

## Towards National Public Expenditure Strategies for Poverty Reduction

John Healey, Mick Foster, Andy Norton, and David Booth

*This series of Poverty Briefings aims to provide up-to-date insights on the issue of poverty, including the state of current understanding or opinion. Each paper covers new as well as old thinking on the issue, areas of debate, new approaches which are being tried, the options available, and the recent findings of research and experience.*

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*The authors of this paper are*

*Research Fellows at ODI. To*

*contact them, email John*

*Healey (j.healey@odi.org.uk).*

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### The picture in brief

- The 1990s witnessed many blueprints for pro-poor strategies. By the year 2000 the emphasis has shifted towards governmental and broad civil society processes likely to encourage the domestic emergence and local ownership of such strategies.
- Participatory processes build ownership and effective policies. Widespread dissemination of information helps poverty concerns to become part of mainstream debates on policies and spending. Special efforts are needed to gather and disseminate the perceptions of poor people and to inform them of their rights.
- Medium-term public spending plans which actually influence annual budgets can incorporate poverty reduction priorities especially if the processes are transparent and accountable. Elected Assemblies and domestic interest groups should scrutinise plans and budgets more effectively. Disciplined budgetary processes and more outcome-oriented programming can assist a more pro-poor orientation. Good diagnosis of the nature and causes of poverty by the administration should feed directly into the design of programmes.
- Implementation of public spending should be more effectively monitored to ensure that it actually achieves the intended outputs and there should be checks that public services actually reach the intended beneficiaries.
- Such institutional changes are only just beginning in sub-Saharan Africa but there are some promising and important initiatives in individual countries like Uganda, Ghana and Mozambique.
- The Highly Indebted Poor Country (HIPC) initiative II to link debt relief to a national poverty reduction framework is giving some impetus to this re-orientation.

### Some challenges for External Funders

- To encourage accountability for national spending priorities to domestic constituencies rather than to themselves.
- To help to find mechanisms for empowering the poor directly or indirectly.
- To set realistic standards for institutional and policy change when judging acceptable performance for offering debt reduction under the HIPC agreement.
- To help work out ways in which public spending and service provision can more effectively be converted into desired poverty reduction outcomes (e.g. reduced infant mortality or improved health or education among the poorest groups).
- To help increase public expenditure on poverty objectives consistent with macro-economic stability through external provision of more predictable, medium-term financial support for domestic budgets.

## I. Recent developments

The year 2000 marks a transformation in efforts to implement national poverty reduction strategies. The main stimulus has come from without rather than from within the developing world, especially with major initiatives like the OECD's agreed strategy (1996), *Shaping the 21<sup>st</sup> Century: the Contribution of Development Cooperation* with its International Development Targets focused on social and poverty reduction issues. The World Bank's *World Development Report: Attacking Poverty* and the Development Assistance Committee (DAC) Guidelines to re-orient members' poverty reduction efforts are now awaited. Of crucial importance in terms of realising these visions has been the Highly Indebted Poor Country (HIPC) Initiative II launched at the G7 Summit in Berlin in mid-1999. This made debt relief conditional on the formulation of a poverty reduction framework diagnosing the domestic poverty situation plus policies and budgets to address it, and has been followed by a range of proposed actions by the World Bank and the IMF to help meet this objective.

Development thinking in the 1990s tended to prescribe the content of such poverty reduction strategies in rather general terms: e.g. the poor are largely rural, so invest in rural areas, and /or invest in human capital, and provide safety nets especially for the poor. While certainly not faulty, these approaches were short on the 'political economy' dimension. They bypassed questions like 'what needs to be done in order that national policy and expenditure priorities should take a more pro-poor direction?'

The perceptions of the development cooperation agencies and the international financial institutions have evolved in recent years. As their poverty reduction goals have become more serious, they have come to recognise that external conditionality is not a very effective tool for persuading governments to adopt policies of which they are unconvinced. The challenge now is to stimulate domestic policy-making towards the emergence of locally generated strategies. What is at issue is not just the type or quality of policy that a government is willing to 'sign up' to but also the quality of its domestic political and bureaucratic processes. The underlying presumption is that an open and accountable process, in which the poor have a voice and on which some sustainable coalition has been built, stands more chance of being sustainable than 'stroke of the pen' external conditions prescribing, for example, a certain share of budgetary spending to be in the social sectors. What governance processes are likely to be potentially more pro-poor?

## II. Governance conditions favourable to public programmes to reduce poverty

### Some signs of genuine political commitment

Rhetoric on poverty reduction and grand five-year-plan aspirations – of which there have been plenty over past decades – are not a sufficient test. There is need to link poverty analysis more effectively to public programmes and a budgetary process, which permits choices between 'costed' alternatives. Poverty-oriented plans should preferably be captured in a Medium-Term Budgetary Framework (MTBF) with a three- to five-year time horizon annually adjusted and 'rolled forward'. Not all aspects will have

budgetary implications, of course, since many of the most important elements of a poverty strategy will involve creating the conditions for faster economic growth. Hence the vital importance of ensuring the continuation of policies for growth in any national poverty strategy.

### More responsive government processes

The accountability of the government process is a matter of good governance *per se*, but it must also be seen as a vital precondition for any plausible formulation and implementation of spending policies, which take more account of the poor.

**Formulation of policies.** There need to be appropriate civil society consultation processes for the formulation of policies. Conditions here relate to the type of representation outside of government and the involvement of the poor themselves or their representatives and the use of participatory methods for surveys at community level. Key questions are:

- Does the government seek to identify particular poor groups (regionally, ethnically, socially, by gender, etc.)?
- Is it actually designing any measures to respond to the needs of these groups?
- What efforts are being made to obtain insights as to how poor people perceive the causes of poverty, their own priorities for public action and which institutions they see as most effective in serving them?
- Are there institutional mechanisms to empower the poor or organisations that represent their interests and inform them of their rights, or easy-to-use channels to complain if they do not get the appropriate services?

Systems that permit public scrutiny of government plans and policies may be helpful for potential shifts in national strategy. National Assemblies, parliamentary committees and elected individual representatives have a clear role to play here as well as interest groups and the media. National Assemblies have been too marginalised in the past in the developing world. While a greater role for these constituencies does not guarantee an effective pro-poor orientation to spending plans, it does have the virtue of having accountability through *existing* political processes (however weak) rather than grafting on something new from outside. For such processes to work, plans and budget processes need to be transparent and comprehensible, not only to encourage wider public debate but as a focus for lobby groups which should include representatives of the poor directly or as part of wider coalitions of interest. Budget authority that is devolved down to local level is part of this process though certain important conditions are essential for these to be effectively responsive to local level needs (e.g. key local officials being elected and accountable and central government giving support for newly empowered local authorities in terms of administration and legal powers and committed to pro-poor policies).

**Implementation of policies.** Often too little is known about the extent to which policies have been implemented as intended and with what effects – a problem frequently compounded by conflicting legislation, weak capacity to enforce and poor incentives to comply. There are high costs for individuals and groups trying to claim their rights. Where actual expenditure consistently diverges from the original budgets, the whole process is in danger of losing credibility.

The significant practice of ‘supplementary’ budgets tends to favour politically powerful departments like Defence and State House at the expense of those departments like Education, Health and Community Development, who are the more likely to assist poor people.

Checking implementation is about more than just whether funds were disbursed and can be accounted for; it is also necessary to monitor that they had the intended effects. This is partly a matter of the right type of budgetary process. Budgets are often too poorly organised to supply this information; funds are allocated in line with historical patterns rather than to achieve specified (including poverty reduction) objectives. More outcome-oriented procedures are needed. The next step is to develop sources of information on the effective access to government services of the population, especially the poorest, together with opinions on their quality from both users at community level and non-users such as local government officials, politicians, journalists, etc.

### III. Have there been such changes in sub-Saharan Africa

The process of improved governance and poverty orientation is only just beginning in Africa. Governments have their own objectives and poverty reduction often has a low rating on the real agenda. Political coalitions do not follow socially redistributory lines – either intentionally or in effect. Key information for monitoring progress is often lacking and much of the existing information is little used. Few countries have mechanisms for allocating resources in order to achieve specific outcomes and civil service incentive systems have generally not been improved.

#### But there is some good news... (see Box 1)

- The rules of political and civic life became more free and open during the 1990s in a number of African countries, which is potentially helpful to the interests of the poor.
- Some Poverty Action Plans based on consultation have been drawn up. Medium-Term Budgetary Frameworks (MTBFs) and outcome-based budgets have been or are being established. Some shifts in spending priorities towards the social sectors have occurred.
- Institutional arrangements have been improved for low cost data collection, better monitoring, incorporating the voices of the poor and linking this to policy analysis as well as tracking whether public services reach their intended beneficiaries.

### IV. Major Challenges post-HIPC II

#### Poverty reduction strategies

Following the HIPC II initiative in 1999, the IMF and World Bank have launched a range of new procedures and instruments to help implement the commitment to link poverty reduction with debt relief. Governments of poor countries looking for debt relief are now expected to draft comprehensive Poverty Reduction Strategy Papers (PRSP) covering poverty issues and policies to address them over a three-year timeframe, which will be updated annually. Where such a strategy exists, it will be submitted and approved by the World Bank and IMF Boards. Where it

#### BOX 1. Uganda, Ghana and Mozambique

*Uganda* has drawn up a Poverty Eradication Action Plan which involved wide consultation. This has now been extended directly to the poor via the Participatory Poverty Assessment Programme and it is intended to institutionalise this approach down to district level. The location of the poverty unit for this assessment in the Ministry of Finance helped its greater influence on policy. Insights on poverty provided by the information systems developed have been effectively fed into policy-making. A Medium-Term Budgetary Framework (MTBF) on which there have been annual consultations since 1998 provides the basis for a coherent allocation of funds. Poverty programmes have been largely protected despite higher defence spending, and a Poverty Action Fund (PAF) has directed additional resources (released by the HIPC-initiative) to the poverty-focused budgets of the line Ministries. Accountability for implementing the poverty reduction strategy has been strengthened, with limits placed on supplementary budgeting and conditions imposed on the release of district-level funds to ensure that they are spent for poverty reduction purposes. Procedures have been introduced for tracking whether funds go to those for whom they are intended in primary education and health spending, e.g. issuing press releases of fund transfers to districts, grants to primary schools on a per pupil basis, displays in schools and clinics, and explanations to MPs, etc.

*Ghana* has a clear policy framework approved by Parliament, a rolling MTBF which is linked to annual budgeting and a civil service performance improvement programme. Departmental budgets are linked to their own plans or targets and performance is monitored against individual and group performance-agreements. There are elements of a poverty monitoring system. Initiatives include a sector-wide health programme with potential for coordinating pro-poor health measures and devolution of some resources to the Municipal and District Assemblies in poor regions, with mechanisms to try to ensure that a percentage of these funds are for targeted poverty interventions.

*In Mozambique*, a National Poverty Action Plan was finalised in 1999 which identifies vulnerable groups to target for assistance. This is linked to a MTBF, with each sector having to demonstrate that its proposed actions will contribute directly to poverty reduction objectives. Education and health networks have been improved, and emerging civil society organisations have increased their voice and sometimes influence (as on land law), though the culture of popular consultation has some way to go.

does not, an interim PRSP will be prepared. The so-called ‘completion point’ for debt relief will depend on progress in executing the PRSP, the relief being fully integrated in the national budget for implementing the PRSP. It is the intention to extend this approach beyond the heavily indebted countries to all countries receiving International Development Association (IDA) assistance.

The key point is that the national government is responsible for drafting the PRSP, the role of the World Bank/Fund being to assess the adequacy of the strategy and actions proposed. The difficult judgements involved

relate to the following:

- the quality of diagnosis of the poverty situation;
- the consistency of the budget allocation and implementing processes and the proposed policies, with this diagnosis; and
- the degree of commitment of the authorities to participatory mechanisms which open them up to influence on behalf of the poor and hold them accountable to their domestic constituencies for actual performance.

These 'new rules of the game' seem much more realistic but they pose major challenges in judging the nature and quality of national policies and changes in budgetary and accountability processes.

### Process not blueprint and domestic accountability

The external agencies must try to keep the difficult balance of assessing the process without imposing a blueprint from outside. There is no 'right' answer to how best to reduce poverty, though there are plenty of wrong ones. Within more open democratic systems, governments need to balance the pressures and interests from their different constituencies. The external creditors attach conditions to the release of debt relief under the HIPC II arrangements, yet what is wanted is the accountability of governments to their own people rather than to outside funders. Commitment to major and long-term debt relief may well justify such initial conditions, but in the longer run it is more vital to reinforce accountability to a wide range of domestic constituencies than to foreign ones. This requires external restraint in prescribing the content of domestic policies and actions and greater emphasis on helping to build up transparent and accountable processes domestically. It is possible to envisage both domestic constituencies (elected assemblies and interest groups) and external development agencies, scrutinising and approving government plans and their implementation. But this 'twin' accountability will need to be sensitively designed and handled if genuine local ownership of poverty strategies is to be fostered.

### Standards

While an adequate standard of achievement is required, the threshold should not be set too high. The difficulties of change and what has already been achieved, however gradual, have to be recognised. The Government of Uganda, the first to obtain HIPC relief, was already strongly committed to poverty reduction, openness and transparency through the actions it had taken. Even so, Uganda faces problems of corruption and poor performance on the part of an ill-paid bureaucracy and will not be able to turn its poor social statistics around quickly.

Other governments eligible for debt relief have shorter track records on macroeconomic and budgetary practice and are based on more difficult political coalitions in which non-poverty interests have to be accommodated. The

development of a meaningful and legitimate poverty reduction strategy is bound to be a gradual process. The focus has to be on significant movement towards, rather than achievement of, desirable levels of administration – evolution with milestone rather than blueprints.

### Converting poverty reduction objectives into effective action

To convert budget priorities and external support into the achievement of the International Development Targets for individual countries is a complex task. The IMF appears willing to be flexible in the approving of national macroeconomic programmes, but it is looking for a process whereby a government will link the financial resources it needs and proposes to spend, to specific 'output' indicators. There is a particular difficulty here. It is not easy to 'cost' social and poverty objectives in terms of 'outcomes'. Increased public spending on health cannot be predicted to lower infant mortality or improve the health of the poor, even if health services (outputs) improve. Enhancing the capacity and effectiveness of existing government spending programmes requires measures which may demand higher salaries for government employees and the outcomes can be uncertain. These weak links in the chain make it difficult to define the poverty reduction effectiveness of public expenditure with much confidence.

### The long-term perspective

The PRSP demands a long-term perspective. Clearly the scale of public spending and its orientation towards poverty reduction priorities will be constrained by the future macroeconomic situation. Excessive inflation does not favour growth or the poor. However, there is a need to forecast future economic growth and domestic and foreign revenues in order to determine higher but sustainable levels of public spending to reduce poverty – no easy task. While the IMF is willing to be more flexible on this, it would be assisted by the willingness of aid agencies to guarantee more predictable support for the medium-term plans and budgets of countries with PRSPs.

### Further reading

- Foster, Mick, John Healey, Matthew Martin and Howard White (1999) *Linking HIPC II Debt Relief with Poverty Reduction*, London: ODI ([www.oneworld.org/odi/pppg/cape/papers/hipc.pdf](http://www.oneworld.org/odi/pppg/cape/papers/hipc.pdf)).
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Overseas Development Institute, Portland House,  
Stag Place, London SW1E 5DP  
Tel: +44 (0)20 7393 1600 Fax: +44 (0)20 7393 1699  
Email: [publications@odi.org.uk](mailto:publications@odi.org.uk)

