

Executive Summary

In the Face of Poverty meeting the global challenge through partnership



Strengthening Human Security



Reducing Poverty



Increasing Global Prosperity



Countering Social and Environmental Stress



Rising to the



Global Challenge

Partnership for Reducing World Poverty

Policy Statement by the DAC High Level Meeting upon endorsement of the *DAC Guidelines on Poverty Reduction*, Paris, 25-26 April 2001

“The Development Assistance Committee (DAC) is a key policy forum where the major bilateral donors – who collectively provided \$53 billion in official development assistance in 2000 – work together to foster effective, co-ordinated and adequately financed support for sustainable development and poverty reduction. At the DAC’s annual High Level Meeting ministers and senior aid officials discuss leading issues and endorse policy guidance that has been developed by Members.”

Developing countries have achieved remarkable, although uneven, improvements in living standards over the past 30 years, and development co-operation has played a strong supportive role. But poverty reduction, in the context of sustainable development, remains a major challenge. Extreme poverty ravages the lives of one person in four in the developing world. Illiteracy, hunger and disease are still widespread, and HIV/AIDS has become a scourge in many developing countries. About half of the poor are children suffering from hardship, want and violence – and the majority of poor adults are women. Social and economic inequality within nations is an obstacle to sustainable poverty reduction. Globalisation offers promising avenues for spurring growth and reducing poverty, but special effort will be required to ensure that poor countries and poor people share adequately in its opportunities and benefits.

We are profoundly concerned with the plight of people living in severe poverty. Beyond our shared moral concerns for those less fortunate, we consider that reducing poverty and global inequalities is essential to our common interest, given the potential impact on regional and

global security, international co-operation, sustainable development and prosperity. Developing countries must assume leadership and formulate effective national strategies for reducing poverty. These strategies should integrate economic, social, environmental and governance concerns within a comprehensive approach to development at the country level. We pledge to help them meet this challenge, in partnership with civil society, the private sector and multilateral institutions. We further pledge our best efforts to help developing countries address the challenges of globalisation and the digital age, and deal with HIV/AIDS and other killer diseases.

We confirm our commitment to reducing poverty in all its dimensions and to achieving the seven International Development Goals (IDGs). We view the IDGs in the context of the broader set of goals – including on hunger, safe water and HIV/AIDS – agreed in the Millennium Summit Declaration and in the context as well of the ultimate objective of poverty eradication. The IDGs include: by 2015, halving extreme income poverty, lowering infant, child and maternal mortality, and ensuring universal primary education and access

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to reproductive health services; and by 2005, achieving gender parity in education as a step towards gender equality and the empowerment of women, and implementing strategies for sustainable development as a step towards reversing the loss of environmental resources.

We restate our determination to promote qualitative factors of development – including effective, democratic and accountable governance, the protection of human rights, and respect for the rule of law – in supporting partner country efforts to build stable, safe, participatory and just societies. We resolve to ensure centrality of sustainable poverty reduction in development co-operation, particularly at country level. We resolve also to enhance the coherence of our overall policies that impact on development including, for example, opening markets and implementing accelerated debt relief. We will intensify our efforts to increase the effectiveness of aid and mobilise additional resources for reducing poverty. In so doing, most Members are guided by the 0.7 per cent ODA/GNP target.

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We have developed *Guidelines on Poverty Reduction* in consultation with our international partners: the World Bank, the International Monetary Fund and the United Nations Development Programme. The *Guidelines* represent an emerging international consensus and a shared commitment and understanding of how to work together more effectively to help developing country partners reduce poverty. We agree on the following principles that underlie these *Guidelines*:

1 Poverty is multidimensional.

Poverty encompasses different dimensions of deprivation that relate to human capabilities including consumption and food security, health, education, rights, voice, security, dignity and decent work. Poverty must be reduced in the context of environmental sustainability. Reducing gender inequality is key to all dimensions of poverty. **We share a broad understanding of poverty and its many dimensions.**

2 The coherence of our policies matters.

Reducing poverty requires better coherence in government policies affecting development. Key policy areas with potentially strong poverty reduction impact include debt relief, trade, investment, agriculture, the environment, migration, health research, security and arms sales. **We will strive to elevate policy coherence for poverty reduction as a general concern in government policies and develop the means necessary to promote it across our governments and in international fora.**

3 Economic growth: pace, quality and equity.

Reducing poverty calls for rapid and sustainable pro-poor growth. This requires good governance, prudent macroeconomic management, competitive markets and a vibrant private sector, efficient institutions and sustainable use of natural resources. Making growth pro-poor requires equitable participation by poor men and women in generating and benefiting from growth. It also requires reforms to reduce inequalities regarding human capabilities and access to assets and productive resources such as land, training and credit.

We will support partner efforts to promote sustainable pro-poor growth, reduce inequality and increase their shares of global trade and investment flows

4 Reducing poverty calls for political will by all partners.

Poverty reduction involves a political process. It requires dedicated efforts to empower the poor by strengthening their voice and fostering democratic accountability. Strategic partnerships with reform-minded forces within government and civil society can be helpful in fostering social and political transformation. Support for broader country dialogue and stakeholder participation must be consistent with partner efforts to build democratic institutions.

We will support partner country efforts to engage civil society in setting priority poverty reduction goals and measures to reduce inequalities, consistent with their efforts to build democratic institutions.

5 Needs and performance will be key factors in aid allocations.

Development co-operation resources must be used effectively for reducing poverty. Priority will be accorded to countries with low incomes. Some targeted assistance to other countries with a large proportion of poor people may also be provided. The level of political commitment to fight poverty and the effectiveness of government policies will be key considerations in this regard. At the same time, it is important to support the poor in countries with severe governance problems, including conflict-prone countries.

We will give priority to poor countries with government commitment to reducing poverty and using aid effectively, but will also target aid, selectively, to poor people in countries with severe governance problems.

6 Supporting poverty reduction strategies of partner countries through different types of assistance.

Development co-operation will support goals and priorities as set out in national strategies for sustainable poverty reduction, which should be country-driven, participatory, comprehensive and results-oriented. To ensure ownership and sustainability, the development community should be moving from agency-driven to country-led activities, creating space for partnership through integrated programme, project and sector-wide support. Key priorities for supporting the implementation of partner strategies include resources for capacity building, institutional reform and broad participation of local partners.

We will increase the use of co-ordinated programme, sector and project assistance supporting the implementation of country-led strategies and programmes for reducing poverty.

7 Better aid management for increased effectiveness.

Effective aid calls for improved aid co-ordination by working collaboratively, undertaking joint tasks, and combining skills and resources. While maintaining high standards of accountability and transparency, DAC Members can simplify and harmonise administrative and financial requirements, adjust to local procedures where these are adequate and help partners improve their administrative capacity and performance.

We will undertake best efforts to work collaboratively, streamline our administrative requirements where possible, and co-ordinate our approaches and actions with those of our partners.

8 Assessing performance.

Strong partnerships are based on dialogue, mutual trust and joint accountability. Each partner should be assessed in terms of meeting agreed commitments and achieving poverty reduction impact. Development agencies should develop specific partnership performance goals, such as promoting country leadership, providing resources more flexibly, more predictably and over longer time frames, and ensuring that development assistance to the public sector is fully reflected in government budgets.

We will assess our development co-operation efforts in terms of their effectiveness in promoting genuine partnership and their impact on reducing poverty.

9 Strengthening agency institutional alignment with poverty reduction, partnership and policy coherence goals.

Integrating poverty reduction as a critical agency-wide concern, developing partnership capacity and promoting policy coherence are key institutional goals for development agencies. This will often call for changes and creative approaches to agency organisational structures, practices, incentive systems and cultures.

We are committed to incorporating poverty reduction and partnership in the policies and operations of our agencies, and will undertake best efforts to adapt our institutional practices, systems and cultures accordingly.



Executive



Summary

Delivering on the global goals for reducing poverty: a call to action

1 For several decades the development assistance community has worked with the people and governments of developing countries to improve their living conditions. Progress – though often unrecognised – has been remarkable. In the past 30 years alone, life expectancy increased by more than 20 years (to 62). Infant mortality rates dropped by half. Primary school enrolment rates have doubled. Major developing countries, particularly in East Asia, have passed rapidly from low- to middle-income status.

2 These results are highly encouraging. They demonstrate that poverty *can* be overcome. But the battle is far from over. Extreme income poverty still ravages the lives of one in four persons (or 1.2 billion people) in the developing world – one in five in the world at large – and progress in tackling it has been uneven. Although Asia has advanced rapidly, it still accounts for most of the world's poor. Sub-Saharan Africa has struggled with slow growth and rising poverty, partly linked to conflict and governance problems, and it now faces the scourge of HIV/AIDS.

3 Emerging threats loom large. Social and economic inequality within nations is an obstacle to sustainable poverty reduction. The marginalisation of ethnic and other minorities continues to trigger outbreaks of violent conflict. And poor people continue to be excluded from economic and political life in many countries

and from the global mainstream. Both the challenges, and the stakes, for eradicating poverty are high – and they are rising.

4 Changing global dynamics are adding new and troubling dimensions to poverty. The accelerating pace of economic integration among nations will fuel future growth in incomes and jobs. It will stimulate new patterns of production and exchange. And it will create unprecedented opportunities for communicating, learning and sharing knowledge with others. Globalisation holds great promise for empowering people and for promoting greater international understanding, linkages and partnerships. But it also threatens to widen the divide between rich and poor, leaving some poor countries and regions increasingly behind. Globalisation will not deliver its potential benefits if it works for only a few.

5 At the same time, in a rapidly globalising world the social ills associated with poverty – disease, illicit migration, environmental degradation, crime, political instability, armed conflict and terrorism – can spread with greater ease across borders and continents. Compounding this are the pressures of population growth. Of the estimated increase of 2 billion people over the next 20 years, 97% will live in the developing world. Eradicating poverty is thus more than a moral and humanitarian imperative. It is also essential for global security and prosperity and for reducing environmental stresses. It is an international public good of the first order, serving the interests of all.



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6 The current conjuncture for confronting poverty is promising. There is now broad global commitment to halving the proportion of people in extreme income poverty and hunger by 2015. Developing countries are establishing and implementing strategies to achieve this goal. And the international development community is putting together a co-ordinated and focused response, mustering the political will and establishing the frameworks and mechanisms for organising a more effective assault on poverty.

7 The time is right to seize the opportunities at hand: rising political will to tackle poverty, the potential of globalisation for all and technological advances in telecommunications, information and the life sciences. It is essential to deliver on promises, convictions and goals, following through with commitment, resources and well-founded efforts on the ground. Everyone has a stake in working more effectively, with greater scope, to reduce global poverty.

II Implementing the DAC 21st century strategy

8 The OECD/DAC strategy *Shaping the 21st Century: the Contribution of Development Co-operation* set out a vision of development co-operation based on partnership around development strategies owned and led by developing country governments and civil societies. The principles underpinning this vision – partnership, ownership, country leadership, broad-based participation, development effectiveness and accountability – have far-reaching implications for the way development agencies conduct business. Development co-operation agencies now need to work in a much closer, more co-ordinated way with a wider range of development partners. They should tailor assistance to partner country priorities and needs where the conditions for partnership exist. They are now accountable to partners and to their own publics for actions and commitments. They need to work as facilitators – rather than prime movers – of development.

9 The 21st century strategy also committed DAC Members to support poverty reduction in developing countries by assisting them to achieve a limited set of goals for economic and social development and environmental sustainability – the International Development Goals (IDGs) – based on agreements at international fora in the 1990s. DAC Members also agreed to promote qualitative factors in the evolution of more stable, safe, participatory and just societies, which they considered essential to the attainment of these measurable goals. These include capacity development for effective, democratic and accountable governance, the protection of human rights and respect for the rule of law.

10 A broader set of quantitative and qualitative development goals for monitoring progress towards the ultimate objective of poverty eradication is included in the United Nations Millennium Declaration, adopted by heads of State and Government in September 2000. These measurable goals subsume and update the IDGs first set out in the OECD/DAC 21st century strategy. The Millennium Development Goals (MDGs) are set out on the last page of this publication.

11 Under the impetus of the 21st century strategy, DAC Members are committing themselves to work with greater resolve to reduce poverty in solidarity with poor people and in the interests of securing universal human rights. They will be working to ensure centrality of sustainable poverty reduction in development co-operation and to integrate economic, social, environmental and governance concerns within comprehensive approaches to development at the country level.

12 Determined to work more effectively to reduce poverty, DAC Members have now developed a set of guidelines to help concert and improve their individual and collective efforts. The *DAC Guidelines on Poverty Reduction* cover five major themes: poverty concepts and approaches, partnership issues, country programming, policy coherence and institutional change in development agencies. This summary highlights key *Guidelines'* conclusions, commitments, and challenges.



Common concepts and approaches for understanding and addressing poverty

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Sustainable poverty reduction calls for effective strategies based on clear and consistent concepts and approaches. Different ways of understanding poverty leads to different ways of dealing with it. A common and clear understanding of poverty helps build a common agenda with development partners, linking specific causes of poverty in each setting with suitable policies and actions. The following steps are basic for poverty reduction approaches in each country:

- Identify the main causes of poverty.
- Design and rank policies and actions that address these causes.
- Specify the indicators or goals for monitoring progress.
- Seek broad agreement on policies and programmes to tackle poverty.

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Poverty is multidimensional.

Poverty denotes people's exclusion from socially adequate living standards and it encompasses a range of deprivations. The dimensions of poverty cover distinct aspects of human capabilities: economic (income, livelihoods, decent work), human (health, education), political (empowerment, rights, voice), socio-cultural (status, dignity) and protective (insecurity, risk, vulnerability). Mainstreaming gender is essential for reducing poverty in all its dimensions. And sustaining the natural resource base is essential for poverty reduction to endure.

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The causes of poverty vary widely from one country to another.

History, geography and governance all shape development patterns. Wars, armed conflicts and collapses of the state cause poverty and make it worse. Entrenched corruption,

rent-seeking élites, lack of respect for human rights, inefficient bureaucracies and weak commitment to undertake policy and institutional reforms are all inimical to reducing poverty. Other important causes of poverty are environmental degradation, gender discrimination and rapid population growth. AIDS has now emerged as a critical poverty issue requiring wide-ranging action.

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Promoting pro-poor growth and reducing inequality.

Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally

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Empowering the poor.

Powerlessness, injustice and exclusion perpetuate poverty – and make it worse. The poor need to be able to exercise their human rights and to influence state institutions and social

The need for fast, pro-poor growth

Vigorous, sustained economic growth in the private sector creates jobs and incomes for the poor. It also generates public revenues to finance social development and social protection programs and to strengthen the institutional framework and physical infrastructure for efficient markets. The state, the private sector and civil society all have crucial roles in reducing poverty by fostering pro-poor economic growth through efficient and competitive markets. But even rapid and durable growth can leave people behind. Only about half the increase in incomes of the poorest fifth of the population comes from GDP growth. The other half comes from the quality of growth – from its composition, distribution and sustainability.

How to achieve more pro-poor growth? By adopting policies and programs that enable poor people to access human, physical and financial assets that can increase their productivity and incomes, for example enhanced social services (particularly education and health), land tenure reform and micro-finance schemes. The development of smallholder farming and labour-intensive manufacturing as well as supportive infrastructure and institutions are also vital for pro-poor growth. Other key elements are, more broadly, good governance including prudent macroeconomic management with low inflation, and institutional capacity, including sound frameworks for financial markets and the corporate sector.

processes that affect their lives. Rights-based approaches to poverty reduction strengthen the norms and institutions that protect universal human rights (including those of children and workers) through open political, economic, legal and judicial systems. Key elements for empowering the poor include:

- Strengthening popular participation in formulating and implementing policy and in assessing impact.
- Promoting democratic and accountable governance and transparency.
- Promoting human rights and the rights of marginalised groups.
- Increasing the scope for civil society interaction and freedom of association.
- Supporting a free press.
- Reinforcing the rule of law and the impartial administration of justice.
- Promoting decent work conditions.
- Giving the poor more voice and control over the type, quality and delivery of services they receive.

18 **Basic social services.** The social development objectives of human development call for adequate levels of health, education, water, sanitation and social protection. Social development, critical for poverty reduction, is a right in itself. It directly improves the lives of poor women and men, and contributes to overall growth and development. Education, especially



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for girls, and reproductive health services are crucial factors for defeating poverty and some of its major aspects – illness, including AIDS, unsafe motherhood, and high population growth. Disease and illiteracy are barriers to well-being and productive employment. Reading and writing facilitate communication with others, which is crucial in social and political participation. Public spending on social services is important, if used efficiently. It needs to be coupled with incentives and pro-poor financing methods, including social insurance, to ensure access, affordability and quality of services rendered. If the poor are to benefit, partner country governments need resources to invest in infrastructure and provide basic services. For some services, particularly water supply and sanitation, user fees or private sector involvement within a legal framework of social equity can improve access as well as management efficiency.

19 **Sustainable livelihoods approaches – addressing the needs and capabilities of poor people.** These approaches start by asking poor women and men about their needs and notions and, based on this information, goes on with the necessary policy reforms in the context of sustainable development. Poor peoples' sources of livelihood are highly varied, ranging from natural resources to handicrafts, trade and services. Sustainable livelihoods approaches involve institutional development to buttress the ability of poor people to overcome poverty, for example by sustained improvements of farm productivity and food security.

20 **Human security: reducing vulnerability and managing shocks.** How do poor people see insecurity? As a major dimension of poverty. Promoting human security requires measures to protect people from disruptions to nations and households. It also requires addressing the many sources



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of risk that affect poor people – lack of food, ill health, unemployment, crime, old age, domestic violence, armed conflict, natural disaster and other environmental risks.

IV Forging effective poverty reduction partnerships

21 The new emphasis on partnerships for reducing poverty calls for a comprehensive re-thinking of development co-operation practices. Six principles should govern agency actions:

- Partnership approaches, which facilitate and strengthen local ownership, should be the basis for all development assistance efforts.
- National ownership of poverty reduction strategies, including locally-determined policies and priorities, should consistently be respected, promoted and supported in all interactions with partners.
- Agency support for national poverty reduction strategies should be based on a sound assessment of the merits, drawbacks and trade-offs of the strategy's approach.
- The active participation of a range of partners and the empowerment of the poor are vital.
- Better co-ordination and longer-term commitment can strengthen partnerships and increase impact.

- Development efforts should be monitored and evaluated with government partners and poor people themselves in order to assess partnership performance and to secure and maintain pro-poor effects.

22 *Sound, productive partnerships are based on trust, mutual accountability and a shared commitment to goals and objectives.* Partnerships work best when they are based on reciprocal relationships characterised by clear understandings about the roles and responsibilities of the different partners and where there is open, inclusive dialogue among them. To strengthen trust and commitment, partners need to assess each other's performance in meeting agreed responsibilities and obligations.

23 Measures of partner country performance could include:

- The scope and pace of government efforts to orient strategies in a pro-poor, gender-aware direction.
- The quality of the policy dialogue.
- The extent and quality of local consultative processes in developing national poverty reduction strategies.
- The impact of poverty reduction policies and programmes.

24 Similarly, the performance of development agencies could be assessed to determine whether:

- Planning and implementation activities support country-led strategies, co-ordinated with other partners.
- Agency activities respect and foster local ownership.
- Resources are provided more flexibly and predictably.
- Assistance, including specific projects, is being integrated in partner government expenditure frameworks.
- Agency support has had an impact on reducing poverty.

25 *Marshall all potential development partners to ensure ownership, sustainability and effectiveness.* Civil society, the private sector, Parliaments, local government, trade unions, poor people, external agencies – all should participate in designing and implementing strategies for reducing poverty. This diversity of actors demands better communication, reinforced by strong co-operation, and a good understanding of the relative strengths and comparative advantages of each of them. Development agencies can play an important role in strengthening the capacity of civil society to engage with government and in supporting consultation mechanisms. Due consideration should be given to the scope for non-governmental organisations, Chambers of Commerce and the enterprise sector to spearhead effective and innovative initiatives for reducing poverty.

26 *Partnership means dialogue with and beyond government.* A broad range of partners should be engaged in the policy dialogue process when poverty reduction strategies are devised. Extra effort will be required to ensure that, from the beginning, *genuine participation informing policy decisions and outcomes takes place* in these consultations. This means promoting local democratic structures and identifying civil society actors who can legitimately speak for the poor and be accountable to them. It also means taking care not to undermine the legitimacy of partner governments – instead respecting what partners are doing to build and consolidate their constitutional and democratic institutions.

27 *Allocate resources for effective poverty reduction.* Given the limited volumes of development assistance and the importance of reducing poverty, it is vital that development co-operation resources

are used as effectively as possible. Country allocation criteria need to take into account both the number and proportion of very poor people and include an assessment of the scope for the effectiveness of aid in a given partner country. Maximising the impact of development co-operation on reducing poverty implies:

- Concentration on the poorest countries, although some targeted funding should also be provided to other developing countries with widespread poverty.
- More emphasis on medium and larger-sized countries, where the vast majority of the very poor are found, although aid per capita would remain significantly higher in smaller countries.
- Taking account of aid effectiveness factors drawn from DAC experience that highlight the importance of both political commitment to fight poverty and an effective policy and institutional environment.
- Ensuring that the partner country's poverty reduction strategy is legitimate, adequate and appropriate.

28 *Helping partners in severe difficulty.* There are other developmental objectives in aid allocations beyond poverty reduction. These include conflict prevention, human rights and participatory democracy, gender equality and sustainable development. There is also often an



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acute need to help countries adjust to external shocks, for example refugees fleeing conflict in neighbouring countries, natural disasters, or terms-of-trade shocks – all of which affect economic and social development performance.

29 *Collaborate closely with other external partners in dealing with dilemma situations*

Countries with inadequate development policies and institutions need support to create conditions enabling performance to improve. Working as partners with such countries in ways that promote country ownership – and yet that ensure aid is effective and has poverty-reduction impact – is likely to be problematical. What happens when a partner government does not comply, or only partially complies, with its stated intentions or commitments? Policy conditions – often bundled with financial and technical support – have sometimes helped reform-minded (usually new) governments advance reform agendas. But externally-imposed conditionality has generally not been effective, sustainable or conducive to country ownership and is least likely to work in countries lacking the basis for partnership. Emerging good practice suggests the following approaches:

- A moderate share of assistance should be reserved for these countries.

- External partners should have a shared view of the partner country and co-ordinate their development co-operation and other actions and policies.
- Assistance should be used to support sustainable national or local institutions and civil society, with an emphasis on addressing the barriers to adequate performance: these include renewed policy dialogue, supporting local coalitions for reform and strengthening local capacity for research and social dialogue.
- Development co-operation could also support local authorities and NGOs in relieving poverty among targeted populations to reduce vulnerability and to satisfy humanitarian needs.

30 *Reducing poverty involves a political process.* Pro-poor structural and policy reforms in partner countries often raise difficult political issues. Some groups are clinging to power, privileges and rents. Others are more amenable to pursuing reform and implementing pro-poor policies. Development agencies are understandably reluctant to be involved in sensitive internal political issues, but cannot ignore these tensions. By supporting government efforts to engage society in dialogue on development options and choices, agencies will be able to understand more about local social and political dynamics and to build strategic alliances and partnerships with reform-minded groups and institutions. Encouraging pluralistic, participatory democracies that give voice to the poor can also address this challenge.

31 *Aid co-ordination is the joint responsibility of all partners, although it should be initiated and led by partner governments.*

External agencies should undertake more disciplined and sustained efforts to work with one another to assure coherent approaches and a strong focus on fundamental needs and collaboration opportunities. They need to share more information with others to ensure genuine co-ordination and enable other local and external partners to use their frameworks to fullest advantage. The challenge for the development community is to find ways of collaborating that do not undermine country ownership nor create an extra burden for partner countries.

32 *Closer collaboration with multilateral and regional institutions is key.* There are four practical steps involved in working more effectively with these agencies. First, initiate early and continuous contact with relevant multilateral staff. Second, agree on the respective roles, responsibilities and obligations of different external partners in country-specific poverty reduction strategy processes. Third, keep periodic co-ordination meetings informal, operational and focused on results. Fourth, where feasible, streamline and simplify funding and disbursement arrangements.



V Frameworks and instruments for country programming

33 To translate their poverty reduction objectives into more effective programmes, agencies should use partner country strategic frameworks, a judicious mix of aid instruments and proven best practices.

34 *Agency programmes should, first and foremost, build on partner country development frameworks.* In their various national adaptations, the planning frameworks promoted by the international community (such as the PRSP, NSSD, CDF, and UNDAF/CCA) are strategic for translating the Millennium Development Goals into national policy and action. But these closely related, often interlocking frameworks must be rationalised to reduce the burden of having partner countries comply with multiple planning instruments. Ideally, the frameworks should coalesce into a single, comprehensive national strategy for reducing poverty that integrates economic, social and environmental priorities.

35 *The emerging national poverty reduction strategies should be the point of departure for external assistance.* These strategies should be country-driven, participatory, comprehensive and results-oriented. Agencies should tolerate different formats and standards. They should be aware of – and accommodate – often over-stretched country capacity, and allow time for local ownership to grow. They should set realistic targets, taking into account local capacity to implement strategies and recognising that sustained poverty reduction cannot be achieved overnight.



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36 *Agencies need to sharpen the poverty focus and impact of country programmes.*

Consistent with the trend in partner countries to develop poverty reduction strategies, agency country programmes should focus primarily on the poverty-reduction goals identified by the partner country. Agencies can play a crucial role in promoting informed local policy formulation processes by sharing information, analysis, diagnostic studies, user surveys, data, and other knowledge with local partners. Programmes should reflect the best knowledge of poverty in the country. And taking into consideration what other development agencies are doing in the country, they should reflect the agency's comparative advantage.

37 *Country programming should consist of a mix of aid instruments, drawing on synergies.*

The instruments include financial support for national, regional and sectoral programmes and projects. These are often used in combination with policy dialogue, underpinned by technical co-operation which is frequently integrated with the relevant project or programme. Each instrument has its advantages and drawbacks, depending on the partner country. But to ensure ownership and sustainability, the development community should move from agency-driven activities

to co-operation modes in support of partner-led programmes. This implies attention to programme aid and sector support, but there is also much that can be done through projects, all coordinated in support of partner leadership. The choice of instruments and the balance between indirect and focused actions should flow from an analysis of the country's needs elicited through a dialogue with government and other stakeholders.

38 *Programme aid opens the way to a continuing dialogue on pro-poor policies.*

Programme support allows financial resources to be disbursed with minimum transaction costs. By giving the partner country fuller responsibility for financial decisions and management, such support underpins the principles of partnership and ownership. In the right political, economic and institutional environment, programme aid supporting a sound poverty reduction strategy is likely to have the biggest impact. But given the fungibility of resources, it is important to ensure that programme aid supports a sound, agreed and monitored reform programme. Debt relief, which *de facto* provides programme-type assistance, is based on similar principles.

39 *Sector support holds potential for shifting attention to poverty and inequality.*

Sector programmes, including sector-wide approaches, can enhance local ownership, strengthen partnership and establish an institutional environment conducive to reducing poverty. To exploit the advantages of the emerging sector-wide approaches for reducing poverty, agencies need to address multiple challenges. They must accept locally owned sector strategies and promote a more focused dialogue on equity in social development, particularly in the crucial sectors of health and education. They should elevate rights of the poor



and issues of gender as primary concerns in specific sectors. They should give priority to building local capacity to formulate policies and implement programmes. They should involve civil society and foster partnerships with the private sector. And they should rationalise accounting and reporting procedures. Extending this kind of support also hinges on the partner country's ability to comply with required standards of accountability and financial governance regarding the use of external funds.

40 *Partner-led projects can make a lasting impact on the livelihoods and well-being of beneficiaries.* Projects addressing poverty will have greatest impact when they are embedded within a broader development framework, such as the national poverty reduction strategy or a sector programme. When they promote ownership and participation, rely on local knowledge and focus on increasing capacities, they have greater potential for making a sustainable contribution to poverty reduction. Projects should be compatible with the surrounding institutional and cultural environment and be accepted by central government, local authorities and civil society. Agencies should avoid small projects affecting a limited amount of people that place disproportionate burdens on scarce partner capacity. They

should also move away from top-down micro-management in both design and implementation, which results in lack of sustainability after the withdrawal of external funding.

41 *Strengthening partners' own capacities to reduce poverty should be an overriding objective for technical co-operation.* Technical co-operation for capacity-building, either free-standing or embedded in other projects or sector-wide approaches, has an important and continuing role to play. To increase its impact, development agencies should apply well-tested good practices. First, set self-reliance and the principle of minimum intervention as a strategic objective, rather than use technical co-operation to get tasks accomplished or fill gaps in local competence. Second, plan technical co-operation in the context of national poverty reduction strategies and sector programmes, rather than make isolated, donor-driven proposals. Third, define objectives as outcomes to be achieved rather than inputs to be provided. Fourth, promote the capacity of local experts and provide for transfer of know-how by international experts where needed. Fifth, as in the case of project and much sectoral assistance, strengthen existing institutions and capacities, both public and private including universities, rather than promote parallel structures. And sixth, ensure that recurrent costs are sustainable and will be picked up in national or local budgets. These good practices apply to financial co-operation as well.

42 Finally, other instruments of rising importance in agency portfolios such as debt relief, humanitarian aid and support for regional co-operation can be vital for poverty reduction.

VI Policy coherence matters

43 *Reducing poverty requires coherence* – not only in development co-operation, but across OECD Member government policies – to avoid having the policies and actions of other parts of their governments undercut development agencies' efforts to reduce poverty. Such policy coherence for global poverty reduction should be elevated to each Member's national agenda. Indeed, government policies other than development co-operation may be more important for reducing poverty in developing countries. Consider agricultural and manufacturing tariffs and subsidies in industrialised countries: estimates suggest that they cause annual losses to developing countries of the same magnitude as annual flows of official development assistance. If non-tariff barriers and the regulation of trade-related services and intellectual property rights are included, then the estimate of losses may even triple.

44 *Policy coherence is a profound political challenge.* Governments have a wide range of objectives reflecting domestic constituencies and interests. Even so, poverty reduction might now receive more weight in relation to other national objectives and become a higher priority for a broader range of policy-makers. Why? Because poverty is a source of dysfunction and disorder in the world – with adverse spillovers to political instability, environmental degradation, illicit migration, epidemics and other international problems.

45 *Key steps for enhancing policy coherence.* The highest political authorities need to communicate their commitment to reduce global poverty throughout government, and to take measures to improve policy co-ordination to enhance coherence. Almost all DAC Members have made strong public commitments to reduce poverty. The challenge is to get this translated government-wide and used as a reference point when formulating and implementing policies. The most important policy areas are international trade and investment, agriculture and food security, natural resources and the environment, social issues, governance and conflict prevention.

46 *Making policies coherent across government is a complex process.* But there are ways in which much can be achieved. Examples are establishing a political mechanism, such as an interagency working group, for exchange and consultation within and across government ministries and departments; developing a government-wide policy brief on poverty reduction; systematically vetting legislation for its coherence with reducing poverty, and establishing cross-ministerial task forces for emerging issues, such as conflict prevention.

47 *Development agencies have an important role* – as advocates for development objectives and for ensuring that mechanisms exist for achieving policy coherence in practice. These mechanisms for policy coherence would apply, of course, to both development and other national objectives. Formal sessions are an invaluable tool for improving coherence, but a culture of informal contact is also critical.

VII Changing the way we think and act

48 Agencies should consider how they will address institutional changes needed if the traditional donor-recipient relationship is to be reconstructed to one based on partnership, led by the developing country government's own priorities, and facilitated through shared knowledge and policy dialogue. This may well call for important changes in their organisational structures, practices, incentive systems and cultures. A successful change agenda will address the following issues:

49 *What is needed to mainstream poverty reduction throughout development agency operations?*

- Determined leadership at both political and policy-making levels should capture and channel the interest and commitment of all staff, other government bodies and civil society to focus more resolutely and forcefully on supporting the poverty reduction efforts of partner countries. There must also be a clear agency vision, policy framework and strategy for helping partners reduce poverty, including country programming, sector approaches and project interventions. The goal of reducing poverty should inform all relevant agency planning processes and be a criterion in programme and project screening procedures.
- The multidimensional approach to poverty reduction highlights the need to consider reconfiguring organisational structures to facilitate better co-ordination and cross-fertilisation of expertise and the exchange of knowledge within agencies. Good practice in this combines two

approaches: making all staff responsible for promoting poverty reduction, and appointing poverty reduction “focal points” or “champions” to propel action and institutional change and learning. These focal points will need resources and authority to be effective.

- Agencies will need staff with broader ranges of specialist skills (including the capacity to integrate the important cross-cutting concerns of gender, governance, environment and participatory approaches). They will have to provide specialist support on poverty to field offices (including some with macroeconomic and technical skills). This can be done through agency staff who are resident in-country or in regional centres, supplemented by support from central agency staff. Training programmes dealing with poverty reduction issues and techniques will be needed to develop staff capacity to respond with wisdom and perspective.
- Mainstreaming also calls for encouraging team-work across professional boundaries to address more effectively the multidimensional nature of poverty and to overcome sector-driven, supply-led approaches. This will have implications for the way agencies deploy and manage staff.



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How can agencies work more effectively with diverse partners under government leadership in the field?

- Reducing the burden created by multiple administrative and financial requirements and improving agency co-ordination of policies and activities is very important. Efforts should focus on streamlining, simplifying and harmonising practices, procedures and reporting requirements in line with agency accountability requirements. Supporting the development of local capacity for accountability and transparency (financial management, accounting, monitoring) will strengthen agency confidence levels and facilitate moves towards aligning agency systems and procedures with those of developing country partners. This capacity building need not be done by each individual agency, but through co-ordinated assistance among them.
- Agencies also need to strengthen their institutional capacity to support partner governments in elaborating their own poverty reduction strategies and in interacting more effectively with other partners and stakeholders. This may require a change in agency attitudes and behaviour towards the role of civil society in policy formulation processes. Members should be realistic about the time required to

generate broad-based support for strategies to reduce poverty and the resources this involves for partner governments, especially where capacity is weak.

- Decentralising staff resources and decision-making to the field can help in several ways. It can improve understanding of local poverty conditions and heighten responsiveness to changing local circumstances. And it can strengthen team-work across disciplines and promote better dialogue and partnership through close and continuous interaction with other local partners.
- Decentralisation decisions will have to balance these benefits against potential downside factors, such as increased costs and over-stretched or excessively dispersed institutional technical expertise. Moreover, increased decentralisation is not necessarily a feasible and/or appropriate solution for smaller development assistance agencies, given associated additional costs and the extra efforts required to assure the quality of local programming and accountability. This argues all the more strongly for increasing collaboration and sharing expertise and information among all agencies, and for greater reliance on local expertise.

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How can agencies strengthen staff capacities and motivation to work in partnership?

- Management should stress the development of skills that foster partnership (in facilitation, diplomacy, negotiation, co-ordination experience) and create opportunities for staff exchange, learning and team-work.
- Staff recruitment and incentive structures (for permanent, temporary and diplomatic staff) should include a strong focus on poverty reduction and pro-poor

growth skills and performance, team-work capacities, and efforts to initiate and sustain co-ordination with other staff and partners.

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How can organisational structures and practices promote better policy coherence across Member governments?

- Efforts to improve policy coherence call for creating or improving mechanisms to resolve contradictions or to mitigate the effects of conflicting government policies. It also calls for a commitment of staff time and resources to identify and analyse issues and to interact in different national and global forums. Closer, more coherent interaction between agencies and other parts of their governments in dealing with multi-lateral institutions is one key to enhancing the broader coherence of development co-operation efforts.

VIII Achieving our goals

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Focused development co-operation and greater policy coherence can do much to reduce poverty in developing countries. Yet impact will be modest without the initiative, efforts and resources of other partners, including partner governments, civil society, the private sector – and particularly the poor themselves. Achieving the goals will require a coalition of all forces. These *Guidelines* provide information, experience and shared orientations to assist bilateral agencies as they work with partner countries, with one another and with multilateral institutions in increasingly co-ordinated and collegial ways. All partners in development must strive together to ensure that progress in this new century is truly partner-driven and inclusive of all.

An action agenda for the bilateral community

The *Guidelines* set out the following priorities for bilateral agencies working with partners to reduce poverty:

- Support country-owned, country-led strategies for reducing poverty, and base agency programming on needs and priorities identified in these strategies.
- Allocate more development assistance to countries where there is greatest scope for reducing poverty given the number of absolute poor, the strength of government commitment to tackle poverty and demonstrated policy performance. Reserve funding for countries dealing with external shocks or conflict situations, and for countries with very weak development policies.
- Reduce the burden that development co-operation creates for local partners by combining efforts (for example, joint missions, collaborative research, common diagnostics, shared costs, etc.), easing administrative requirements (for example, simplifying, streamlining and harmonising paperwork and procedures and accepting partner design for strategies and documents wherever possible), and co-ordinating agency approaches and actions.
- Invest the time and resources needed to build genuine, reciprocal, poverty reduction partnerships.
- Adapt agency structures and working methods to the challenges and needs of poverty reduction partnerships (for example, strengthen field presence; enhance field-level decision-making flexibility; develop staff “facilitation” and consensus-building skills; increase transparency and accountability to other partners).
- Work more intensively to develop human and institutional capacity in partner countries.
- Ensure a gender perspective in all policies, programmes and instruments.
- Integrate sustainable development, including environmental concerns, into strategic frameworks for reducing poverty.
- Adopt, to the greatest extent possible, a multi-year timeframe for poverty reduction programming and funding as a complement to multi-year partner government fiscal planning and budgeting.
- Assess development co-operation for its impact on poverty and develop the requisite monitoring and evaluation systems and methodologies.
- Foster and strengthen local capacities to monitor poverty reduction programmes and the use of external and domestic resources in the context of debt relief programmes.
- Encourage the development of local poverty reduction indicators and targets – and strengthen local statistical, analytical, monitoring and evaluation capacity.

Millennium Development Goals

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Goals	Targets
I Eradicate extreme poverty and hunger	1 Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
	2 Halve, between 1990 and 2015, the proportion of people who suffer from hunger
II Achieve universal primary education	3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
III Promote gender equality and empower women	4 Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015
IV Reduce child mortality	5 Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
V Improve maternal health	6 Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
VI Combat HIV/AIDS, malaria and other diseases	7 Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
	8 Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases
VII Ensure environmental sustainability	9 Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
	10 Halve, by 2015, the proportion of people without sustainable access to safe drinking water
	11 By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers
VIII Develop a Global Partnership for Development	12 Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. <i>Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally</i>
	13 Address the Special Needs of the Least Developed Countries. <i>Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</i>
	14 Address the Special Needs of landlocked countries and small island developing states <i>(through Barbados Programme and 22nd General Assembly provisions)</i>
	15 Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
	16 In co-operation with developing countries, develop and implement strategies for decent and productive work for youth
	17 In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
	18 In co-operation with the private sector, make available the benefits of new technologies, especially information and communications





Strengthening Human Security



Reducing Poverty



Increasing Global Prosperity



Countering Social and Environmental Stress

