preparation should make linkages to poverty reduction goals. Build targets and standards for poverty reduction into contractual arrangements and partnership agreements with external agencies, NGOs, consultants, and resource centres. Partnership agreements should incorporate incentives and sanctions, and have clear systems for monitoring results.                                                                                                                                 |

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### Table 4  Key areas for strengthening agency capacities

<table>
<thead>
<tr>
<th>AREAS</th>
<th>ISSUES FOR DEVELOPMENT AGENCIES TO ADDRESS</th>
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</table>
| Human resource development and skills | • It is crucial to deal with the multidimensional nature of poverty, including an understanding of the macro-economy at the community level and of stakeholders at the national level. Consider building and deploying multidisciplinary teams at country level with competence in policy analysis, economic and financial issues, gender issues, participatory approaches, governance, policy dialogue, partnership, and negotiation. Bring skills together at macro, meso, and micro levels.  
  • Training programmes should promote awareness-raising of all staff and enhanced operational skills for specialist staff. Institutional development approaches should (i) focus on the implications of mainstreaming poverty reduction and (ii) facilitate change processes and innovation within the agency.  
  • Agencies should consider joint collaboration as regards training efforts and poverty analysis. |
| Programme planning and management   | • A stronger focus is needed on achieving poverty reduction impact, tracking intermediate policy targets and establishing quality control mechanisms.  
  • Greater emphasis on institutional analysis, including analysis of policies, stakeholders, and gender.  
  • Greater reliance on the partner government for providing management information, including (i) greater attention to supporting capacity in partner countries to provide accounts to an agreed format and/or (ii) more flexible financial control mechanisms for example, for accepting partner countries' accounts and/or reporting standards. |
| Deployment of resources and knowledge | • Resource allocation decisions should be increasingly based on partner country poverty reduction needs and commitment.  
  • In the context of country-owned poverty reduction strategies, consider increased aid untying to promote local ownership and capacity-building and to reduce partners’ economic costs.  
  • Develop coding systems permitting agencies to track poverty reduction efforts in all budgets.  
  • Allocate staff time to learn about and share good practice in development, and facilitate their access to knowledge, research and evaluation results. |
| Instruments                         | • Assess which approaches, instruments and modalities provide the most scope for mainstreaming poverty reduction strategies and have potential for the greatest impact on reducing poverty. |
| Management style and staff relations | • Consider revisions/additions to staff regulations that reinforce the centrality of poverty reduction to agency objectives, operations and performance.  
  • Enhance the poverty orientation of staff reporting systems (for example, “upwards reporting”, which encourages the client focus of staff). Sustainable change in management systems to reflect this aim will require substantial lead-time and incremental change.  
  • Management needs to stress the development of skills that foster partnership (for example, facilitation, diplomacy, consensus-building, active interaction) and create opportunities for learning and team-working. |
| Monitoring, evaluation and accountability | • The International Development Goals focus attention on poverty reduction results at the country level and on indicators measuring intermediate progress. In this regard agencies need to:  
  • Support the capacity of the partner country to undertake programme evaluations (including in partnership with external agencies).  
  • Encourage the participation of the poor in studies and evaluations.  
  • Improve impact assessment methodologies to relate agency efforts to development outcomes and results, especially where there is a collective effort.  
  • There is a need to improve the DAC poverty marker to get beyond merely measuring direct assistance to poor people. |
239. Is it realistic to expect agencies to undertake all of the changes outlined in these tables? Each agency will need to judge how, to what extent, and how quickly it can and will address the institutional requirements of partnership and policy goals such as poverty reduction. While there is no single “right way” forward, the agenda for change should encompass three key areas of institutional reform: ways of mainstreaming the poverty reduction agenda throughout agencies; improving field operations, and devising organisational structures and mechanisms to strengthen policy coherence across DAC Member government ministries and departments.

E. Mainstreaming the poverty reduction agenda throughout the agency

240. Efforts to promote poverty reduction concerns and goals in agencies’ policies and actions will call for much more than just adding on a specialised poverty-focused unit to deal with poverty reduction. It will require the *mainstreaming* of a poverty reduction approach throughout the agency, meaning that poverty reduction objectives are taken into account in *all* activities and at *all* organisational levels. In undertaking this task, lessons may be learned from the experience in several agencies in mainstreaming gender equality (see Box 13).

<table>
<thead>
<tr>
<th>Box 13. CIDA’s organisational approach to mainstreaming gender</th>
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<tbody>
<tr>
<td>Combining a specific focal point with an organisation-wide mandate to integrate gender analysis and awareness into all departments and operations has proved to be a successful way of mainstreaming gender in some development agencies.</td>
</tr>
<tr>
<td>In Canada gender is being mainstreamed throughout the agency’s operations and departments. To facilitate this, a separate unit has been created which provides resources, guidance and advocacy for promoting gender equality issues and concerns. Gender experts are associated with each branch and technical advisers and further expertise may be located or hired at field level. The mainstreaming process is supported by a gender mandate within programming priorities and by associated budgetary allocations.</td>
</tr>
<tr>
<td>These mechanisms have led to gender being relatively well-integrated into the development and poverty reduction programmes in CIDA. However, the gender mainstreaming process is still not complete: 25% of staff reportedly are still uncomfortable with gender mostly because they are still unsure about how to operationalise gender analysis into country programmes and strategies.</td>
</tr>
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</table>

241. Those making efforts to mainstream poverty reduction will need to pay attention to particular problems posed by the *multidimensional conception of poverty* and to ensuring that there is adequate *accountability*.

a) Mainstreaming poverty as a multidimensional issue

242. A *multidimensional approach to understanding poverty* calls for an improved analytical framework (as laid out in Part I) setting out macro-meso-micro linkages based on a more sophisticated understanding of the potential effects of policy interventions on poverty reduction in different areas and among different social groups. This is very different from proceeding through a relatively simple suite of project interventions, as would have been the case previously. Agencies will need to acquire greater knowledge of their partner countries and to be aware of recent poverty data, including participatory data that uses criteria identified by the poor.
243. The multidimensional approach also highlights the need for agencies to consider ways of reconfiguring their organisational structures to facilitate the exchange of knowledge within the institution. Understanding the multidimensional dimensions of poverty requires co-ordination and cross-fertilisation of expertise across agencies. This is not necessarily encouraged by present organisational structures which typically divide staff into autonomous, often isolated units dealing with sectoral development or geographic zones.

244. 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. Agencies will need to work together more, relying on each others’ skills, data bases, analyses and diagnoses. Poverty reduction strategies will put greater emphasis on the use of multidisciplinary teams and on staff capacity for interpreting quantitative and qualitative information on poverty. This will have further implications for the way in which agency staff are deployed and collaborate with one another. Agencies will need to re-organise themselves in order to facilitate such teamworking. Finally, training programmes dealing with poverty reduction issues and techniques will be essential for developing staff capacity to respond with wisdom and perspective (see Box 14).

Box 14. The role of training in strengthening expertise, awareness and institutional learning

Adequate, relevant training provides essential operational skills and heightens staff awareness of poverty concerns. Training also plays an important role in improving aid effectiveness through the transmission of good practice and lessons learned. Three examples of DAC Members’ approaches to training in poverty reduction issues and techniques include the following:

- The European Commission has developed a well-received training programme providing a basic understanding of poverty and how poverty reduction objectives might inform policy and programme formulation. Topics covered include an overview of global poverty, EC policy on poverty reduction, an evaluation of DAC members’ aid allocations, and poverty concepts and measurements. Gender and governance issues are integrated into the discussion. The course concludes with a review of case studies dealing with macro-economic reforms, sectoral policy, and project approaches. Low attendance levels due to heavy staff workloads initially hampered the training programme’s impact, but attendance increased when the duration of the course was reduced to two days.

- DFID’s poverty training programme (piloted October 2000) focuses on definitions of poverty, its causes, and more effective approaches and programmes for reducing poverty. It aims to guide staff when translating agency-wide poverty reduction policies and approaches into practice. While it is intended primarily for middle-level DFID staff who are responsible for implementing policy, it is also accessible to administrative and support staff.

- Germany has developed “Exposure and Dialogue Programs” (EDPs) which expose policymakers and civil society to the daily life of poor people in developing countries as a way of (i) raising their awareness of the reality of poverty, (ii) promoting creative strategies for addressing poverty and (iii) developing pro-poor alliances between the South and the North. EDPs are designed to ensure that participants search for ways to help poor people realize their self-help potential.
b) Accounting for performance

245. Accountability for poverty reduction requires sensitivity to the increased complexity of the multidimensional nature of poverty and to the challenges inherent in partnership and stakeholder processes. To facilitate accountability, agencies should clarify responsibilities for different poverty reducing activities at different levels within the agency. Indicators of performance are not obvious at every level, especially given the enabling and facilitating role -- rather than direct responsibility -- now to be assumed by agencies. Performance will ultimately need to be measured against outcomes, notably the International Development Goals, recognising that reducing poverty calls for a collective effort.

246. Intermediate measures of performance will also be necessary and should be agreed among partners. Ideally the partner government should be responsible for strategy and be in charge of implementation: it would then be the accountable body. At the same time, agencies must be accountable for the advice they give to partner governments. In most cases, agencies should avoid undermining the government’s authority by assuming any sort of indirect responsibility to the citizens of the country. Agencies will need to support the development of accountability and transparency mechanisms through governance programmes and to facilitate learning and feedback to field staff, partner governments and stakeholders.

F. Issues that affect country level operations

a) Aligning agency procedures with partner procedures

247. Consultations with partner country stakeholders and development practitioners in the course of preparing these Guidelines revealed widespread dissatisfaction with the heavy burdens created by multiple agency reporting, tracking and auditing requirements and poor agency co-ordination of their policies and activities. The emerging consensus on country ownership of strategies for poverty reduction puts even greater stress on the need to streamline, simplify and harmonise practices, procedures and reporting requirements. Members should give consideration, in collaboration with other Members, to reforming their administrative requirements and increasing their financial flexibility. Such changes are essential to respond to the challenges of country ownership of poverty reduction strategies and partnership arrangements.

b) Decentralising to the field

248. There is substantial support for the idea that continuous dialogue and negotiations with both partners and other agencies will require a significant number of field staff who are qualified and competent to negotiate for the agency. In turn, this implies greater deconcentration of staff and decentralisation of policy formulation and management. 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 conditions, strengthen team-working across disciplines and promote better dialogue and partnership through close and continuous interaction with other local partners.

249. Decentralisation will require redoubled efforts to co-ordinate local meetings and negotiations to ensure it does not give rise to a proliferation of meetings with government officials whose time would be better spent managing the country. It will also heighten the need to improve mechanisms for continuous learning at different levels of the agency, for the dissemination of knowledge, and for ensuring lessons learned are implemented throughout a decentralised management structure.
c) Support for partner country strategy development

250. Enhanced country ownership and broader stakeholder participation requires agencies to develop their capacity, in conjunction with other stakeholders, to support the government in elaborating its own poverty reduction strategy. In doing so, care will have to be taken not to undermine the partner government’s primary role in developing the poverty reduction strategy, but rather to enhance government capacity to interact with its own partners. 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. Support should aim to enhance the involvement of civil society (including the poor), women’s organisations and gender equality advocates, private sector actors, labour representatives and local government institutions. Agencies should also help to identify all the factors -- including their own practices -- that inhibit country ownership. Agency support may be needed to help governments undertake a gender analysis of stakeholders to ensure that poverty reduction strategies and approaches take account of gender dimensions. 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.

d) Working in partnership

251. The focus on partnerships and policy dialogue in reducing poverty enhances the need for agencies to have a solid understanding of the country’s poverty situation and its strategy for reducing it. At the same time agencies will need to be politically aware, assessing the points of leverage for reducing poverty (even for those agencies with an expressly non-political mandate) and providing support to pro-poor constituencies. Since the country will identify which agency is best equipped to give support in specific areas, agencies should concentrate their efforts where they can make a difference. Partnership means that agencies must adjust their systems to line up with those of partner governments and support them in strengthening their capacity to lead co-ordination. There will also be increased collaboration with other agencies in management reporting, monitoring and evaluation.

252. Successful partnerships will call for efforts to deepen staff capacities (in, for example, cross-disciplinary knowledge, negotiation and diplomacy skills and facilitation abilities), to broaden their sensitivities (in, for example, openness to local cultures and standards) and to kindle staff motivations for achieving poverty-reduction results (through, for example, agency reward and incentive systems linked to performance).

253. Agencies will need to consider how they will address the systemic institutional change that must take place if the traditional donor-recipient country relationship is to be reconstructed to one based on partnership, led by the government’s own priorities, and facilitated through policy dialogue.

G. Organisational structures and mechanisms to strengthen coherent policy-making

254. Agencies need to focus on their own governance arrangements, particularly if these limit their ability to focus consistently and effectively on reducing poverty. Many agencies have extremely complex systems of governance which involve several ministries and additional agencies in the process of formulating development policy and implementation. Even where political will exists, complex structures of governance take longer to focus on reducing poverty. Political will depends crucially on the willingness of other ministries and agencies to consider development perspectives in arriving at a balanced view in formulating policy.
255. **Policy coherence**, dealt with in Part IV, calls for an understanding of the relationships and impacts of different policies for reducing poverty. But it also demands mechanisms to resolve contradictions or to mitigate the effects of conflicting policies. To achieve policy coherence, agencies must improve their mechanisms for co-ordinating with other institutions that have responsibilities for issues that have a bearing on poverty reduction (for example trade, agriculture, debt, workers rights, finance, etc.). These institutions may be other Ministries in the Member country, other agencies in partner countries, or global governance institutions (see Box 15). Coherence also demands **policy consistency**, which means ensuring that agencies do what they say they will do. Managing these issues calls for a commitment of staff time and resources devoted to identifying and analysing the issues and to making reasoned judgements about what can realistically be changed. Agencies will need to negotiate with other partners at different levels and make active use of a range of mechanisms for resolving contradictions and inconsistencies. This requires the capacity to participate in international fora in order to exchange ideas about poverty reduction and influence the policy development process.

**Box 15. Government structures to improve policy coherence in the Netherlands**

To ensure that Dutch policies relating to developing countries are coherent, the Bilateral Department in the Ministry of Foreign Affairs now takes responsibility for all aspects of relations between the Netherlands and developing countries. The aim of this “de-compartmentalisation” is to create synergies within and across all parts of the Dutch government, thus improving overall policy coherence and effectiveness. The Bilateral Department integrates development co-operation with other aspects of foreign policy and trade relations to produce medium-term policy documents for each country or region. These documents are prepared on the basis of inputs from other departments within the Ministry, as well as from other ministries in the Dutch government. Dutch policy coherence is monitored by a committee established by cabinet entitled the Council for European and International Affairs.

**H. Cultivating institutional change and learning**

256. The proposals regarding agency institutional development options outlined above will be of little use if they are not actually implemented. Change is not easily activated in institutional settings. Agency staffs are busy with their work and their careers. Institutions themselves typically concentrate on operations (which are in constant flux), rarely focusing on institutional development and change. This inertia tends to be reinforced by widespread perceptions that change is dislocating, unsettling and threatening. Little change will occur unless agencies create an institutional culture favourable to change, and this will only happen if explicit space and effort are dedicated to fostering change.

257. As a general rule, organisations that have succeeded in carrying through real behavioural change have had a broad approach where staff members have had frequent opportunities to influence the process. The degree of participation has been high and the staff has had a strong feeling of ownership and motivation for the change process. Box 16 sets out some basic approaches for embedding change and learning as values and goals in an organisation’s culture.
Box 16. Good practice for fostering institutional change

SIDA has developed a successful approach for enabling change processes to take root and flourish. Good practice has involved a series of agency-wide steps affecting various aspects of the work environment calling for modifications to policy frameworks that govern staff relations and management practices.

- Agency staff at all levels must be actively involved in formulating visions and goals for each department and group which must be strongly linked to those of the organisation.

- Personnel policies should also be developed in collaboration with staff (for example, bottom-up methods) and should clearly set out the important role played by managers and staff to promote the learning and change necessary to achieve common goals and visions.

- Policies for change and learning must be suffused throughout operational processes, behavioural patterns and agency activities. Managers have a key role here: they must know how people learn and react to change and how they, as managers, can create an environment that stimulates people to learn.

- A clear definition of poverty reduction competencies and skills is required for purposes of staff training and recruitment.

- Training that is varied in terms of content and course length and readily available must be provided for staff at all levels of expertise and authority. Managers should develop innovative approaches or mechanisms that stimulate other learning opportunities and experiences.

- Staff must be rewarded for their efforts to change, to learn and to apply lessons learned.