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Poverty
Reduction
Strategy
Processes
in Partner Countries



NORAD

DIREKTORATET FOR
UTVIKLINGSSAMARBEID
NORWEGIAN AGENCY FOR
DEVELOPMENT COOPERATION

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1 Introduction

Poverty reduction is the overall objective of Norway's development co-operation. The Ministry of Foreign Affairs has recently (2001) presented an action plan for poverty reduction. The plan gives a comprehensive and operationalized overview of the Norwegian strategy in this field.

Norway was one of the countries supporting the Poverty Reduction Strategy Paper (PRSP) initiative. The initiative is connected with the debt relief effort towards the Heavily Indebted Poor Countries (HIPC) and soft loans from the World Bank and the International Monetary Fund (IMF).¹

The purpose of this document is to present an overview of Norwegian views in order to promote national poverty reduction strategies in partner countries, and the relationship with Norwegian development co-operation at the country level.

National ownership of strategies and development efforts, and recipient responsibility are necessary conditions for achieving poverty reduction. One way to promote ownership and recipient responsibility is to support the development of national poverty reduction strategies, and base our development co-operation on these strategies.

Therefore, Norway strongly supports the development and use of national poverty reduction strategies. Such strategies integrate macro-economic, structural and social policies in a potentially powerful tool to help developing countries in their efforts to reduce poverty and promote growth. The recent efforts in promoting the development of poverty reduction strategies now need to be followed up with a more focused approach towards implementation.

Tove Strand
Director General of NORAD

¹ The UN's Poverty Strategies Initiative (PSI) is a parallel initiative that has been a complementary effort and has contributed to several national poverty reduction plans.

2 A holistic approach

Addressing a country's development priorities requires a basic understanding of the nature of the opportunities and problems facing the specific country, together with experience about the constraints they face, including the government's capacity constraints. The development goals, based on the broad aspirations of the people, needs to be complemented by a national strategy covering three to five years, that sets out how the country intends to make progress towards its goals and vision. This strategy needs to be realistic, and framed in terms of concrete time-bound actions geared towards delivering specific development results.

Norway has been in the forefront of the shift towards a more comprehensive approach to development policy. The Comprehensive Development Framework (CDF) initiative and its principles, developed by the World Bank, also reflect the main Norwegian points of view. The Comprehensive Development Framework takes a holistic approach to development. It seeks a better balance in policymaking by highlighting the interdependence of all elements of development - social, structural, cultural, human, governance, environmental, economic, and financial. It emphasises partnerships among governments, donors, civil society, the private sector, and other development actors. Perhaps most important, the developing country is in the lead, both "owning" and directing the development agenda. Within this framework, the donors should define their support. The Comprehensive Development Framework is based on the principles of:

- A long-term holistic vision of needs and solutions
- Ownership by the country
- Country-led partnership among internal and external actors
- A focus on Development Results

The Poverty Reduction Strategy Paper initiative from the World Bank and the IMF operationalizes the Comprehensive Development Framework principles at the country level.

3 National leadership and ownership. Development of national institutions

Each country must lead their own development. Nationally owned poverty reduction strategies are important tools for attaining country-led development processes.

Norway wants to highlight that the poverty reduction strategy should be a political document, subject to discussions and processes in relevant political institutions, up to and including the Parliament. The rationale for this is that the strategy should be widely understood and "owned" in the society. If the democratic system in a country does not function satisfactory, the participatory processes which are implemented when developing a poverty reduction strategy, should *strengthen* the democratic system. F. ex. transparency vis à vis the press may be one way to make the poverty reduction strategy nationally owned, without spending resources on establishing consultation procedures which are parallel to the ordinary democratic structures. In addition, a strategy which is a result of a democratic process may increase the confidence of the donors. Another crucial point in this context may be to what extent the strategy is based on broad consultations among different ministries etc.

In order to spend the limited institutional resources efficiently, and to respect national planning procedures, national strategies for poverty reduction, where existing, should

constitute the PRSP. Hence, the PRSP concept must not be a blueprint, but a flexible concept varying from country to country. This means for instance that the structure, the internal and external consultation processes, the time period covered in the PRSP, and the need for up-dating or progress reports may vary.

The concept of Interim PRSPs represents a valuable flexible mechanism in aiming both at relatively quick HIPC-debt relief based on the Interim PRSP, and at a full PRSP, which obviously takes some time to evolve.

Developing and implementing poverty reduction strategies demands substantial institutional capacity, and the lack of such capacity may hinder true ownership, and the needed confidence between donors and partners. Thus, capacity building is highly relevant. Even more important, however, may be the functioning of the existing and new institutions.

4 Financial management and implementation of Poverty Reduction Strategies

To ensure that the poverty reduction strategies form the basis for national policy the poverty reduction focus must be integrated in other national planning instruments. *The consistency with the government budget is of particular importance.*

Donor contributions have in many cases not been integrated in regular national planning and budgeting processes in partner countries. *From the Norwegian point of view this is unacceptable. This is because we believe that in order to implement a holistic approach, the budget must be as comprehensive as possible. In addition, Norway strongly emphasises the struggle against corruption.* The integration of donor funding into government budgeting requires routines and control mechanisms, in addition to institutional capacity.

According to the program approach (cf. paragraph 5) aid is channelled through government budget, implementation and reporting systems. Donors are therefore compelled to show a greater interest in national financial management systems.

Increasing government revenue to avoid increased aid dependence in the future should be part of the wider financial management agenda. The private sectors' role in creating economic growth increases the awareness of the importance of the functioning of markets, trade policy etc.²

5 From project support to sector programmes and budget support. Donor co-ordination

The transition from project to program and budget support is in accordance with the focus on nationally owned poverty reduction strategies.

A sector programme is a national medium or long term programme for one specific sector. Such a programme may be supported by several donors, based on medium or long term agreements. A sector programme is typically tied to the overall policies of the country. In contrast to budget support, support to a sector programme is earmarked. Budget support (macroeconomic support) may be followed by dialogue

² However, the *content* of the poverty reduction strategies is not the focus of this brochure

concerning macroeconomic goals, allocation of resources on sectors etc. Norway participates in budget support programmes in Mozambique, Malawi and Tanzania.³

A shift towards programme and budget support makes it easier to co-ordinate the resources and focus on the overall aims. Such a shift also implies a shift in the way donors work at the country level. While time and resources spent on following projects will diminish, the focus on planning and monitoring processes will increase.⁴

Norway aims at taking a more active role in such processes, with a special focus on where we have the relevant competence.

A major gain from a successful consolidation of numerous projects to a program approach will be to reduce burden on the partner country's government in connection with missions, and planning, implementation and reporting procedures. This should in effect increase government capacity to deal with overall planning and implementation issues.

Donor co-ordination should be led by the developing country on the basis of the poverty reduction strategies. Hence, the donor community should base its support on the national poverty reduction strategy. Where existing, Norway will base the development co-operation on these strategies.

Donor co-ordination should aim at exploiting donors' areas of expertise, avoiding unbalanced funding and avoiding overcrowding within a sector. This may improve the effectiveness of aid.

6 Monitoring of the implementation

An *ex ante* type of conditionality gives support on the basis of reforms or performance that should be implemented in the future. *Now there is a shift towards an ex post approach, where an assessment of past performance is the basis of support.*

Donors should strive to give clear and unambiguous signals when it comes to performance. One must differentiate between indicators where one wishes to see progress, and indicators where improvement is an absolute prerequisite for support.

The PRSPs have lists of *monitoring indicators, which should be chosen on the basis of the international development goals and indicators.* This may simplify the monitoring and review processes, both for the country itself and for the donors.⁵

³ Cf. the report "Budsjettstøtte som bistandsform. Diskusjonsnotat om ny rolle for budsjettstøtte i lys av internasjonale initiativer for gjeldslette og nasjonale fattigdomsprogram" by Dag Aarnes, September 2001

⁴ In addition to the medium or long term poverty reduction strategy process (covering both planning and monitoring), other important processes (differing from country to country) might be: Annual national budgets, Medium Term Expenditure Framework (MTEF), Sector working groups, Civil service reform processes, Country Financial Accountability Assessments (CFAA), Public Expenditure Review (PER), Consultative Group (CG)

⁵ Some progress has been made in co-operation and co-ordination between donors in the donor-driven review processes. One recent development is the invitation from the World Bank to participate in their Country Financial Accountability Assessments (CFAA). Furthermore, bilateral and multilateral donors could benefit from using each other's studies to avoid duplicating previous work. A recent example is

Obviously, transparency is required if donors shall base their reviews on the national monitoring system.

7 Summing up

The relatively new focus on poverty reduction strategies does not change the overall goal of Norwegian developmental co-operation, which is to reduce poverty. However to a certain extent it may expand the Norwegian role and areas of action, particularly in the main partner countries.

- Norway strongly supports development of national poverty reduction strategies, and we will base our development co-operation with individual countries on nationally owned poverty reduction strategies where existing
- In developing a poverty reduction strategy, one should use and develop the existing national planning system. This means that the PRSP-concept, as seen from the World Bank, the IMF, and other donors, must be a flexible concept.
- The development of PRSPs should not delay the HIPC-debt relief process, which may be based on an Interim PRSP.
- Norway wants to highlight that the poverty reduction strategies should be political documents, subject to discussions and processes in relevant political institutions, up to and including the Parliament. From the Norwegian point of view, priority should be given to develop poverty reduction strategies which is the result of processes which make the strategies "owned" by the developing countries. However, in most countries, "broad consultations" should imply that the democratic institutions and processes are strengthened, i.e. local and national governmental capacity are increased, political parties are strengthened, so is the parliament etc. One should be reluctant to spend too many resources on supplementary processes and institutions related to the PRSP-process only.
- In order to implement the poverty reduction strategies, the strategy should be linked to the government budgets. The budgets must cover all donor contributions. Both donors and partner countries must contribute to this.
- To promote aid effectiveness and to reduce the burden on the capacity in the partner countries, poverty reduction strategies should form the basis for donor co-ordination. Reporting processes should also be based on the national review systems e.g. on the governments own procedures for PRSP-monitoring, and the national accounts.
- In our main partner countries, Norway aims at being an active dialogue partner in planning, implementing and monitoring the poverty reduction strategy process.
- Norway will continue to change our focus from project support to programme and budget support. This requires an increased focus on policies, institutions, and economic and political performance.
- Within the framework of a long term development partnership with our main partner countries Norway will also focus more on actual performance as a basis for further development aid.



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