

## II. Contributing to the NPRS Process

*National Poverty Reduction Strategies (NPRS), whether they are embodied in national development plans or still exist as separate documents, are the main anchors for Asian Development Bank's (ADB's) country partnership strategies (CPSs) and around which country partnerships are developed to support them achieve their poverty reduction outcomes. Given their important role in poverty reduction, each NPRS must truly reflect the national poverty reduction goals and outcomes and be an effective instrument for achieving them. Developing countries often seek assistance from the ADB and other agencies to improve the quality of their NPRSs. This chapter discusses the critical processes and principles that help develop a sound NPRS and provides guidance to staff who may be required to respond to requests for assistance for developing NPRSs, building capacity, strengthening partnerships, or engaging in policy dialogue to further improve the effectiveness of NPRSs as instruments of poverty reduction.*

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### A. Introduction: ADB and the NPRS Process

A country's national poverty reduction strategy (NPRS) defines the strategy for poverty reduction, is explicit in identifying its key objectives and sub-objectives, establishes clear links between objectives sought and policy interventions and identifies meaningful targets and indicators to monitor progress. What is considered an NPRS varies from country to country. In some, the NPRS may be embodied within a broader national development plan. This is the case, for example, in the People's Republic of China (PRC), India, and the Lao People's Democratic Republic (Lao PDR). In others, it may still be a stand-alone government document or a government-endorsed poverty reduction strategy document supported by donors and stakeholders such as a poverty reduction strategy paper (PRSP); although efforts are being made where such separate documents exist to merge them into a single government planning and strategy document focusing on poverty reduction.<sup>26</sup> In either case, the NPRS should include a poverty diagnostic, provide a road map for achieving national poverty reduction goals and targets, and explain how the Government will meet and track its MDG commitments.

ADB has long-recognized the importance of a country-specific approach to poverty reduction. ADB's country partnership strategies (CPSs) have traditionally been rooted in national development plans or strategies. All projects have, in addition, been required to establish the links to national plans, strategies, and policies. Starting in 2000, three new modalities were introduced to sharpen the poverty focus of ADB's country strategies: (i) country poverty analyses (CPAs) were used to determine poverty reduction targets and to establish strategic priorities with country stakeholders and development partners at a high-level forum; (ii) poverty partnership

<sup>26</sup> See background papers of the Forum on National Plans as Poverty Reduction Strategies, Vientiane, Lao PDR, 2006 sponsored by ADB/IMF/WB/UNDP at Forum website [www.worldbank.org/eap/prsforum](http://www.worldbank.org/eap/prsforum).

agreements (PPAs) were concluded to reflect priorities agreed upon by governments and ADB; and (iii) CPSs were formulated based on country-specific analyses of the poverty situation (including assessments of environment, gender, governance, and private sector development), ADB's own capacity, and assistance programs of development partners.

The introduction of PPAs was an innovative approach to formalizing bilateral agreements on country-specific and country-owned measurable targets. By the time they were discontinued in 2004, 24 PPAs had been concluded. The PPAs had foreshadowed ADB's adoption of a results-based approach to CPS formulation. Since 2000, however, most developing member countries (DMCs) have formulated and adopted NPRSs or have included them in their national development plans. As a result, the role of PPAs has receded over time, becoming unnecessary when a DMC has its own NPRS, or when poverty concerns are adequately reflected in national development plans and/or sector strategies. Therefore, in the interest of fostering country-led development, mutual accountability, and a harmonized approach to poverty reduction, where a DMC has its own NPRS, the PPAs were discontinued under the recommendations of the 2004 Enhanced Poverty Reduction Strategy (EPRS).<sup>27</sup> The EPRS also calls on ADB to assist DMCs in developing capacities for preparing and updating the NPRSs. It notes that ADB will participate in discussions organized and led by governments—the key stakeholders—to discuss them. The CPS then translates the substance, priorities, goals, and medium-term targets of the NPRS into ADB's assistance strategy and program.

## B. Lessons of ADB and its Partners: Elements of a Sound NPRS

**Builds on Good International Practice.** Since the Millennium Summit in 2000, ADB has participated actively in several international consultations aimed at identifying and endorsing good practices to spur progress toward fostering poverty reduction and achieving the MDGs. The Paris High-level Forum on Aid Effectiveness of 3 March 2005<sup>28</sup> produced the Declaration on Aid Effectiveness embracing the following principles:

- **Ownership.** Partner countries exercise effective leadership over their development policies and strategies and coordinate development actions;
- **Harmonization** refers to donors' efforts to bring the policies and procedures that govern their support as much into accord as possible, so as not to impose dozens of varying and conflicting requirements on partner countries;
- **Alignment** means that donors are increasingly choosing to direct their support to priorities and strategies that partner countries set out, rather than imposing their own priorities, and are moving to build up and rely on countries' own institutions to implement projects, rather than requiring parallel systems. For their part, partner countries are working to set out sound priorities and strategies, and to strengthen and improve their institutions so that donors can confidently rely on them;

<sup>27</sup> ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

<sup>28</sup> Sponsored by ADB, together with the African Development Bank, the Development Assistance Committee of the OECD (OECD-DAC), European Bank for Reconstruction and Development, Inter-American Development Bank, United Nations Development Programme (UNDP), and the World Bank. Developing countries are collaborating closely in the planning of the Forum and its proceedings.

- ❑ **Managing for results** refers to efforts to define desired results and then select development activities that will contribute to achieving them, as well as to develop and strengthen the statistical systems that are crucial to measuring progress toward results; and
- ❑ **Mutual accountability.** Donors and partners are accountable for development results.

These principles call on ADB, its development partners, and the DMC member governments to prepare an operational NPRS, which is embedded in a medium-term expenditure framework and reflected in the annual budget. This strategy, in turn, is to serve as a framework under which ADB and other development partners are to align external assistance, build capacity by making use of national systems (rather than by creating separate project entities), reduce transaction costs by sharing analysis and by adopting more programmatic modes of assistance, foster achievement of poverty reduction results by using monitorable performance assessments, and jointly assess progress.

Implementation of the Paris Accord principles is an ongoing process, and numerous interagency committees and workshops have been established to foster adoption of these principles. Similar arrangements have been made at the national level in the DMCs under the auspices of donor working groups and other coordination mechanisms.

**World Bank-IMF Review.** In 2005, the World Bank and the International Monetary Fund (IMF) reviewed the experience gained in assisting countries in fostering poverty reduction centered around the development and implementation of NPRSs based on PRSPs. The review built on the experiences of the IMF and the World Bank, as well as the experience of ADB and many other development partners who contributed to the exercise.

The World Bank/IMF review found that the PRSP approach has contributed to enhancing domestic accountability in many countries in a variety of ways. It has encouraged countries to prioritize their development goals, and set concrete targets and appropriate intermediate progress indicators. The review also found that many NPRSs would benefit from a more explicit link between goals and the policies needed to achieve them. In Viet Nam, for example, the process of defining country-specific targets and indicators highlighted the importance of improving equity and the need to focus on regions and social groups not benefiting from growth. While the MDGs can be a good starting point for defining a country's development priorities, the review found that few countries have fully customized them to local circumstances. Appropriate intermediate indicators, which complement measures of poverty outcomes, are needed to enable monitoring and feedback. Over time, as the causalities and complementarities among public actions and outcomes are better understood, links between goals/targets and public actions are strengthened. The review concluded that the results focus has also pointed to the need for stronger analytical linkages between policies and intended outcomes, including growth. While some countries are using the PRS process to prioritize analytic and capacity building needs, these practices need to become more widespread. There is also a need for strengthening analysis to understand better the key linkages between public policies and expenditures for poverty reduction, and accelerated progress toward the MDGs.

Despite the advances brought about by the development of separate NPRS/PRSPs, there is growing recognition that it may be desirable to "mainstream" a poverty focus into national development plans and strategies to convert them into true NPRSs, than maintaining separate

plan and NPRS documents.<sup>29</sup> Governments in the Asia and Pacific region have been preparing national development plans well before the introduction of ADB's PPAs or the NPRS/PRSP process. Indeed, some countries in the region which have registered the most rapid gains in poverty reduction (i.e. the PRC and India) do not prepare separate NPRS documents, but do accord careful consideration to poverty reduction as part of their national planning processes.<sup>30</sup> However, in cases of other national development plans, while poverty is referred to, neither specific targets for poverty reduction are set, nor well defined or feasible strategies supported by concrete programs to achieve poverty reduction targets established.

There are distinct advantages of "mainstreaming" poverty reduction into national development plans where they exist rather than preparing separate poverty reduction strategy documents. First, it is much more logical to begin by specifying poverty objectives within a development plan when it is being prepared and developing a consistent overall development strategy for achieving them rather than looking at how the national development strategy will have to be amended to achieve the poverty reduction outcomes as has been the effort in several separate NPRS/PRSP efforts. Second, "mainstreaming" will prevent duplication and confusion as poverty reduction strategies essentially have to be well integrated in countries' overall development strategies if they are to be effective. Separately prepared poverty reduction strategies when national development plans also exist may not be fully consistent with them and may often lead to confusion among government officials as to which to follow. Finally, separate NPRSs prepared through donor support and initiative are often not recognized as government documents and not accorded the same status by officials. The main challenge in effectively mainstreaming the PRS process, however, is to ensure that the core principles that have led to improved plans, budgets, and policies are preserved and continued to be strengthened. If the challenge is met, countries in the region will produce and implement stronger government-owned plans that can be a sufficient basis for the alignment of donor support—hence incorporating the best characteristics of both national plans and donor-supported poverty reduction strategies. Streamlined reporting procedures and alignment of donor cycles around country-specific timetables should also contribute to reducing the transaction costs of aid for recipient countries.

Taking note of the recommendations of the Paris Forum and the IMF-World Bank PRSP review, and lessons from ADB's own experiences supporting the preparation of NPRSs in several countries, a set of principles that should be at the core of a sound NPRS can be formulated. These principles apply equally regardless of whether NPRSs are stand-alone documents or are incorporated in national plans and strategies. The key elements of a successful NPRS include:<sup>31</sup>

- **Country-led process.** A country-led approach improves the prospects of designing reforms that are tailored to country circumstances and feasible to implement, by appropriately

<sup>29</sup> See background papers and proceedings of the Forum on National Plans as Poverty Reduction Strategies in East Asia, Vientiane, 4–6 April 2006 sponsored by ADB, IMF, UNDP, and World Bank at the Forum website [www.worldbank.org/eap/prsforum](http://www.worldbank.org/eap/prsforum).

<sup>30</sup> The Indian 10<sup>th</sup> Plan document, for example, explicitly recognizes that the focus of development is not just expansion of production of goods and services, given by increases in per capita income, but on improvement of human well-being which specifically requires that the basic material requirements of all sections of society especially those below the poverty line are met. The Plan targets an 8% growth in gross domestic product as well as a 5-percentage point decline in poverty incidence by 2007 and a 15-percentage point decline by 2015. It also specifies targets for the non-income poverty and MDG indicators. It develops a specific strategy for achieving these through focus on growth, rapid employment expansion by encouraging expansion of employment-intensive sectors, specific focus on agriculture and rural development, and targeted programs and schemes for the poor. It recognizes the importance of the private sector's role and need to create a better atmosphere for its functioning and the need to involve the state governments in the overall process of development and poverty reduction.

<sup>31</sup> More detail on aspects of poverty focus that an NPRS should have is presented under the requirements of the Country Poverty Analysis (CPA) in the next chapter.

prioritizing and sequencing public actions and programs and by focusing on strengthening country processes. Widespread participation can contribute to higher quality strategies, and strengthen country ownership of the measures adopted. High-level government and political support is essential to the eventual implementation of the NPRS. On balance, the need for participatory processes is much greater in countries with weak governance.

- ❑ **Sound diagnostics and analytical and strategic foundation.** The NPRS should be rooted in a sound understanding of poverty conditions and of the constraints and opportunities for poverty reduction including those that are institutional in origin. The strategy should build on a candid appreciation of the role and contribution of different stakeholders in the poverty reduction process, and of the contribution that enabling public policies and programs can make to the poverty reduction process. The strategy must also be realistic and based on past trends, expected availability of resources and policy, and institutional changes that are being contemplated. Given the development experience of the Asia and Pacific region, such a strategy should emphasize promotion of pro-poor sustainable economic growth, inclusive social development, and good governance. It should consider both targeted and nontargeted programs for poverty reduction as necessary, keeping in mind that while targeted approaches may be often be necessary to address specific factors causing poverty that cannot be remedied through general nontargeted approaches, there are many lessons from failed targeted interventions in the region that must be kept in mind while designing such interventions.<sup>32</sup>
- ❑ **Focus on both national and subnational efforts.** Efforts at the national level alone may prove insufficient for poverty reduction if efforts at subnational (province, district, and local) levels toward the NPRS are also not simultaneously forthcoming; or not coordinated or conflicting. In cases where authority for development work including resources have been transferred to subnational levels through decentralization, the national government should ensure that there is a fully participatory development of the NPRS which is wholeheartedly supported by all levels of government who all prioritize resources and efforts toward its fulfillment. This is a difficult and complex process and proper institutional mechanisms have to be developed to ensure that the process is effectively managed.
- ❑ **Focus on both income and non-income poverty and the MDGs.** Given that poverty has more than the income dimension, NPRSs should focus also on its non-income dimensions. With the international community's consensus on the MDGs, all countries have agreed to ensure that significant improvements are achieved by 2015 on a

<sup>32</sup> John Weiss. 2005. *Poverty Targeting in Asia: Experiences from India, Indonesia, the Philippines, People's Republic of China and Thailand*. ADB Institute; and ADB Special OED Evaluation Study. 2006: *Pathways out of Rural Poverty and the Effectiveness of Poverty Targeting*. May. The former study found that many targeted interventions failed due to malpractices, leakages to the nonpoor, wrong design, or incorrect targeting criteria. The latter study on targeted approaches for rural poverty alleviation finds that conventional targeted investments focused in poor, remote rural areas had a mixed track record while alternative rural development strategies were more successful. Some successful alternatives were: (i) locating local infrastructure projects in areas naturally attractive to private investors rather than poorer areas as they may be better in generating employment of the poor, such as areas adjacent to commercial centers, well-connected with transportation networks, or ideal for commercial agriculture; (ii) investments facilitating migration of surplus rural labor; and (iii) providing more opportunities to the poor, by improving access to financial services, education and health services, and reducing their vulnerability to sickness or economic shocks (such as quick loans with long-term maturity and maximum flexibility).

critical minimum set of income and non-income poverty goals and indicators. There is agreement also that the international community will support national efforts on achieving the MDGs. The NPRSs should, therefore, integrate the MDG commitments with their national poverty goals and objectives. The MDG commitments should be localized within the NPRS—i.e. defined in a manner that is relevant for the particular country. The degree to which the country is on track to meeting its MDG commitments should be addressed and strategies should be identified for getting back on track to meet MDG commitments if a country is “off-track”. However, the MDGs do not address several important dimensions of deprivations such as those due to caste, racial category, or minority status which must also be emphasized.

- ❑ **Medium to long term in perspective.** Within an NPRS, development objectives should be defined in the context of a long-term development vision, and a set of strategic initiatives should be formulated over the medium to long term to address capacity, institutional, economic, and social constraints to growth, social development, and the achievement of better development results.
- ❑ **Costed and budgeted.** Realistic priorities should be set for public support to poverty reduction. This requires that the main poverty reduction programs be costed, that a medium-term public expenditure framework, reflecting these programmatic priorities, be defined, and that the poverty reduction priorities identified in the NPRS are supported by the annual budget process.
- ❑ **Results-oriented and well-monitored.** The NPRS should incorporate a multidimensional view of poverty and of the approach to reducing it, build on a sound understanding of the causal linkages between strategic interventions and intended outcomes. Attention should be accorded to setting clear targets for poverty reduction and achieving the MDGs, and to putting in place effective monitoring arrangements to help ensure that strategic initiatives are implemented and progress achieved. The NPRS should, therefore, build in a strong monitoring and evaluation (M&E) system. This involves (i) a participatory approach to M&E to promote ownership of the process and generate demand for it; (ii) given capacity constraints for M&E, the need for selectively identifying which interventions should be monitored and evaluated; and (iii) M&E entails significant learning-by-doing and is likely to involve substantial trial and error.
- ❑ **Partnership-oriented.** An NPRS should not be confined to the domestic public sector, but, provide the context for improved partnerships among government, the private sector, civil society, and external partners. This is aimed at fostering a sense of shared responsibility for achieving improved poverty reduction results. Such partnership building should ideally be led and coordinated by the Government and not left to develop as a discourse among the donor community alone with weak participation from the Government as is all too often the case.

## C. Supporting the NPRS Process

ADB contributes to the formulation, implementation, and tracking of the NPRS in many of its DMCs. This is undertaken in close cooperation with other development partners. It is designed in a way to foster broad participation and country ownership of the development agenda, sound and realistic poverty reduction strategies, and a results-oriented focus to poverty reduction policies and programs. The ultimate aim of ADB assistance to the NPRS process is to build national capacities in designing, implementing, and monitoring poverty reduction efforts. This will require sustained dialogue, various capacity development interventions, and close coordination between ADB staff and its development partners.

### 1. Fostering Participation<sup>33</sup>

Broad participation of internal and external stakeholders in the elaboration of development strategies fosters overall ownership of the NPRS by all stakeholders and the likelihood of sustainable implementation of these strategies. Mere consultation itself can increase the awareness of the population about government policies and priorities. Effective participation can potentially influence the policy priorities reflected in the development strategy and create synergies of purpose between government and the population. Fostering participation is especially important in fragile states and in countries with weak governance. For effective participation to result, institutional arrangements that empower the citizens, especially the poor, and ensure that their voices are heeded must be established. Broad participation and ownership in government are equally important. Line ministries and local governments are particularly knowledgeable about the needs in their respective sectors and regions. Moreover, their ownership of a development strategy is crucial to ensure its implementation. Therefore, strong interministerial coordination mechanisms and an appropriate role for local government are critical for the sound development, implementation, and monitoring of development strategies. Finally, the role of Parliament in elaborating the strategies needs to be carefully thought out and transparently agreed in every country.

Although considerable progress was made to develop the initial NPRS/PRSPs in a participatory manner in the region compared to previous national planning exercises, adequate participation by all principal stakeholders may not have been achieved; nor sufficient use made of the consultations in designing the NPRS/PRSPs. While increased internal consultation in governments, between oversight and line agencies, have occurred, consultation with local governments and Parliaments was weaker, leading to poor consistency with policies and budgets in the implementation phase.

### 2. Building Partnerships around NPRS

The NPRS should provide the context for improved partnerships among government, the private sector, other domestic stakeholders, and external partners. Strengthened partnerships help foster a sense of shared responsibility for achieving improved poverty reduction results. Such partnership building should ideally be led and coordinated by the Government and not left

<sup>33</sup> Please refer to RSDD. *A Pocket Guide to Consultation and Participation* (forthcoming) for further guidance on participatory processes.

to develop as a discourse among the donor community alone and as a separate exercise with weak participation from the Government as is all too often the case. Led by its resident mission staff, ADB participates in numerous donor working groups, aid coordination forums, consolidated group meetings, and other formal and informal meetings aimed at assisting governments formulate an NPRS; aligning external assistance to the NPRS; and harmonizing the delivery of external assistance. Such interactions should also involve increased partnerships with the domestic civil society and private sector. The participation of the latter, in particular, continues to remain weak in many countries with NPRSs being considered mainly public sector initiatives although private sector investments are significant and often constitute a larger proportion of domestic investment than the public sector. Effective partnering around a country's NPRS will imply that the process leads to an identification of actions that the government, along with its domestic stakeholders particularly the private sector, and domestic civil society itself are taking and thereafter a clear understanding of gaps in resources that remain to be filled by the public sector supported by external partners, so that the targeted reduction in poverty and the attainment of the MDGs can be realized (Box 2.1). This will require that the government take strong ownership of the NPRS;

### **Box 2.1: PARTNERSHIPS AROUND THE NPRS: CAMBODIA AND PAKISTAN**

The recent Cambodia example provides an illustration of the actual processes and difficulties as well as the successes achieved through close cooperation among development partners. Cambodia's National Poverty Reduction Strategy (NPRS) of 2003–2005 was one of the first to be completed in the region, and inspired excellent cooperation among the development partners. However, as direct feedback from beneficiaries was considered essential, a participatory poverty assessment was also prepared (with support of the Asian Development Bank [ADB]). In addition to the NPRS, the Government also prepared the Second Socio-Economic Development Plan (SSEDP) 2001–2005 supported by donors including ADB, which also had influence (possibly more than the NPRS) in Government. To bridge the uncertainty caused by two somewhat distinct documents, ADB, World Bank, and Department for International Development aligned and harmonized the preparation of their respective country strategies and programs around both the NPRS and the SSEDP. To help avoid such uncertainty in the future, the Government of Cambodia and its development partners had agreed that the Third Socio-Economic Development Plan 2006–2010 will be a single planning document, and will mainstream strategies for poverty reduction.

In Pakistan, a full poverty reduction strategy paper (PRSP) was produced in 2003 and was followed by the preparation of provincial PRSPs. While the development partners generally agree on the relevance of the PRSP for Pakistan's medium-term growth and poverty reduction process, assistance is being provided by partners toward attaining outcomes in one or more key pillar areas. However, this broad agreement on the PRSP framework has not resulted in a cohesive and coordinated assistance plan among the donors. Despite participation in coordination events such as the Pakistan Development Forum, donor assistance to Pakistan continues to be opportunistic, rather than well integrated and aligned with PRSP priorities. This illustrates the need for the donor community to align and harmonize their assistance by adopting principles (such as under the Paris Accord) for better alignment and harmonization of aid and for the government to take an effective leadership role in the process.

that it has capacity to lead an effective development partnership around it; and that a clear action plan to coordinate external assistance is developed. It will also require close integration and synergy of programs of assistance among the development partners to bring this about.

### 3. Deepening the Knowledge Base and Good Practices for Scaling Up Poverty Reduction Efforts

ADB's global knowledge products, generated by Regional and Sustainable Development Department, Economics and Research Department, and ADB Institute, are designed to compare and contrast developments within the region for benchmarking purposes, and to identify good practices in poverty reduction which can be scaled up by the member countries. These knowledge products need to be made more accessible to all those interested in the region so that they can learn from lessons in the past or from experiences of neighboring countries. While knowledge products need to be developed in all areas of ADB's operations, some are more relevant for policy makers and others more directly engaged in poverty reduction efforts. These include, for example, preparation of country poverty analyses (CPAs) which contribute to NPRSs by filling gaps in the knowledge base;<sup>34</sup> sector assessments, sector strategies, policies, and action plans that make important contributions to the strategies formulated in key sectors of many DMCs; and lessons learned from implementing ADB-assisted projects and programs which have had a major influence on the design of NPRSs. ADB's evaluations provide valuable lessons for countries that are seeking new approaches to poverty reduction and these evaluations need to be studied carefully and their findings made easily accessible. Also, lessons from ADB's advisory technical assistance in a variety of different areas need to be developed into useful knowledge products. These include lessons from supporting the DMCs build capacity to prioritize public expenditures, manage public finance in a transparent and accountable manner, and ensure that investment priorities are consistent with the budget and designed to contribute to the national poverty reduction effort. Toward these ends, ADB has cooperated with the World Bank and other partners in several countries.

### 4. Providing Capacity Development Support

**Need for Strategic Approach to Capacity Development.** Developing countries in the Asia and Pacific region differ vastly as to their capacities. Many are not large enough to support needed research and training through their own national institutions, which are either in their infancy or nonexistent. They would need support from stronger institutions in the region. Even those countries that have adequate capacity would need to continue learning from best practices in the region and around the world. ADB interventions to build NPRS capacity need to be strategic, well-sequenced, and implemented over a suitably long period to ensure sustainable impact. Experience suggests that a well-planned, demand-driven sequence of knowledge products and capacity-building assistance is required to assist governments prepare sound poverty reduction strategies. For example, ADB assisted the Government of the Lao PDR prepare a participatory poverty

<sup>34</sup> See Chapter 4 for a more detailed discussion of the country poverty analysis.

assessment in 2001, and followed by advisory assistance to prepare the NPRS (i.e. the National Growth and Poverty Eradication Strategy) of February 2004. Thereafter, the World Bank, Swedish International Development Cooperation Agency and ADB provided assistance to update the poverty knowledge base, with World Bank assisting in a quantitative review of poverty trends, and ADB assisting the government assess the linkages between infrastructure investment and poverty eradication, and to conduct another round of the national participatory poverty assessment. ADB simultaneously provided support to the Government to mainstream its NPRS in its Sixth Five-Year Socio-Economic Development Plan, which is presently under formulation. While such sustained and strategic support is necessary for capacity development to have an impact, donor effort should be designed to build up domestic capacity in the government to gradually take over donor functions.

**Capacity Development for Poverty Diagnostics, Strategies, Policies, and Priorities for Poverty Reduction.** An effective program for poverty reduction requires building up capacity for accurately measuring the occurrence of poverty in both its income and non-income dimensions, monitoring changes, analyzing its causes, and assessing the impact of poverty reducing interventions. These require developing capacity in a large range of expertise, including employing efficient methods of data collection and its statistical analysis; interpretation of data using these along with other relevant socioeconomic data to understand the determinants of poverty; developing strategies to combat poverty; implementing programs in support of such strategies; and assessing their impact on the poor. Limited resources and capacity constraints require prioritization of goals and policy interventions but in many DMCs, the costing of policy interventions and priority programs has been weak, which has led to insufficient prioritization of NPRS/PRSP interventions. Progress in prioritization has often been made in the implementation stage through more detailed costing and the elaboration of sector strategies and medium-term expenditure frameworks. ADB assistance for costing priority programs and developing medium-term expenditure frameworks can help countries sharpen priority setting and foster stronger links between poverty strategies and budget processes. Without adequate capacities in these important areas, effective NPRSs cannot be developed.

**Building Statistical Capacity for Poverty Analysis.** In several countries, the ability to assess poverty conditions is limited by gaps in the statistical database. ADB has provided assistance to a number of countries to build capacity for routine monitoring of poverty conditions as part of the general statistical reporting function. Statistical capacity-building assistance has taken various forms, ranging from the financing of living standard surveys and participatory poverty assessments in some countries, to more analytic support for the analysis of survey data, the development of poverty proxies, and the construction of suitable poverty lines (Box 2.2). ADB has assisted several governments build the knowledge base required to formulate an NPRS. In the Lao PDR, Bhutan, Cambodia, PRC, Pakistan, Papua New Guinea, Nepal, Tajikistan, and several other DMCs, ADB has assisted governments build the capacity to survey and profile poverty conditions. In several countries, ADB has contributed to the preparation of surveys that track living standards, while in others, ADB has helped build capacity for participatory poverty surveys and other methods that track the qualitative perceptions of poverty. Appendix 1 includes a discussion of the various ways in which survey data can be used to track poverty conditions and the trade-offs involved among the various ways in which poverty conditions can be measured.

## BOX 2.2: STATISTICAL CAPACITY FOR RURAL POVERTY TARGETING IN THE PRC

An Asian Development Bank (ADB) advisory technical assistance has had a major impact on building statistical capacities to underpin poverty reduction strategies. In the People's Republic of China, as a result of an advisory technical assistance financed in 2001 by ADB,<sup>a</sup> an eight-step procedure was accepted by the Government as a framework for identifying and classifying poor villages and households to better target rural poverty reduction assistance. The eight steps included (i) developing poverty indicators through a participatory process, (ii) weighting different indicators using a participatory approach, (iii) translating each criteria into a scale of 1 to 5, (iv) collecting village poverty data, (v) preparing an integrated village poverty index (IVPI), (vi) preparing a village typology to classify villages into five groups according to their IVPI scores, (vii) using the typology to select the poorest villages for targeted poverty alleviation assistance, and (viii) identifying and classifying the poorest households. For this last step, village committees in the selected poorest villages are to use a participatory process to profile poverty conditions in the village, and to categorize those suffering from poverty into four categories—relief receivers, poorest, normal poor, and the relatively poor. Each category is then to be profiled in terms of per capita income, grain or food consumption, the number of able working-age persons in the household, and their potential for further development, together with a complete list of households that fall under each category. In recent years, the State Council Leading Group for Poverty Alleviation and Development, an apex body established under the State Council to organize, research, and draft policies and programs, has used this new approach to identify and categorize poor rural villages for the Government's targeted poverty reduction programs and social assistance.

<sup>a</sup> ADB. 2002. *Methodology for Development Planning in Poverty Blocks under the New Poverty Strategy in the PRC*. Manila.

**Capacity Building to Implement the NPRS.** The poverty focus of plans/strategies is only the starting point. Consistency between pro-poor plans/strategies on the one hand and implementation policies, such as sector strategies, budgets, and actual expenditures on the other, is also critical. Consistency between development plans and implementation policies, however, is usually difficult, as planning ministries usually lead planning processes, finance ministries lead budgets, and line ministries and local governments are weakly involved in developing the NPRS/plans but are responsible for implementation. Ensuring consistency requires building consensus between architects and implementers, through joint work during the policy formulation stage and establishing good rules to enhance consistency and accountability for results in the policy implementation stage. Although the consistency between strategies and implementation policies has increased over the past few years, important challenges remain, particularly in decentralized environments, where the question of how nationally agreed priorities square with bottom-up prioritization has often to be fully resolved. This also raises questions of accountability, as central agencies cannot be held accountable for implementation policies that local governments are responsible for.

Providing capacity at the local level where development has been decentralized is essential as capacity is often extremely weak at that level, but effective actions are needed there for the success of the NPRS. Efforts at the national level alone may prove insufficient for poverty reduction if efforts at subnational (province, district, and local) levels toward the NPRS are also not

simultaneously forthcoming, or not coordinated or conflicting. As decentralization often results in major investments at the local level, the national government should ensure that there is a fully participatory development of the NPRS which is wholeheartedly supported by all levels of government and that all such governments prioritize resources and efforts toward fulfilment of the NPRS. This is a difficult and complex process, where proper capacity development initiated and institutional mechanisms established.

**Building Capacity to Track NPRS Results.** Establishing targets and indicators in plans and strategies allows focused identification and monitoring of results by governments and stakeholders. Setting proper targets requires a careful analysis of causal linkages between policy interventions and results sought and establishing an incentive system for government agencies to deliver on the agreed targets. The MDGs have introduced an internationally agreed framework for results areas and a basis upon which countries can build to establish realistic national targets. Sound monitoring requires identifying monitoring principles and responsibilities as well as the results to be achieved at every point of the “results chain”—input, output, and intermediate and final outcomes. Therefore, strategies and plans ought to identify appropriate indicators and, when desirable, targets at each one of these implementation stages. Wide availability of accurate, timely, and readable data and the capacity to analyze them are crucial. While some progress in data collection (including collection of routine administrative data) and analysis has been made across the region and many DMCs have carried out household surveys and poverty assessments, the timeliness, quality, and accessibility of data still need to be improved and more emphasis given to statistical capacity building. Stronger capacity is needed to build on the existing M&E systems and structures, and to establish an M&E system that is performance-oriented. The latter implies that the M&E system

- provides the information needed to direct investments towards those strategic areas that are the focus of the government’s poverty reduction efforts;
- links information on outcomes backed to the performance of ministries (i.e. how the ministries are becoming more efficient and effective in delivering services, be these for education, health, or employment generation); and
- fully enables continuous assessment of performance (and feedback) during all stages of planning and implementation as opposed to the current systems of leaving assessments and learning of lessons to the post-evaluation teams.

This has proven difficult to accomplish in many countries because of a number of constraints, including

- imprecise or unrealistic specification of poverty reduction goals, targets, and objectives in the NPRS;
- inadequate specification of near- and medium-term outcome and progress indicators in the NPRS that could be regularly monitored and tracked to assess whether or not the NPRS remains on course;
- deficiencies in the specification, coverage, timing, and public release of key indicators;
- insufficient budgetary and technical support for the national statistical service, and the statistical reporting bodies of key line agencies and ministries;

- limited usage of available data by key decision makers to revise and refine poverty reduction strategies, policies, and programs; and
- a tendency for each development partner to utilize parallel M&E arrangements for each individual assistance activity.

Almost all NPRS/PRSP efforts in the region included plans or proposals to strengthen monitoring and evaluation systems. Although the degree to which they have worked effectively in practice varies, there has been progress in all countries in the region over the past 5 years. Most countries, however, still need to strengthen their M&E systems, clarifying the roles of various government agencies involved, building their capacity and providing them with the human and financial resources to adequately deliver on their tasks. Capacity building of national M&E systems is a long-term undertaking, and will require the simultaneous support of several development partners. Toward this end, ADB has provided focused support for poverty monitoring; for strengthening capacity in key areas of public expenditure tracking, expenditure reviews, and debt management; and for improving the capacities of line agencies in key sectors to monitor progress against agreed sector road maps.