

Committee for Development Policy

Policy Note

**Strengthening the International Partnership
for Effective Poverty Reduction**



United Nations
October 2007

Note

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The term “country” as used in the text also refers, as appropriate, to territories or areas.

The designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgment about the stage of development reached by a particular country or area in the development process.

The views expressed in this publication are those of the Committee for Development Policy and do not necessarily reflect the opinions and policies of the United Nations.

Foreword

Worldwide, the number of people living in extreme poverty has declined since 1990. There is also evidence of important progress on other dimensions of human development, such as access to education and reductions in child mortality. The progress has been rather uneven, however, with many countries, in particular African countries, lagging behind. Even in countries that have made substantial improvements, there are still certain groups that remain trapped in extreme poverty.

The international community, through the United Nations, is committed to an agenda of internationally agreed development goals, including the Millennium Development Goals. The strategies in fulfillment of this agenda seem to be working, but not on the scale required. Therefore, the global partnership in support of the development goals must be improved and strengthened. The present Policy Note by the Committee for Development Policy critically assesses the existing framework for this global partnership and identifies some important shortcomings in the present approach, particularly those that relate to the Poverty Reduction Strategy Papers. The report gives useful advice on how to enhance the effectiveness of the international partnership for poverty reduction. I am confident this report will enrich the development dialogue, and I urge that careful consideration be given to its recommendations.

This publication represents the collective view of the CDP members. I would like to thank all members for their work. I would like to express special gratitude to Professors Frances Stewart and José Antonio Alonso, who prepared background notes which served as important inputs to the deliberations of the CDP and the present Policy Note.

Sha Zukang

Under-Secretary-General for Economic and Social Affairs

United Nations

September 2007



Summary

Important progress has been made towards developing a global partnership in support of national poverty reduction strategies. Nonetheless, the existing framework of the global partnership, which uses the Poverty Reduction Strategy Papers as its main instrument, appears to be neither adequate nor effective. The Committee for Development Policy stresses the importance of the donor community's allowing aid recipient countries to gain more ownership of the poverty reduction strategies. The Committee further recommends that aid modalities and other international support should be provided under conditions which enhance, rather than restrict, Governments' room for manoeuvre in conducting national policies for effective growth and poverty reduction, in accordance with their economic, social and cultural conditions. At the same time, the international community at large needs to ensure that negotiations on the Doha Round of the World Trade Organization are consistent with poverty reduction objectives and national trade policies in developed and developing countries and do not conflict with development assistance priorities pledged by Governments around the world in the 2002 Monterrey Consensus of the International Conference on Financing for Development. The Committee recommends that improved international partnership for poverty eradication be sought under the aegis of the Economic and Social Council of the United Nations.

Contents

Foreword	iii
Summary	v
Contents	vii
Explanatory Notes	ix
Introduction	1
Efficacy of PRSPs and their impact on poverty reduction	2
Supporting debt relief	3
PRSPs and poverty reduction	5
Official development assistance: improving harmonization and alignment of aid practices	7
National policies: broader participation and consultation	9
The global partnership	10
National policy space	11
Financing development	13
The multilateral trading environment and poverty reduction	14
Developing new partnerships	17
Recommendations	17
Strategies for poverty reduction: modalities and policies	18
New partnerships and sources of finance	19
A fair trading environment	19
Enhancing the role of the Economic and Social Council	20
Annex: Countries under the HIPC initiative	21
References	22

Boxes

1. A snapshot of the HIPC initiative	3
2. Macroeconomic stability: the one and only priority?	12
3. The Aid for Trade Initiative and the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries	14

Figures

1.	Debt service-to-export ratio of the countries that reached the decision or completion point of the HIPC Initiative by June 2006, 1998-2009	5
2.	Number and percentage of population below the international poverty line: sub-Sahara and the rest of the developing world and economies in transition, 1990-2004	6
3.	Progress towards selected MDGs in sub-Saharan Africa, 1990-2015	7
4.	Developed countries' average tariffs on imports of key products from developing countries, 1996-2005	15
5.	Agricultural support estimate for OECD countries as a percentage of their gross domestic product, 1993 and 2003	16

Table

1.	Debt indicators of Heavily Indebted Poor Countries (HIPC) before and after reaching the decision point	4
----	--	---

Explanatory Notes

The following abbreviations have been used:

CDP	Committee for Development Policy
DAC	Development Assistance Committee (of the OECD)
ECA	Economic Commission for Africa
GDP	gross domestic product
HIPC	Highly Indebted Poor Country
IDA	International Development Association (of the World Bank)
IEO	Independent Evaluation Office (of the IMF)
IF	Integrated Framework for Trade-Related Technical Assistance to LDCs
IMF	International Monetary Fund
LDCs	least developed countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organization
NPV	net present value
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Papers
SAPs	structural adjustment programmes
TRIPS	trade-related aspects of intellectual property rights
UNCTAD	United Nations Conference on Trade and Development
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Strengthening the international partnership for effective poverty reduction

Introduction

Many of the least developed countries (LDCs),¹ especially those in Africa, are struggling to meet the objective of reducing poverty and hunger as outlined in the first of the Millennium Development Goals (MDGs).² Despite the international commitment to poverty reduction, the present framework for global partnerships towards this goal—the use of Poverty Reduction Strategy Papers (PRSPs) as the main instrument—appears to be neither adequate nor effective. To halve poverty by 2015, the international community needs to improve both the strategic framework and the working partnerships that define the current approach to poverty reduction.

PRSPs were introduced by the World Bank and the International Monetary Fund (IMF) at the end of 1999 as a new approach to poverty reduction that would provide concessional financing to low-income countries and debt relief under the Highly Indebted Poor Country (HIPC) Initiative (World Bank and IMF, 2005). PRSPs aim at achieving the reduction of poverty and hunger and other MDGs through adopting nationally owned, country-driven strategies prepared with the broad-based participation of civil society and by providing the operational basis for the release of debt relief under HIPC, concessional funds by the IMF and the Bank and other financial support by bilateral donors.

Effective national strategies are essential for poverty reduction. These strategies need to be initiated by countries themselves and should be comprehensive in scope and long term in orientation. A major requirement of any effective framework for global partnership is to increase the space for national ownership in designing and implementing development strategies.

As the principles underlying the preparation of PRSPs have been refined over time, efforts have also been directed towards improving the effectiveness of actions

¹ For the current list of countries classified as least developed, see <http://www.un.org/esa/policy/devplan/ldc03list.pdf>.

² See http://unstats.un.org/unsd/mdg/Resources/Static/Products/GAResolutions/55_2/a_res55_2e.pdf.

by the donor community, which has provided, among other things, valuable support for the implementation of PRSPs. In March 2005, international development partners adopted the Paris Declaration on Aid Effectiveness. The Paris Declaration subscribes to the basic operational principles employed in the PRSPs (country-driven, comprehensive, long-term perspective) and defines the principles of harmonization and alignment of aid delivery as the basis for a new framework of mutual accountability. The Declaration was endorsed by Governments of developed and developing countries and by international agencies. Signatories to the Declaration also adopted a set of monitorable actions and indicators intended to provide a framework of mutual accountability.³

While a step in the right direction, the above actions do not appear to be sufficient for arriving at a more effective international partnership for poverty reduction. The Committee for Development Policy (CDP) stresses the importance of increased country ownership in designing poverty reduction strategies and the need to establish aid modalities and other forms of international cooperation to enhance, rather than restrict, governments' room for manoeuvre in conducting national policies in accordance with local conditions and priorities.

Efficacy of PRSPs and their impact on poverty reduction

PRSPs are based on five core principles. They should be

- Country-driven and -owned, and involve the broad-based participation of civil society and the private sector in the formulation and implementation of the strategy and in the monitoring of progress towards agreed goals.
- Results-oriented, focusing on outcomes that would benefit the poor.
- Comprehensive in diagnosing of poverty and in recognizing the multi-dimensional causes of poverty and measures to fight it.
- Partnership-oriented, involving coordinated participation of development partners, such as bilateral and multilateral donors and non-governmental organizations.
- Medium- to long-term in their perspective for reducing poverty and addressing capacity, institutional and governance constraints to development.⁴

³ The statement is available at <http://www1.worldbank.org/harmonization/Paris/FINAL/PARISDECLARATION.pdf>.

⁴ For details, visit <http://www.imf.org/external/np/exr/facts/prsp.htm>.

This approach has been widely adopted and, by mid-2007, 65 countries had prepared PRSPs, 35 of which were in Africa.⁵ PRSPs have thus become the main instrument for developing policies and programmes around which development partners organize themselves. However, so far, the PRSP record in achieving its multiple objectives (debt-relief support, poverty reduction, improving aid effectiveness, promotion of country ownership) indicates that success has been mixed on most of these fronts, as elucidated upon below.

Supporting debt relief

Debt relief for poverty reduction was provided to countries that had reached, or would reach eventually, the completion point of the HIPC Initiative (see box 1): By July 2007, 31 countries were receiving debt relief under the Initiative, with 22 countries having reached the completion point and 9 others the decision point. Another 10 countries had been assessed as having met the income and indebtedness criteria for inclusion, but still had pre-decision status (see annex for the list of HIPCs).

A snapshot of the HIPC Initiative^a

The HIPC Initiative was launched in 1996 to provide debt relief for poor countries holding an unsustainable external debt position. It was further refined in 1999 in order to provide faster and deeper debt relief and to strengthen the links between debt relief and poverty reduction. In 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI), which allows for 100 per cent forgiveness on eligible debt owed to the IMF, the International Development Association (IDA) and the African Development Bank for countries completing the HIPC process.

A country is eligible for debt relief under the HIPC Initiative if (a) its annual income per capita is below a certain threshold for concessional borrowing^b and (b) its external public debt burden indicators are above HIPC thresholds after application of traditional debt-relief mechanisms. These thresholds are (a) 150 per cent of the ratio of the net present value (NPV) of debt to the exports of goods and services or (b) 250 per cent of the ratio of NPV to fiscal revenues. To qualify under the latter criterion, however, a country must also have a ratio of exports of goods and services to gross domestic product (GDP) above 30 per cent and a ratio of fiscal revenue to GDP above 15 per cent.

The *decision point* is the first step for eligible countries to qualify for debt relief. At this point, the country "must have a track record of satisfactory performance under an IMF program, a Poverty Reduction Strategy and an agreed plan to clear any arrears to foreign creditors". At the decision point, countries start receiving debt relief, but creditors maintain the right to revoke such agreement if policy performance is not considered adequate. At the *completion point*, debt relief becomes irrevocable. Countries reach the completion point when they meet the performance goals defined by the IMF programme to which they have subscribed and when they have successfully implemented their PRSP for at least one year.

Box 1:

- a Additional information on the HIPC Initiative can be found at <http://www.world-bank.org/debt> (accessed on 17 August 2007).
- b The income threshold used by the International Development Association (IDA) is the gross national income per capita, which is updated each year. In 2007, it was US\$ 1,025.

⁵ Of the other countries, 12 were in Asia, 7 in Latin America and the Caribbean and 11 in countries with economies in transition.

The process seems to have been an effective vehicle for debt relief. Potential debt relief has been estimated at over US\$ 63 billion in 2005 in net present value (NPV) terms if all creditors participate. Debt burden indicators of the 31 countries already receiving debt relief under the initiative have improved: the ratio of the NPV of debt to GDP has moved closer to the corresponding ratio of other non-HIPC low-income countries, while the ratio of the NPV of debt to exports of goods and services was cut by more than half between 1999 and 2005 (see table 1). In addition, the average debt service-to-export ratio has also declined (see figure 1). While debt relief contributed to lowering the indicators of debt burden, the improved international economic environment of recent years, allowing for increased demand for commodities and higher prices, also played a role. Moreover, it should be noted that because actual debt-service payments have increased since 2003 and are projected to rise during the second half of the present decade owing to, among other factors, new borrowing, the export performance of these countries needs to be robust to maintain the service ratio at the levels projected in figure 1.

Some countries, with their multiplicity of chronic problems—be they conflict, the early stage of post-conflict recovery or simply poor governance—have not yet received any debt relief. The donor community, instead, has tended to focus its external assistance on physical reconstruction and the development or strengthening of governance and overall capacity to engage in general economic activities. In these countries, it is believed, Governments do not yet possess enough capacity to undertake the analytical work necessary to start the debt-relief process under the HIPC Initiative, where they are required to create or strengthen public institutions, undertake civil service reform and enhance the use of local capacity, with the assistance of the donor community (World Bank, Independent Evaluation Group, 2006).

Table 1:

Debt indicators of Heavily Indebted Poor Countries (HIPCs) before and after reaching the decision point^a

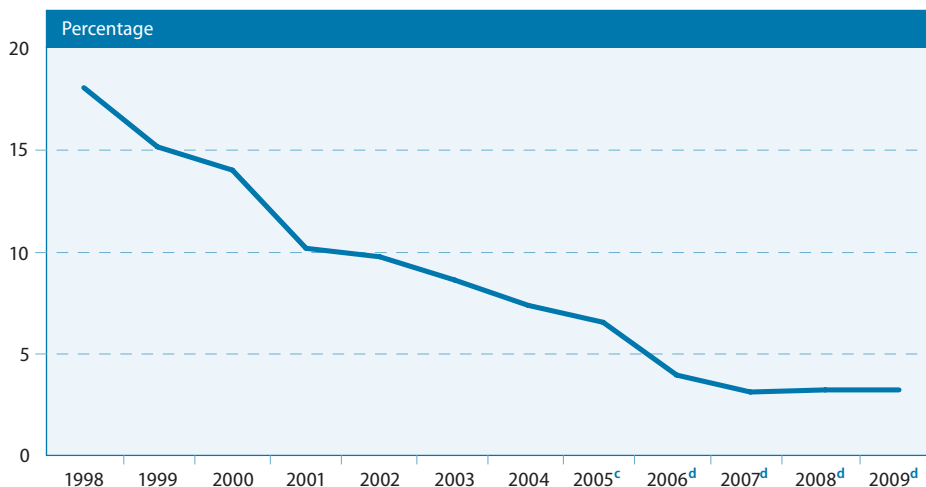
Percentage			
	30 decision-point HIPCs		Non-HIPC low-income countries ^b
	1999	2005	2005
Net present value of debt-to-exports	317	143	81
Net present value of debt-to-gross domestic product	72	33	29

Source: World Bank (2007). HIPCs MIDRI, fact sheet prepared for the Spring Meetings in 2007. Available from http://siteresources.worldbank.org/INDEBTDEPT/Resources/Debt_PocketBroch_Spring07.pdf.

a Weighted averages.

b Low-income countries as defined by the World Bank excluding pre-decision-point HIPCs and low-income countries for which data were not available.

Figure 1.
Debt service-to-export ratio of the countries that reached the decision
or completion point of the HIPC Initiative by June 2006, 1998-2009^{a b}



Source: World Bank, International Development Association and International Monetary Fund (2006).

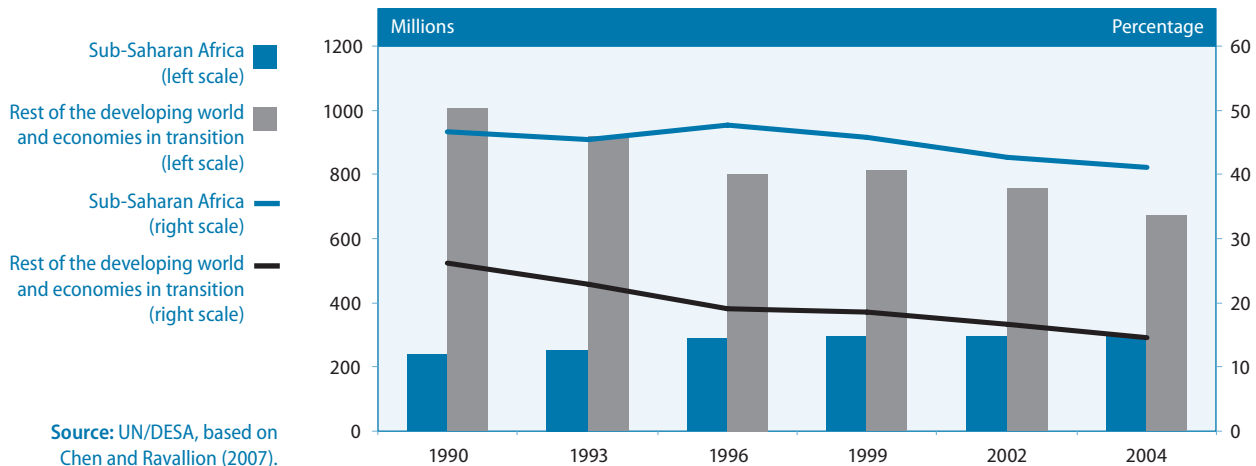
- a** Data refer to the countries listed in the annex to the present Policy Note, excluding Afghanistan and Haiti, which reached the decision point after June 2006.
- b** Excluding Burundi, Congo and the Democratic Republic of the Congo, for which data for early years are not available.
- c** Preliminary.
- d** Projected.

PRSPs and poverty reduction

PRSPs are supposed to define a clear strategy for promoting growth and reducing poverty, including the identification of external financing needs and their sources. Unfortunately, despite such a focus on poverty, they have not led to the substantial poverty reduction originally anticipated.

This holds in particular for sub-Saharan Africa, where most of the PRSPs are concentrated. The proportion of people living on below \$1 a day—the international poverty line—did decrease in sub-Saharan Africa from about 47 per cent in 1990 to 41 per cent in 2004 (figure 2). In absolute terms, however, poverty increased: in 2004 there were 298 million people living on less than \$1 a day, up from 240 million in 1990 (Chen and Ravallion, 2007). Furthermore, other development indicators listed in the MDGs have shown slow improvement or even reversals of previous gains, as illustrated, for instance, by the increasing number of people with tuberculosis. The only exception is the fast increase in the net enrolment ratio of children in primary education. Nonetheless, the region is

Figure 2.
Number and percentage of population below the international poverty line: sub-Saharan Africa and the rest of the developing world and economies in transition, 1990-2004

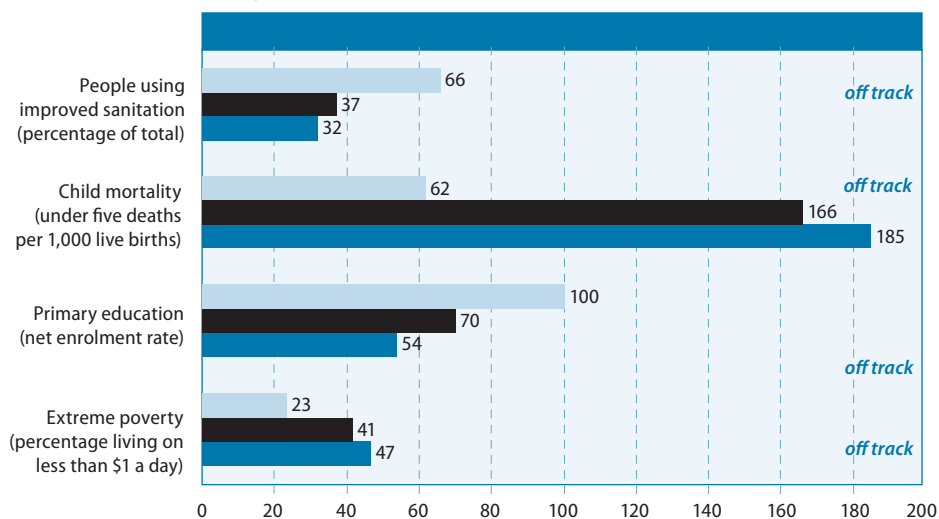


not expected to meet the target of achieving universal primary education by 2015 (see figure 3).⁶

The greatest improvements in poverty reduction have been achieved in countries with well-defined national development strategies. Investment-driven and labour-intensive economic growth has been responsible for substantial poverty reduction in countries such as China, India, Malaysia, Viet Nam and other countries in the Asian region. Based on these experiences, it is possible to argue that an international partnership to support poverty reduction needs to promote national strategies such as those adopted in those countries and which were developed by the countries themselves, taking into account local conditions and national priorities. A new international partnership to support poverty reduction needs to abandon restrictive conditionality (associated with the macropolicy conditions of existing PRSPs) and expand the scope for policy choice. This involves a reform of the process to secure true national ownership, as agreed in the Paris Declaration.

⁶ United Nations (2007a) documents progress reports by region for each MDG indicator and is available from <http://www.un.org/millenniumgoals/pdf/mdg2007.pdf>.

Figure 3.
Progress towards selected MDGs in sub-Saharan Africa, 1990-2015



Legend:
■ Target 2015
■ 2005
■ 1990

Source: UN/DESA.

Notes:

“Off track” indicates that the MDG target will not be met if the linear trend projected from 1990 continues.

For primary education, the 1990 rate refers to 1991.

For extreme poverty, the 2005 rate refers to 2004.

Official development assistance: improving harmonization and alignment of aid practices

Country experiences reveal that the effectiveness of aid depends critically on the degree to which programmes financed with external assistance are in line with the development objectives of receiving countries. A growing number of donor countries are already collaborating on the harmonization and alignment of aid actions to implement policies and interventions specified in the PRSPs in several recipient countries. Burkina Faso, Ghana, Mozambique, Uganda and the United Republic of Tanzania are cases in point (World Bank, 2007). In these countries, donors and recipient Governments are taking actions in areas such as the collaborative assistance strategy, the common performance assessment framework and coordinated budget support. Some progress in aid harmonization and alignment has been reported in other HIPCs, but it has not been as broad as in the case of the five countries mentioned above.

Although it may be still too early to pass judgement, preliminary findings on the harmonization and alignment of aid practices have shown that there are a number of challenges that donors still need to address. The proliferation of channels through which donors provide official development assistance (ODA) to a recipient country and the fragmentation of donor-funded activities are still a problem, while the average dollar value of projects has decreased (World Bank, International Development Association, 2007).

Reducing transaction costs

The proliferation of donors has added pressure on the scarce institutional and managerial resources of recipient countries and increased the administrative and financial costs associated with aid transfers. Improved aid harmonization and alignment among donor country policies are therefore required in order to reduce these transaction costs.

According to the Organization for Economic Cooperation and Development (OECD), there are about 200 bilateral and multilateral organizations providing ODA. Some countries have reported dealing with more than 40 official donors assisting in over 600 projects a year (OECD, 2007). The PRSP framework has provided incentives to donors to improve coordination both among themselves, and between them and the receiving countries. It is not clear, however, if the PRSP process has effectively reduced the transaction costs of international aid. In many cases, the development of PRSPs has led to the creation of fairly complex negotiating and monitoring structures which are often beyond the technical and personnel resources available in recipient countries.

As mentioned above, the Paris Declaration adopted a set of targets to keep track of progress towards the principles of ownership, alignment, harmonization, managing for results and mutual accountability.⁷ The first monitoring report conducted by the OECD in 2006 was based on surveys in 34 countries representing 37 per cent of the value of programmed aid in 2005. It indicates that the donor community still has considerable room to improve aid harmonization and alignment. On average, less than 40 per cent of aid flows is channelled through the budget management and procurement systems of the receiving country. The remainder comes with administrative procedures defined by donors, thus contributing to high transaction costs of aid management. Developing countries are required to use administrative procedures defined by a large array of different donors and to coordinate a large number of project implementation units. In addition, only 5 out of the 34 countries (17 per cent of the sample) were found to have national development strategies that clearly specify the domestic and external sources of finance available for their implementation. In the majority of countries, a common problem was the missing link between policy priorities and budgeting (OECD, 2007).

Volatility of ODA flows

In many instances, the effectiveness of international aid is severely constrained by the unpredictability and large variability of disbursements. Countries cannot plan or undertake longer-term investments (such as those in infrastructure development and other pro-

⁷ OECD/DAC members, partner countries and multilateral institutions met twice, in May and July 2005, to adopt targets for the twelve Indicators of Progress that are part of the Paris Declaration. Additional information may be found at http://www.oecd.org/department/0,3335,en_2649_15577209_1_1_1_1_1,00.html.

grammes and projects of longer maturity) if aid flows are not predictable. Similarly, macroeconomic stability can be compromised if aid flows are delivered with large fluctuations. The unpredictability of aid flows is still a problem and there is no indication that the PRSP process has helped to incorporate external aid into multi-annual budget projections.

Improving absorptive capacity of recipient countries

Another issue that requires attention is the absorptive capacity of the recipient country. After a certain point, the impact of external aid is reduced if countries lack the institutional capacity to absorb additional resources. While there is no consensus on the level of the threshold, it is widely accepted that, beyond a certain point, external aid needs to be accompanied by additional assistance to increase the absorptive capacity of recipient countries (O’Connell and Soludo, 2001).

National policies: broader participation and consultation

Another PRSP objective, building country-driven development strategies to reduce poverty and hunger, with appropriate consultation of local agents, does not appear to have been effectively achieved either. The strong influence of donors over the programme is evidenced by the content of the PRSPs. Various studies on completed PRSPs showed no fundamental departure from the kind of economic policy advice provided under the structural adjustment programmes (SAP) of the past (Stewart and Wang, 2005). Despite showing a greater orientation towards designing and implementing social policies, the PRSPs have retained many of the elements of the earlier SAPs, such as financial and trade liberalization, privatization, public sector reform and sectoral policies, as well as the maintenance of current account and fiscal balances consistent with lower debt levels (Ames and others, 2002; Vos and Cabezas, 2005).

The lack of visible progress towards developing country-driven strategies is largely due to three aspects of the PRSP process: (a) the international donor community tends to be too heavily involved in preparing documents and organizing consultation processes; (b) donor funds are released with implicit conditionalities and, consequently, recipient countries tend to anticipate these conditionalities and mould proposals to what the donors “want to hear”; and, (c) the IMF contribution to PRSP financing (via the Poverty Reduction and Growth Facility (PRGF)) involves strict macroeconomic policy conditions similar to those of earlier structural adjustment programmes—that is to say, there is a heavy emphasis on fiscal balance and inflation, often leading to or accentuating other macroeconomic disequilibria through higher interest rates, an overvalued exchange rate and depressed demand. (For critical views on the impact of conditionality, see, for example, International Monetary Fund, Independent Evaluation Office (2007) and Center for Global Development (2007).)

The programming exercise involved in the PRSP is a demanding technical undertaking, led by donors, often elaborated upon by external consultants and involving the creation of ad hoc structures funded by donors. In many countries, the PRSP is not part of the regular practices of public policy programming and decision-making. The technical level at which the PRSP is defined is frequently dissociated from the political decision-making process. In fact, there is often a considerable gap between the technical characteristics of the reform plans that are designed to improve development results and the political and institutional context in which these reforms must be implemented. Moreover, consultations associated with the PRSP process often exclude the participation of representative institutions—parliaments and labour unions—thereby undermining their strength. The excessive donor presence does not help reduce aid dependency and, in the end, the accountability of the recipient Government seems to be geared towards the donors, rather than towards its citizens (Mfunwa, 2006). Finally, the PRSPs appear to be overly ambitious, often trying to address too many issues at once. Pressure on recipient countries has compromised their capacity to design policies and initiate reforms according to their own political and managerial procedures, with national Governments assuming the leading role.

On the whole, the dominant modality for an international partnership for poverty reduction has not been effective in ensuring that countries remain on track to meet the goal of poverty and hunger reduction as outlined in the Millennium Declaration. True national ownership has not been secured in many instances, and strategies have not been tailored to the unique circumstances of the particular country. In some cases, countries have not exercised the freedom they do possess over policy-making, while in many other instances, restrictive conditionalities on macroeconomic policies have limited the scope for policy choice. As a result, the range of adopted policies aimed at poverty reduction has been rather limited.

The global partnership

The CDP recognizes that an effective global partnership should be the organizing principle for development assistance for achieving the MDGs and other internationally agreed goals. Fulfilling these goals requires increased space for policy choices through (a) a reduction and transformation in the policy conditionality associated with external financial support, making it pro-growth and development, (b) assisting recipient countries to make the most effective use of the policy choices they have, and (c) diversifying sources of finance. Additionally, the trading system needs to be made more conducive to sustained growth and poverty reduction.

The development of national strategies for poverty reduction requires national accountability and national capacity. Such strategies should be developed through fully accountable democratic systems; the establishment of such accountability is itself a process to be developed and improved upon along with other changes. Reforms of legal, education and health systems, and governance structures at the national and local levels should be made in a way that strengthens the capacity of the country to develop national development strategies, restructure the domestic economy and deal effectively with development partners.

National policy space

The achievement of sustainable growth and poverty reduction requires countries to have the requisite national policy space for choosing from a range of domestic policies in accordance with their economic, social and cultural conditions. In fact, PRSPs have been relatively successful in countries—such as Viet Nam—that have strong State leadership with a clear focus on development results, and managerial capacity. In these cases, Governments assume leadership over the process and provide leadership to external donors, and the nationally owned PRSP becomes, in reality, an effective instrument for donor coordination. Thus, a fundamental principle of the PRSP should be to enhance the national policy space by aligning the modalities of the international partnership with truly national strategies. The latter would imply that countries initiate and develop these strategies, while donors play a more passive yet supportive role.

Development partners need to ensure that recipient countries have the space and freedom to choose from different sets of policies that are tailored to their needs and institutional context. Experiences around the world show that a broad range of policies can contribute to poverty reduction, and their flexibility needs to be exercised in assembling the appropriate policy package. These policies include not only sectoral interventions favouring health, education and infrastructure for the poor, but also responsible counter-cyclical macroeconomic policies geared towards sustainable growth. In particular, it is important to ensure that monetary and fiscal benchmarks agreed upon between donors and recipient countries do not lead to the enforced sterilization of available aid and domestic resources based on narrow considerations of macroeconomic stability, or bar the recipient's access to foreign borrowing for trade or productive investments on mechanical considerations of debt sustainability (see box 2).

Pro-poor, pro-growth policies also need to include measures that create employment and encourage economic diversification as well as promote distributive policies that broaden access by the poor, and especially by women, to productive assets, such as land and credit (United Nations, 2006). Outcomes need to be sustained in the long term and should not be geared to ensuring immediate relief from adverse conditions. In this

Box 2:**Macroeconomic stability: the one and only priority?**

The Independent Evaluation Office (IEO) of the IMF has recently completed an evaluation of IMF programmes in sub-Saharan Africa to address the criticisms raised with respect to the use of an overly conservative position on macroeconomic stability that is blocking the use of available aid to the region. Critics claim that such a narrow perspective has constrained the space of fiscal policy to invest in programmes that would contribute to the reduction of poverty.

The evaluation, which covered IMF programmes in 29 sub-Saharan African countries during the period 1999-2005, lends support to the criticism raised. "The evaluation's empirical analysis finds that country conditions, as proxied by the level of international reserves, are the main determinants of whether and to what extent the Poverty Reduction and Growth Facilities (PRGFs) permit the absorption of incremental aid" (International Monetary Fund, Independent Evaluation Office, 2007, p. 7). Around 37 per cent of ODA to sub-Saharan Africa was, on average, used to build up international reserves. In countries where the level of reserves was below 2.5 months of imports, however, virtually all ODA was used to build up reserves.

Furthermore, "the empirical analysis finds that country macroeconomic conditions, as proxied by the inflation rate, are the main determinant of whether and to what extent PRGFs permit the spending of incremental aid" (International Monetary Fund, Independent Evaluation Office, 2007, p. 9). Countries with sufficient international reserves but annual inflation rates above 5 per cent did not use their anticipated increase in aid to raise government expenditures. In countries where inflation was more than 5 per cent a year, only 15 per cent of additional anticipated aid translated into net fiscal expansion, the remaining 85 per cent being programmed to reduce domestic public debt. Countries with a high level of international reserves and an inflation rate below 5 per cent were able to programme spending of as much as 79 per cent of anticipated aid. On average, countries with high levels of international reserves in 1999-2005 were able to programme 28 per cent of anticipated aid into higher government expenditures and keep the remaining 72 per cent for domestic public debt reduction.

Source: International Monetary Fund, Independent Evaluation Office, 2007.

regard, poverty reduction strategies need to approach social expenditures as investments in the improved productivity of the poor. Thus, there is also a need to establish and build the necessary institutional links between social sector expenditures and productive activities.

Poverty reduction is not only about improving the incomes of the poor but also about building human capabilities for sustained improvement in welfare, human dignity and empowerment. Long-term investment in institutional development should be an important part of poverty-reducing strategies. This would include legislation for transparency, improved conditions for all to exert their rights and duties as citizens, along with actions aimed at empowering the poor through support for the formation of associations and organizations aimed at their increased participation in cultural and political life. Finally, in view of the critical threat of global warming, policies geared towards poverty reduction should systematically take this factor into account as well, in order to design effective and sustainable strategies. This is a new area in which more research is needed to assist countries in designing appropriate strategies, instruments, technologies and global partnerships (United Nations, 2007b).

Financing development

While a large part of the efforts to reduce poverty and meet internationally agreed goals lies in domestic policies, complementary processes and mechanisms at the international level are necessary to support developing countries in their efforts to meet such targets. Both development assistance and private investment must increase if countries are to achieve the internationally agreed development goals. For instance, the Economic Commission for Africa (ECA) has indicated that African countries need to sustain economic growth of at least 7 per cent to achieve the MDGs (ECA, 1999), the same growth target adopted by the New Partnership for Africa's Development (NEPAD). While higher commodity prices and increased international demand have contributed to a better growth performance by African countries in recent years, sustaining faster rates of growth will require significant increases in domestic investment, based both on enhanced external financing and strengthened domestic resource mobilization, as envisaged in the Monterrey Consensus of the International Conference on Financing for Development.

Diversification of external financing sources is likely to enhance a country's policy freedom. Such diversification is developing with the emergence of new aid donors, such as Brazil, China, India, Turkey and the Republic of Korea, as well as larger resource inflows from regional development banks and private investment, and with the effective use of remittances, all of which can provide substantial additional resources. Additionally, new international partnerships among developed and developing countries and multi-lateral organizations could be further explored. The Action against Hunger and Poverty, initiated by Algeria, Brazil, Chile, France, Germany, South Africa, Spain and the United Nations to identify innovative mechanisms to facilitate the implementation of the MDGs, is a case in point.⁸

Increased participation of developing countries in international trade could also provide them with additional resources for financing development. Nonetheless, the rapid trade liberalization by developing countries has led to a significant loss of fiscal revenues, while existing supply constraints have prevented many of them from benefiting more fully from global trade. In this regard, the Aid for Trade Initiative and the Enhanced Integrated Framework for Trade-Related Technical Assistance to LDCs (see box 3), if properly funded and not imposing additional conditionalities, have an important role to play in assisting low-income countries and LDCs in removing supply constraints and building their export capacity. The donor community should provide the necessary funding to start up the process to assist recipient countries in benefiting from trade (United Nations, 2007c).

⁸ One of the group's proposals was the introduction of a solidarity levy on international air flights whose proceeds are used to finance an international drug purchase facility located within the WHO. A total of 35 countries have committed their support to this pilot project, while Chile and France have already introduced the new boarding tax earmarked for this initiative.

Box 3:**The Aid for Trade Initiative and the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries**

Without additional resources to build their export sectors, many developing countries are not in a position to benefit from international trade. During the United Nations 2005 World Summit, Governments around the world recognized the need to provide additional resources to help poor countries strengthen their productive capacity, infrastructure, technology and skills to build their export sectors.

Since the adoption of the Aid for Trade Initiative by the World Trade Organization (WTO) in February 2006, Japan, the United States and the European Union, among others, have committed resources for trade-related development. Six categories of trade-related development priorities have been identified for consideration under the Initiative: (a) trade policy and regulation, (b) trade development, (c) trade-related infrastructure, (d) building of productive capacity, (e) trade-related adjustment, and (f) other trade-related needs.

The Aid for Trade Initiative may be an important instrument in extending the benefits of trade to developing countries, provided that resources committed to this Initiative are an addition to (rather than a substitute for) currently available ODA and other development assistance. Its effectiveness will also depend on the successful completion of the Doha Round of multilateral trade negotiations and the extent to which project development and implementation respects the principle of country ownership in order to give countries the policy space to use the additional resources according to their own national priorities.

The Integrated Framework for Trade-Related Technical Assistance to LDCs (IF) has been in existence since 1997 and was enhanced in July 2006. Among the new features of the IF enhancement are: (a) additional funding amounting to \$400 million for a period of 5 years; (b) country ownership; and (c) the establishment of an independent IF executive secretariat, administratively housed in WTO.

Source: United Nations, 2007c.

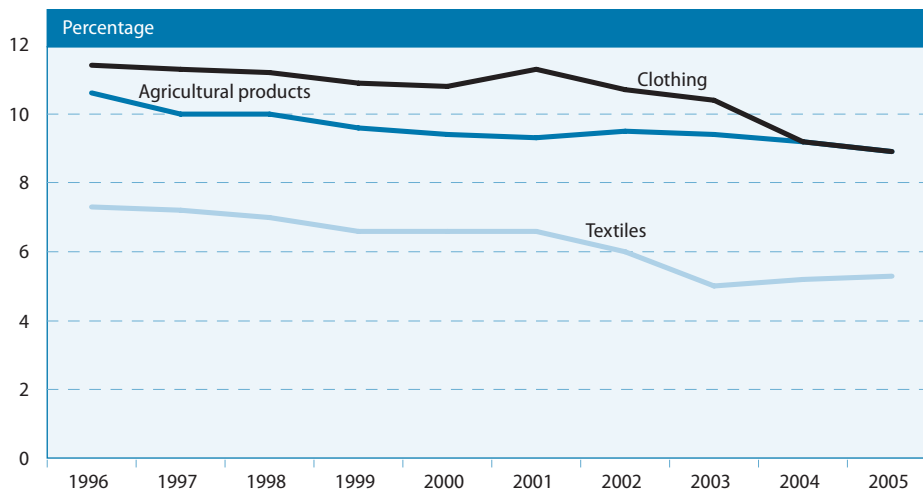
The multilateral trading environment and poverty reduction

Millennium Development Goal 8 recognizes the importance of achieving an open and fair multilateral trading system for eliminating poverty and achieving other MDGs. The international community needs to ensure that negotiations of the Doha Round of the World Trade Organization (WTO) are consistent with poverty reduction objectives—resulting in a true development round—and that the international trading regime does not conflict with development objectives and development cooperation priorities. Reforms in several trade areas are required to reduce the existing asymmetries in the rules of the system (UNCTAD, 2006).

Among the most significant problems are the distortions in global agricultural trade and production, owing to the fact that developed countries maintain high tariff and

non-tariff barriers on selected agricultural products. Average tariffs applied to clothing and textiles have declined somewhat in recent years (see figure 4), but average tariffs mask the problems of tariff peaks and tariff dispersion that still affect developing countries' exports. In addition, existing tariff schedules—in both developing and developed countries—tend to penalize products containing higher value added, thus constraining the emergence of those economic activities that offer faster growth potential.

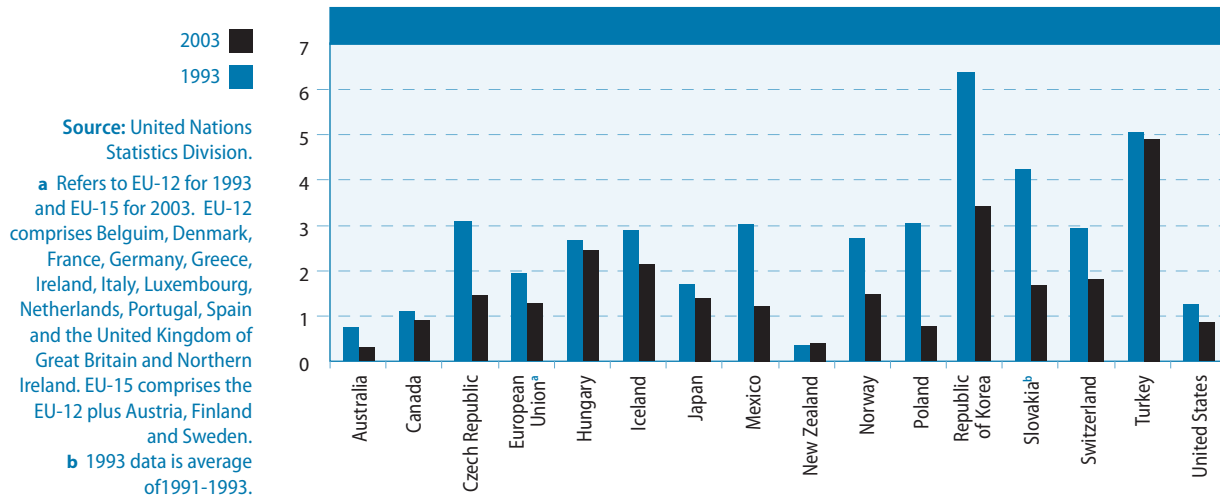
Figure 4.
Developed countries' average tariffs on imports of
key products from developing countries, 1996-2005



Source: International Trade Centre, UNCTAD and WTO.

At the same time, developed countries maintain high export subsidies and domestic support for their own domestic producers (see figure 5). Agricultural subsidies in developed countries lower farm income in developing countries and contribute to increasing the incidence of poverty in several ways: (a) by reducing the prospects of developing country producers' gaining access to developed country markets; (b) by preventing developing country producers from selling their products in third markets; and (c) by adversely affecting developing country producers in their own domestic markets as they face competition from subsidized imports from developed countries. Cotton producers in many countries in Africa, for example, have been unable to obtain their fair share of the global cotton market, largely because subsidies in developed countries enable their domestic producers to sell cotton at lower prices. The ability of cotton producers in Africa to increase their incomes has thus been hindered. The displacement of poultry farmers in West Africa and in the Caribbean by cheaper poultry imports from Western Europe and the United States is another case in point.

Figure 5.
Agricultural support estimate for OECD countries as a percentage of their gross domestic product, 1993 and 2003



At the Sixth Ministerial Conference of the WTO in Hong Kong Special Administrative Region (SAR) of China in December 2005, Ministers agreed to eliminate agricultural export subsidies by the end of 2013—a positive and welcome development. It is also important, however, that domestic agricultural support in developed countries be effectively and significantly reduced, with the adoption of a road map towards its elimination. In the past, WTO agreements on agriculture had loopholes in that countries were obliged to reduce certain types of subsidies, whilst there were no decisions on other categories. In addition, the use of peak years as the benchmarks for the reduction of agricultural support effectively limited the extent of commitments made by developed countries during previous rounds of multilateral trade liberalization. A successful completion of the Doha Round thus requires a real reduction or elimination of domestic support, without any exceptions and with credible and effective benchmarks.

The implementation of the trade-related aspects of intellectual property rights (TRIPS) rules of the WTO as well as intellectual property rights provisions have also adversely affected developing countries in some cases. Moreover, the provisions of intellectual property rights in some bilateral agreements between developed and developing countries go well beyond commitments agreed at the multilateral level, further constraining the policy space of developing countries (United Nations, 2006). TRIPS has implied potentially higher prices and reduced access to some goods. Medicines are a case in point, presenting a source of significant difficulties for countries confronting acute health crises. Although some flexibility has been introduced with the adoption of the 2005 decision on

the amendment to the TRIPS Agreement, the eligibility process remains complex.⁹ In addition, TRIPS does not provide enough protection to traditional knowledge and folklore, thereby failing to mitigate the increasingly recognized problem of “bio-piracy”, that is to say, the misappropriation of legal rights over indigenous biological resources and the traditional knowledge associated with these resources in developing countries. Thus, reforms need to be introduced into the current trade-related intellectual property rights regime to correct these problems and render it more development friendly.

Developing new partnerships

Alongside reshaping international partnerships, within-country partnerships are also important. Countries have a responsibility to build more effective internal partnerships between Government and civil society, thereby strengthening the legitimacy of national policy and empowering their dealings with international partners. Migrant workers from developing countries may also prove to be effective partners in the development process, not only in terms of providing remittances, but also as a source of investment and technical and management expertise. In many cases, they also have established civil society organizations that contribute to improving social and economic welfare.

Another form of new partnership that may need to be explored is that between Governments of developing countries and civil society groups in developed countries. Such a strategically forged partnership could come into play in a range of contexts, such as monitoring the dumping of toxic wastes or locating more pollution-prone factories in developing countries.

Recommendations

Progress has been made towards developing a global partnership in support of national strategies for poverty reduction. PRSPs have made some contribution to improving aid effectiveness by unifying donors in support of poverty eradication and by accelerating the release of HIPC funds. At the same time, the process has shown limitations, especially in two areas. First, it has not helped the recipients in strengthening national ownership in the design and implementation of development strategies. Second, the conditionalities associated with the process have restricted the range of policies designed to enhance pro-

⁹ As of August 2007, only one country (Rwanda) had notified WTO that it would be making use of the decision, which allows countries without pharmaceutical manufacturing capacity and facing public health problems to import cheaper generic drugs made under compulsory licensing elsewhere.

poor and sustainable growth. Hence, further improvements are needed if the global commitment to poverty reduction is to produce more tangible and sustained results. Areas in which action is therefore recommended are outlined below.

Strategies for poverty reduction: modalities and policies

An improved framework for international partnership for poverty reduction needs to be developed, as the present one has not been effective in meeting Goal 1 of MDGs in poor countries. In this regard, the international community needs to increase the space given to national decision-makers in Government for designing and implementing development programmes. At the same time, in order to promote truly national strategies, countries should put forward their own proposals for policies and present them to the international community. In designing these policies, countries may seek assistance, as needed, from a variety of experts, including those in other developing countries.

It is also important that recipient and donor countries agree on strategic commitments—which should be broadly defined—while leaving full control over the policy instruments to the recipient. In this regard, exchanges of experiences among developing countries in terms of lessons learnt and identification of effective practices and approaches would be useful for improving the capacity of countries to engage development partners more productively.

Developing countries should also consider the adoption of a package of policies for poverty reduction that could include, among other things, growth and employment promotion, the facilitation of increased access to productive assets, and the extension of basic services and infrastructure, with a focus on improving the productivity and incomes of the poor. Additionally, emphasis should be placed on promoting greater diversification of a country's productive structure away from dependency on commodity production, increasing the level of value-added processing and promoting dynamic linkages across the various economic sectors. The international community, in turn, needs to ensure that domestic efforts are not undermined by a constraining international policy environment or trade barriers.

Given its critical threat, policies towards poverty reduction should systematically take global warming into account. Thus, efforts are required to identify and implement climate-friendly pro-poor policies. There is also a need to develop and finance adaptive policies in vulnerable low-income economies.

New partnerships and sources of finance

It is recommended that countries seek a greater diversity of sources of financial resources and develop partnerships with new donors, the private sector and NGOs. Innovative sources of financing could be developed through partnerships between developed and developing countries. Also important is renewed international cooperation for combating tax evasion and capital flight. Moreover, new partnerships with overseas residents could also be forged to turn the brain drain into a gain through the use of remittances and skills in a way that would increase investments and improve public services in the source country. For example, the transfer of remittances through formal mechanisms such as the banking system should be facilitated, thereby increasing the sources of capital available for investment and working capital.

Additional efforts are needed to further improve the effectiveness of aid through better alignment with country-driven strategies, enhanced coordination and, above all, greater predictability of aid flows through multi-year commitments.

A fair trading environment

As part of a global partnership for development, considerably stronger efforts must be made by all concerned to reform the rules and workings of the trading system and the institutions whose policies have a bearing on trade. In particular:

- In agriculture, there must be a rapid reduction and eventual elimination of export subsidies and domestic support (with disciplines placed on all forms of support that in reality distort production and trade in developed countries).
- Further trade liberalization needs to be planned in such a way that it does not result in over-rapid or wrongly phased import liberalization which would threaten the viability of local farms and firms and reduce employment.
- Developed countries should do more to provide market access to developing countries in sectors and products that are of export interest or comparative advantage to the latter.
- Intellectual property rules at the WTO, the World Intellectual Property Organization (WIPO) and other agencies should be reviewed and improved to make them more pro-development and, in particular, to ensure flexibilities that enable access to affordable medicines; to promote technology transfer and upgrading in developing countries; and to discourage or prevent misappropriations of biological resources and associated traditional knowledge.

- Bilateral and regional trade agreements and economic partnership agreements should be pro-development and enhance benefits to developing countries, whilst neither restricting their policy space nor eroding the development flexibilities available in the multilateral trading system.

Enhancing the role of the Economic and Social Council

The Economic and Social Council can play a leading role in fostering the development of nationally owned poverty-reduction strategies and in providing more policy space to that end. In this regard, the Economic and Social Council could further facilitate dialogue among its Member States, and between them and the IMF and World Bank, on the best ways of improving the existing PRSPs or poverty reduction strategies in general.

The special high-level meetings that the Economic and Social Council conducts annually with the international financial and trade institutions, as well as its recently established Development Cooperation Forum, should provide additional opportunity to promote an exchange of ideas on how best to improve the existing international partnership for poverty reduction. On these occasions, participants should also examine the possibilities of initiating alternative processes that strengthen national initiatives for building and implementing effective poverty reduction strategies and enhance true ownership of such strategies by recipient countries.

The dialogue should include not only low-income countries but also middle-income countries, including those which have been successful in reducing poverty. Through this process, the Council would encourage the strengthening of recipient country capacity to undertake its own poverty reduction policies. Furthermore, the Development Cooperation Forum could closely monitor the fulfilment of the commitments endorsed by the Paris Declaration on Aid Effectiveness as a means to improve the framework for international partnership, while leaving greater policy space for developing countries within a framework of mutual accountability.

Annex

Countries under the HIPC Initiative

<i>Countries that have reached completion point</i>	<i>Countries that have reached decision point</i>	<i>Countries that have reached pre-decision point</i>
Benin	Afghanistan	Central African Republic
Bolivia	Burundi	Comoros
Burkina Faso	Chad	Côte d'Ivoire
Cameroon	Congo	Eritrea
Ethiopia	Democratic Republic of the Congo	Kyrgyzstan
Ghana	Gambia	Liberia
Guyana	Guinea	Nepal
Honduras	Guinea-Bissau	Somalia
Madagascar	Haiti	Sudan
Malawi		Togo
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Sao Tome and Principe		
Senegal		
Sierra Leone		
Uganda		
United Republic of Tanzania		
Zambia		

Source: World Bank, available from <http://go.worldbank.org/KNZR2IIQG0> (accessed 10 September 2007).

References

- Acharya, Arnab, Ana Fuzzo de Lima and Mick Moore (2004). Aid proliferation: how responsible are the donors? IDS Working Paper, No. 214. January. Sussex, England: Institute of Development Studies.
- Ames, Brian, and others (2002). Macroeconomic issues. In *A Sourcebook for Poverty Reduction Strategies*, vol. 2, Jeni Klugman, ed. Washington, D.C.: World Bank. Also available from http://povlibrary.worldbank.org/files/3360_chap12.pdf.
- Center for Global Development (2007). Does the IMF constrain health spending in poor countries? Evidence and an agenda for action. Report of the Working Group on IMF Programs and Health Spending. Washington, D.C.: Center for Global Development.
- Chen, Shaohua, and Martin Ravallion (2007). Absolute poverty measures for the developing world, 1981—2004. World Bank Policy Research Working Paper, No. 4211. April. Available from http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2007/04/16/000016406_20070416104010/Rendered/PDF/wps4211.pdf.
- Economic Commission for Africa (1999). *Economic Report on Africa 1999: The Challenges of Poverty Reduction and Sustainability*. Sales No. E.99.II.K.4.
- International Monetary Fund, Independent Evaluation Office (2007). The IMF and aid to Sub-Saharan Africa: evaluation report. Washington, D.C.: International Monetary Fund. March.
- Mfunwa, Mzwanele G. (2006). Strengthening internal accountability in the context of programme-based approaches in sub-Saharan Africa. Discussion Paper, No. 4/2006. March. Bonn, Germany: German Development Institute.
- O’Connell, Stephen A., and Charles C. Soludo (2001). Aid intensity in Africa. *World Development*, vol. 29, issue 9, pp. 1527-1552.
- Organization for Economic Co-operation and Development (2007). *2006 Survey on monitoring the Paris Declaration: Overview of the results*. Paris: Organization for Economic Co-operation and Development.
- Stewart, Frances, and Michael Wang (2005). Poverty reduction strategy papers within the human rights perspective. In *Human Rights and Development: Towards Mutual Reinforcement*, Philip Alston and Mary Robinson, eds. New York: Oxford University Press.
- United Nations (2005). *The Millennium Development Goals Report 2005*. Sales No. E.05.I.16. New York: United Nations.

- _____ (2006). *World Economic and Social Survey 2006: Diverging Growth and Development*. Sales No. E.06.II.C.1. New York: United Nations.
- _____ (2007a). *The Millennium Development Goals Report 2007*. Sales No. E.07.I.15. New York: United Nations.
- _____ (2007b). *The International Development Agenda and the Climate Change Challenge*. Committee for Development Policy. Policy Note. Sales No. E.07.II.A.7. New York: United Nations.
- _____ (2007c). *World Economic Situation and Prospects 2007*. Sales No. E.07.II.C.2. New York: United Nations.
- United Nations Conference on Trade and Development (2006). *Trade and Development Report 2006: Global partnership and national policies for development*. Sales No. E.06.II.D.6.
- Vos, Rob, and Maritza Cabezas (2005). Illusions and disillusion with pro-poor growth: Poverty reduction strategies in Bolivia, Honduras and Nicaragua. SIDA Studies, No. 17. Stockholm: Swedish International Development Cooperation Agency.
- World Bank (2007). *Global Monitoring Report 2007: Confronting the Challenges of Gender Equality and Fragile States*. Washington, D.C.: World Bank.
- _____, International Development Association (2007). Aid architecture: an overview of the main trends in official development assistance flows. Washington, D.C.: World Bank. February.
- _____ and International Monetary Fund (2006). Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative—Status of Implementation. August.
- _____, Independent Evaluation Group (2006). *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress*. Washington, D.C.: World Bank.
- _____ and International Monetary Fund (2005). 2005 review of the poverty reduction strategy approach: balancing accountabilities and scaling up results. Available from http://siteresources.worldbank.org/INTPRS1/Resources/PRSP-Review/2005_Review_Final.pdf.

