

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



BANK GROUP POLICY ON POVERTY REDUCTION

PSDU

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Acronyms and Abbreviations

ADF	African Development Fund
ADB	African Development Bank
AMINA	ADF Micro-finance Initiative for Africa
AMU	Arab Maghreb Union
CBO	Community Based Organization
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poorest
COMESA	Common Market of East and Southern African States
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
CSP	Country Strategy Paper
GDP	Gross Domestic Product
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
HIPC	Heavily Indebted Poor Country Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IEC	International Education and Communication
IFAD	International Fund for Agricultural Development
IPAA	International Partnership Against AIDS in Africa
JAI	Joint Africa Institute
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NEPAD	The New Partnership for Africa's Development
NGOS	Non-government Organizations

OECD	Organization for Economic Cooperation and Development
OESU	Environment and Sustainable Development Unit
OCMU	Central Micro-finance Unit
PMS	Poverty Monitoring System
PPA	Participatory Poverty Assessment
PRSP	Poverty Reduction Strategy Paper
PSDU	Sustainable Development and Poverty Reduction Unit
RMC	Regional Member Country
RBM	Roll Back Malaria
SADC	Southern African Development Community
SMEs	Small and Medium Enterprises
SPA	Strategic Partnership with Africa
UA	Unit of Account
WBI	World Bank Institute
WDR	World Development Report

Executive Summary

1. The policy paper affirms the commitment of the African Development Bank (The Bank) to its overarching goal of poverty reduction by emphasizing the importance of supporting national ownership, participation and outcome orientation in the effort to improve the lives of the poor in Africa. The achievement of this goal entails the integration of a poverty perspective throughout Bank activities and the development of appropriate operational mechanisms and institutional arrangements.
2. The policy takes into account lessons learnt in national poverty reduction efforts and the experience with international aid for social and economic development. The understanding of the concept of poverty and its causes has broadened with implications for a wide range of policies to reduce it. Likewise, the approach to development assistance has evolved towards support for country-led strategic development frameworks and planning instruments based on national budgets, participatory processes and measurable improvements in the welfare of the poor. These changes provide the backdrop for the analysis presented in the policy paper.
3. The Bank's *Vision Statement (1999)*, which was elaborated following a broadly consultative process, is the starting point for the paper. The Vision specifies poverty reduction as the Bank's overarching goal and identifies sectoral priorities and discusses operational issues. In 2002, the Bank's first Strategic Plan was prepared in order to operationalize the Vision more systematically and effectively. The policy paper elaborates on the poverty dimensions of the major themes articulated in the Vision, the Strategic Plan and the other Bank policy papers.
4. The main objective of the policy is to provide a framework for action by putting poverty reduction at the center of Bank support for its RMCs. This is especially the case with their efforts to prepare, implement, and evaluate their Poverty Reduction Strategy Papers (PRSPs); enhance development effectiveness; and achieve the Millennium Development Goals (MDGs).
5. The preparation of the policy followed a participatory approach involving Bank staff and national as well as international development partners.

Rationale for a new policy

6. A number of important developments have made it necessary to revise the Bank's 1992 *Poverty Alleviation Strategy and Action Program*. Since the mid-1990s, a consensus has emerged about the need to put poverty reduction at the center of development assistance on the basis of national ownership, participation of civil society, and a focus on outcomes representing the welfare of the poor. This approach is consistent with development initiatives and policy statements highlighted in a number of international conferences since the mid 1990s including the *United Nations Millennium Declaration*, the World Bank's *Comprehensive Development Framework*, *country-owned PRSPs*, *the New Partnership for Africa's Development (NEPAD)*, *the Plan of Implementation of the World Summit on Sustainable Development in Johannesburg*, *the World Water Forum in Kyoto*, and the recent call by the international community at the *High Level Policy Harmonization Forum in Rome* to harmonize the global effort towards the enhancement of development effectiveness in favor of the effective implementation of PRSPs and achievement of the MDGs.

7. In addition, the understanding of the concept and causes of poverty has broadened and the pro-poor policy options have been expanded. Issues of good governance, empowerment, gender equality, sustainable livelihoods, safeguards against vulnerability to external and internal shocks, and solutions for adverse effects of inequality on pro-poor growth feature prominently in recent poverty reduction strategies. The policy paper reiterates the commitment of the Bank to meet the challenges posed by this changing national and international environment and provides guidance for Bank operations.

Poverty in Africa

8. The majority of African countries continue to face widespread poverty. Close to 50 percent of the population in Sub-Saharan Africa lives on less than \$ 1 a day. Most social indicators also reveal notable gaps between Africa and other regions of the world. However, these aggregate figures mask variation within the continent. For example, significant differences in sources and depth of poverty exist between North Africa and Sub-Saharan Africa and across countries within Sub-Saharan Africa. As a whole, indicators of poverty for North Africa are better than those for Sub-Saharan Africa.
9. Although urban poverty is on the rise, poverty in Africa is largely a rural phenomenon. It is also associated with low levels of education, poor health status and high fertility rates. There are pronounced spatial dimensions to poverty as well and this is reflected in the high inequality on the continent. Other important factors closely related to poverty include persistent conflict, the HIV/AIDs pandemic, environmental degradation, poor governance, declining international prices for primary commodities and gender inequality in access to productive assets, employment opportunities, political representation and social services.
10. The analysis of characteristics and causes of poverty suggests potential remedies. For instance, given the depth of poverty in rural areas, effective strategies of poverty reduction in Africa must identify pro-poor policies in agricultural, rural and private sector development. Low literacy rates for the poor also require a focus on the development of their human capital. Pro-poor measures to improve governance, reduce population growth, protect the environment, mitigate the impact of exposure to vulnerability, prevent conflicts, promote regional integration, enhance gender equality and effectively manage the HIV/AIDs pandemic should also be important components of poverty reduction strategies. The policy paper spells out the necessary actions within each of these broad areas.

Bank Experience with Poverty Reduction

11. The Bank's approach to poverty reduction has evolved over time. Since the early 1990s, it has taken important steps to put poverty reduction at the center of its operations. The change in orientation has influenced the poverty focus of Bank operations including the preparation of CSPs, the design as well as implementation of poverty-specific programs and projects, capacity building of its staff as well as experts in RMCs and collaboration with its development partners.

12. The evolution of the Bank's work on poverty reduction also sheds light on the importance of the following principles and activities:

- commitment of management to implement the poverty reduction policy;
- consultation with its RMCs and active involvement of civil society organizations (CSOs) during the formulation of the policy in order to improve the chances of its implementation at the country level;
- dissemination of the policy paper through workshops and seminars to facilitate its implementation by policy and operations departments;
- enhancement of further training of Bank staff in poverty analysis; and
- promotion of applied research on poverty to facilitate the effectiveness of the Bank's operational work.

The New Conceptual and Strategic Frameworks

13. The new conceptual framework is based on three major developments in the analysis of poverty. First, the concept of poverty has been broadened from a simple basic needs approach to one that incorporates broader social issues such as lack of respect and dignity, social exclusion, inequality and vulnerability to risks. Second, the analytical framework has been widened from a focus on economic and human capital to other forms including social, political, cultural, and natural capital. Third, the tools used to determine the causes of poverty have been sharpened in order to analyze not only the stock of poverty but also the flows of individuals or households into and out of poverty.

14. The new strategic framework draws on four recent changes regarding development assistance. First, efforts are underway to base development assistance on national ownership of poverty reduction strategies and programs thus reversing the domination of donors in developing and implementing strategies at the country-level. Second, poverty reduction is now the overarching objective of many countries and their development partners. Third, there is a call for widespread participation of civil society in all stages of the formulation and implementation of policies and programs. Fourth, there is a concerted effort to guide interventions by their impact on improvements in the welfare of the poor. The shift to the new framework involves the identification of pro-poor policies to improve on a set of indicators of poverty. It also implies new approaches and institutional arrangements for operations. These developments have culminated in the preparation and implementation of country-owned PRSPs.

15. PRSPs provide an excellent opportunity for the Bank to implement the new poverty policy. This is because of the fact that they represent an effective mechanism for channeling domestic and international resources for poverty reduction in a coordinated manner. In this regard, they are based on national processes at all stages of policy including formulation, implementation and monitoring and evaluation. As part of its support for the ownership dimensions, the Bank has aligned its poverty reduction activities with the PRSP process at the country level. In this regard, it has taken specific measures to strengthen the links between coverage of poverty in CSPs and PRSPs. The potential contributions of Bank financed programs and projects are also being examined more explicitly at different stages of the project cycle.

The Policy

16. The policy has been informed by a set of guiding principles based on the major elements of the new conceptual and strategic frameworks. Specifically, it is based on principles of poverty-focus, national ownership, participation of civil society and outcome orientation. In addition, it promotes coherence across the new Strategic Plan, existing sector policies and strategies in RMCs on the basis of the shared objective of poverty reduction thus strengthening the partnership dimension of PRSPs. The focus of the policy paper, therefore, is not to restate policy prescriptions addressed in existing policies, but to strengthen their poverty dimensions by taking the new approaches into account. The policy paper adds value to existing sector policies in that it consolidates, coherently, recent thinking on the sectoral, institutional and operational dimensions of poverty reduction at national, regional and international levels in one document. This should facilitate work on poverty reduction of Bank staff and enhance its collaboration on poverty reduction with multilateral institutions, bilateral agencies and national as well as international civil society organizations. As a result, the chances for Bank contributions to overall development effectiveness and the achievement of MDGs at the country level should improve.

17. Five priority development areas have been selected namely: agriculture and rural development including rural infrastructure, human resources development, HIV/AIDs, private sector development, good governance and two cross-cutting issues, i.e., gender and the environment. Recently, the Bank has also emphasized the importance of strengthening and rationalizing regional integration schemes, addressing problems of population growth and developing poverty reduction strategies for conflict as well as post-conflict countries. This emphasis is consistent with the Vision, the Strategic Plan and remedies suggested by the analysis of the causes of poverty in Africa. Pro-poor policy measures are highlighted within each of these broad areas.

Implementation Strategies

18. The principles of national ownership, poverty-focus, participation and outcome orientation of PRSPs have notable consequences for the Bank. They involve the introduction of appropriate institutional and operational arrangements that facilitate the poverty focus of country programs, projects, staff training and collaboration with its development partners.

19. Operationally, efforts are underway to link country programs with the PRSP process. New Country Strategy Papers (CSPs) draw on the poverty diagnostics, sectoral priorities, cost estimates and outcome indicators specified in the PRSPs. The preparation and implementation of CSPs entails greater reliance on national institutions, through lending instruments such as Sector Wide Approaches (SWAPs) and as much as possible budgetary support. The new approach will also ensure consistency of project cycle activities with the participation dimensions of PRSPs. This will be implemented through the promotion of greater participation of CSOs in project identification, design, implementation and evaluation as well as support for PRSP-related Poverty and Social Impact Analysis (PSIAs).

20. Institutionally, the organizational change in 2002 has created a more conducive environment for the implementation of the new strategic framework. This is especially the case with the creation of the Sustainable Development and Poverty Reduction Unit (PSDU) reporting directly to the new Vice Presidency of Policy, Planning and Research (PRVP) and the preparation of the Bank's Strategic Plan with a focus on Bank support for PRSPs and MDGs. In addition, the plan to enhance the capacity of Bank staff in poverty analysis and strengthen the Development Research Department should enable the Bank to articulate its poverty reduction agenda and engage in joint activities with its development partners in an informed and efficient manner.

1. Background

1.1 Introduction

1.1.1 The policy paper reinforces the commitment of the African Development Bank (The Bank) to its overarching goal of poverty reduction through measures that facilitate national ownership, participation and a focus on measurable outcomes representing the welfare of the poor. This commitment is consistent with the national, regional and global effort to accelerate the achievement of the Millennium Development Goals (MDGs) in African countries. The ongoing activities towards the achievement of these goals have important implications for the Bank. They entail the integration of a poverty perspective in all Bank operations in a coherent and consistent manner.

1.1.2 The policy takes into account recent developments involving poverty reduction at the country level and in international development assistance. The understanding of poverty has broadened and the types of pro-poor policies developed by RMCs have been sharpened and expanded. Likewise, the priorities of development assistance have been redesigned with implications for Bank lending and non-lending activities.

1.1.3 The translation of the new framework into Bank operations demands the specification of policy options and the development of implementation strategies. In particular, the operationalization of the new aid agenda involves changes in the focus of programs and projects in line with country-driven strategies that are based on participatory processes and outcome orientation.

1.1.4 The Bank's *Vision Statement*, which was elaborated following a broadly consultative process, is the starting point for the paper. The Vision articulates that poverty reduction is the Bank's overarching goal, specifies priority areas for intervention and discusses operational issues. The priority areas identified include agriculture and rural development, human resource development, private sector development, gender equality, the environment, good governance and economic integration/cooperation. The policy paper builds on poverty dimensions of the major themes addressed in the Vision.

1.1.5 In 2003, the Bank prepared its first Strategic Plan in order to implement its Vision more effectively¹. An important element of the Strategic Plan is that it takes into account the emerging consensus among the international development community to harmonize policies and procedures in favor of the achievement of the MDGs. Furthermore, it takes into account the increased support for the NEPAD initiative and the recent call for a more open and equitable trade regime in order to enable poor countries take advantage of the export opportunities and new technology that globalization presents.

1.1.6 The preparation of the policy involved extensive consultations within the Bank and outside. In this regard, a Task Force comprising Bank specialists in agriculture, education, health, gender, micro-finance, macroeconomics and evaluation was established to oversee its preparation. The activities of the Task Force and the extensive electronic consultations have enriched the content of the policy.

¹ The Strategic Plan covers the period for 2003-2007.

1.2 Rationale for the Revision

1.2.1 The existing policy paper on poverty reduction, the Poverty Alleviation Strategy and Action Program, was approved in 1992. In 1994, guidelines for its implementation were produced. There have been a number of significant developments in the past decade, which warrant revision of the current policy.

1.2.2 The first involves changes in the environment for international development assistance. Since the mid-1990s, a consensus has emerged about the need for: national ownership of the development agenda; an explicit focus on poverty reduction as the overriding objective of development assistance; the effective participation of wide segments of the population in policy processes; and a focus on results in the design and implementation of development policies, programs and projects. Attention has also shifted to new forms of partnerships and new instruments of development assistance to realize these objectives.

1.2.3 These changes have been reflected in a number of important policy statements and development initiatives that appeared on the international scene in the past decade:

- The 1995 *World Summit for Social Development* in which governments committed themselves to the goal of poverty reduction as an imperative of humankind and pledged to formulate or strengthen national poverty reduction strategies.
- The 1996 OECD/DAC strategy paper *On Common Ground* and strategy - *Shaping the 21st Century: The Contribution of Development Cooperation*, which set out a vision of development cooperation based on the principles of country ownership, partnership and broad-based participation.
- The International Development Goals (IDGs) proposed in the OECD/DAC paper and recently endorsed as MDGs² in the *United Nations Millennium Declaration* of September 2000, which commit OECD members to work towards achieving eight development goals, including poverty reduction, within a specified time period.
- The World Bank's *Comprehensive Development Framework (CDF)* announced in January 1999, which emphasizes similar themes of country ownership, partnership, outcome orientation and a holistic long-term vision³.
- The *Heavily Indebted Poor Countries (HIPC) initiative* proposed by the World Bank and IMF in 1996 and enhanced in 1999, which provides debt relief to highly indebted nations that meet a number of conditions, including commitment to poverty reduction.

² The eight goals are to: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equity and empower women; reduce child mortality; improve maternal health; combat HIV/AIDs, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development. It should be noted that the United States has not endorsed the MDGs. However, it indicated at the Financing for Development Conference in Monterrey in March 2002, that it supports the internationally agreed goals including those contained in the MDGs.

³ The experiences with the implementation of the CDF were assessed recently. Several institutions have collaborated in this exercise. For details of the findings, see "Towards Country-Led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework, Synthesis Report", the World Bank, 2003.

- The *Poverty Reduction Strategy Paper (PRSP)* process which is linked to the HIPC Initiative and which was launched in January 2000, whereby governments formulate national strategies of poverty reduction in a participatory manner with particular focus on the development and achievement of monitorable indicators of poverty such as the MDGs.
- *The New Partnership for Africa's Development (NEPAD)* initiative since October 2001 with its focus on African leadership in matters related to poverty reduction, good governance and regional integration.
- *The Doha Agreement in November 2001*, which emphasized the importance of lifting trade restrictions and boosting access to developed country markets to promote exports, high growth and poverty reduction in developing countries.
- *The Monterrey Consensus on financing for development* reached in March 2002, which calls for increasing the availability of ODA and promote access to developed-country markets by poor countries that are committed to poverty reduction and good governance.
- *The Plan of Implementation of the World Summit on Sustainable Development* in September 2003 with its focus on poverty reduction and sustainable development.
- *The High Level Policy Harmonization Forum* in 2003 with its call for the harmonization of the global effort to enhance *development effectiveness* through the implementation of PRSPs and support for MDGs.
- *The Third World Water Forum* in March 2003 that set the agenda partly for the mobilization of financial resources necessary to achieve the water and sanitation MDG.

1.2.4 All of these initiatives complement the objectives of the Bank's own Vision and the implementation of its Strategic Plan.

1.2.5 The second major development informing the revision of the policy deals with changes in thinking about the various aspects of poverty. The understanding of the concept and causes of poverty has broadened. It is now widely accepted that there are several dimensions of poverty beyond inadequate income or consumption. Furthermore, there is recognition that the causes of poverty are equally varied. As a result, the range of policy options available in the fight against poverty has widened. Issues of good governance, protection of the environment, effective integration with the global economy, empowerment and sustainable livelihoods now feature prominently in the poverty reduction agenda. This is also the case with measures to reduce vulnerability and inequality.

1.2.6 In addition, the policy takes into account recent developments related to the New Partnership for Africa's Development (NEPAD) in which African leaders have committed to reduce poverty through new forms of partnerships with the industrialized world. The NEPAD initiative responds to the marginalization of Africa from processes of globalization and the ensuing social exclusion of its peoples. Its Program of Action assigns an important role for the Bank in the development of infrastructure, corporate governance and the banking sector. The policy paper spells out the implications of this broadened conceptual framework and identifies concrete measures that the Bank will undertake in order to operationalize them. As such, it serves as a complement to the Vision Statement, the Strategic Plan and the existing policy papers, which address some of these issues from sectoral perspectives.

Box 1
What is Poverty?

The development of a conceptual framework for poverty reduction depends on the clarity of the definition of poverty and its causes. For the purposes of this policy, poverty is defined as a condition where the poor have insufficient funds and political power to maintain an acceptable standard of living. In other words, poverty is a combination of:

- persistent hunger and malnutrition and lack of adequate shelter;
- not being able to obtain medical care when sick;
- losing children and family members to illness brought by preventable diseases;
- the inability to go to school, read, write or speak properly;
- the need to travel long distances, on foot, to purchase inputs, sell outputs, seek employment or fetch water and fire wood;
- high income and gender-based inequality and the fear of the future due to the feeling of powerlessness, lack of representation as well as lack of freedom and hope

The faces of poverty, therefore, are many thus signifying the importance of linking activities in the agriculture, education, health, and infrastructure sectors not only at national level but at the individual, household and community level as well. Income poverty can be measured using either national poverty lines representing the cost of food and other basic needs or the international poverty line of a dollar a day. On the other hand, inequality (which is related to poverty) in the distribution of income, assets, or even the “consumption” of social services can be measured using Gini coefficients or concentration curves.

2. Poverty in Africa

2.1 Dimensions

2.1.1 The majority of African countries continue to face widespread poverty. Close to 50 percent of the population of Sub-Saharan Africa lives on less than one \$ 1 a day⁴. It is the only region where the poverty incidence rate increased during 1990-1999. These aggregate figures mask the great diversity of country experience across the continent. The incidence of poverty on the basis of \$ 1 a day ranges from around 64 percent in Zambia, Nigeria and Mali to less than 15 percent in Cote d'Ivoire and South Africa (World Bank 2001). Within Southern Africa, the incidence of poverty in middle income countries such as Botswana and Namibia is as high those in some low income African countries. For instance, the incidence of poverty in mineral-rich Botswana is a high of 33 percent and that in Namibia is 35 percent. The corresponding rate for land-locked Lesotho is 43 percent. It is important to note that high levels of income inequality aggravate the problems of poverty in Botswana, Namibia and South Africa. As the recent experiences in Zimbabwe show, high levels of income inequality have the potential to exacerbate socio-economic problems and political instability thus generating the need to incorporate distributional issues in the poverty reduction effort.

2.1.2 Sub-Saharan African also lags behind other regions in social indicators. All major social indicators (e.g. life expectancy, infant mortality, and under-5 mortality) show large gaps between Sub-Saharan Africa and elsewhere. The exceptions are malnutrition and primary enrolment, which show positive signs. This optimistic picture is offset, however, by two developments. First, the aggregate figures hide the precipitous deterioration of social indicators in HIV/AIDS-afflicted countries of Southern Africa. Second, the rate of improvement in all social indicators, excepting illiteracy, has been slower in Sub-Saharan Africa than in other regions.

2.1.3 On the other hand, poverty incidence is lower in North Africa. Only around 2 percent of the population was below the poverty line of \$ 1 a day in 1999⁵. Compared to other regions, North Africa is in a relatively better situation with regard to social development as well. It ranks in the mid-range among developing regions in this respect. Further, social indicators have improved in the last two decades. However, poverty manifests itself in different ways in the region. These include high fertility rates, relatively limited employment opportunities for women, high rates of unemployment for the youth, vulnerability to drought and volatility in GDP growth.

2.2 Characteristics and Causes

2.2.1 A clear understanding of the characteristics and causes of poverty in Africa is critical for effective public action to reduce it. In many African countries, poverty is a predominantly rural

⁴ Region and country-specific information on the incidence of poverty, inequality and social indicators in this policy is based on the World Bank's World Development Indicators (WBI) for 2002.

⁵ However, national poverty lines give a somewhat different picture, revealing poverty incidences of 22.6, 16.7, 19 and 4.1 percent in Algeria (1995), Egypt (1999/2000), Morocco (1998/1999) and Tunisia (2000), respectively (World Bank, 2003).

phenomenon accounting for over 70 percent of total poverty. It continues to be associated with landlessness or with small landholdings, often of lands of marginal or degraded quality. These characteristics of African poverty suggest that low agricultural productivity is one of the major causes of poverty in the region. On the other hand, low agricultural productivity is attributed largely to inadequate rural infrastructure and agricultural services, low levels of education of farmers; under-investment in agricultural research, low application of fertilizer, slow adoption of high yielding crop varieties, lack of access to small-scale irrigation and credit and limited opportunities for trade in domestic and international markets for agricultural products.

2.2.2 While rural poverty remains dominant, urban poverty is becoming increasingly important in several African countries, especially in North Africa. At present, the level of urbanization in Africa is at about 37 percent. This rate is low compared to 76 percent for the developed world. The rates of urban growth range from 5-10 percent. At this rate, by 2025 the level of urbanization is expected to rise to over 52 percent. In the absence of rapid economic growth in urban centers that benefits the poor, the rise in urban population is bound to exacerbate problems of unplanned settlements, unemployment, poor waste management, crime, prostitution, and strained social services as well as degraded natural resources thus contributing to the deterioration in the quality of life of the urban poor.

2.2.3 In North Africa, already more than half of the population resides in urban areas compared to about one third in Sub-Saharan Africa (World Bank 2001). As a consequence, urban poverty comprises a much greater share of total poverty in North Africa, even though rural poverty incidence remains higher. In general, the urban poor are recent migrants from rural areas with low levels of education and are engaged in poorly remunerated informal sector activities where job insecurity and underemployment is high. The rise in urban poverty requires the development of appropriate industrialization strategies and a policy environment favorable to small and medium sized enterprises (SMEs) in the private sector.

2.2.4 There are pronounced regional dimensions to poverty as well, often corresponding to less favorable agro-climactic zones and remote areas within more prosperous regions. These dimensions of poverty are major causes of the high inequality in Africa. In such cases, reduction in poverty and inequality require regionally targeted public investment programs.

2.2.5 Poor households also tend to have low educational levels, higher dependency ratios and poor health. As a result, their human capital base is weak thus contributing to their low productivity, low incomes, and persistent poverty. In this regard, the development of the human capital of the poor serves as an important path out of poverty.

2.2.6 Although the relationship between gender and poverty is mixed, females tend to fare worse than males with respect to some aspects of deprivation. The centrality of gender to poverty reduction rests on the critical role played by women in household production, consumption and reproduction under severe resource constraints. They also face wide and consistent discrimination, especially in the labor market, political representation, and in the delivery of social services, which prevents them from moving out of poverty. This is especially the case with the lack of access to productive assets including land, physical capital and credit as well as technology and extension services. Such gender-based inequities in access to productive assets and information undermine the contribution of women to pro-poor growth in general and agricultural production in particular.

2.2.7 In many parts of Africa, the aged, children, internally displaced people and pastoralists also face severe problems of poverty. While the characteristics of their poverty are similar to those of the poor who are economically active, these groups are unlikely to benefit from the poverty reduction measures highlighted above. In such cases, the provision of social protection programs, especially social safety nets are likely to be more effective.

2.2.8 Other causes of poverty operate at a macro level. For example, economic growth, and the distribution of that growth, determines the rate of poverty reduction. Compared to low income and middle-income countries in other regions of the world, real GDP growth for the 1980-1990 and 1990-1999 periods have been slow for Sub-Saharan Africa. In addition, the level of inequality is quite high. These factors suggest that significant poverty reduction will require a strategy of pro-poor growth in which accelerated growth is supplemented by policies for reductions in inequality. In practice, this implies a growth path, which increases the demand for and returns to, the most important asset of the poor, their labour. Labour-intensive growth requires, in turn, improving employment opportunities for the poor and increasing the returns to activities such as agricultural production, private sector activities, and marketing from which the poor earn their living.

2.2.9 Conflict is increasingly recognized as an important cause of poverty. In some countries, armed conflicts have been the single most important determinant of deep poverty, high inequality, increased internal and external displacement of populations and destruction of valuable socio-economic institutions and infrastructure. The effects of conflict on poverty are considerable, precipitating processes of impoverishment and undermining the capacity to escape from poverty. On the other hand, poverty and inequality may be important causes of civil conflict in that they increase the likelihood of political instability. In turn, these factors exacerbate problems of social conflicts.

2.2.10 The centrality of the HIV/AIDS pandemic to poverty in Africa is widely recognized. It is now the primary cause of adult death in sub-Saharan Africa, claiming 2.8 million victims annually. The disease has claimed many of the most economically productive members of society including managers, engineers, educators and health specialists thus undermining Africa's prospects for growth, competitiveness in the global economy, social development and poverty reduction. The HIV/AIDS pandemic has also resulted in the reduction of life expectancy, the increase in infant mortality, and the dramatic rise in the number of orphans. Unless measures are taken to contain the effects of the pandemic, some of these orphans are likely to die early or move to adulthood with poverty. In some countries, the pandemic has resulted in the depletion of household financial resources due to rising health expenditure. Furthermore, it has become a major source of impoverishment for the aged who have slipped into poverty due to the reduction in remittances from their deceased adult children.

2.2.11 The importance of good governance for poverty reduction has received a great deal of attention in recent years. Although the definition of governance is quite broad, governance affects the poor in different ways. For example, the poor suffer from lack of good governance, especially from corruption that involves the mis-appropriation of scarce resources meant for the poor. Poor public financial management, public service delivery of low quality, pervasive corruption, lack of participation of the poor in decision-making as well as a legal system which

impedes the economic advancement of the poor are examples of poor governance which contribute to the persistence of poverty in Africa. On the other hand, good governance promotes the participation of the poor in the development process including the design and implementation of pro-poor policies and projects. Therefore, improving the quality of governance will be central to the poverty reduction efforts in the continent. In this regard, the focus of the NEPAD initiative on good governance and its links to effective poverty reduction represents an important development.

2.2.12 High population growth and degradation of the environment also contribute to poverty. This is specially the case in densely populated countries where the poverty-population-environment nexus is strong. In such countries, the poor with large family sizes are both the victims of the degraded environment as well as contributors to unsustainable management of natural resources.

2.2.13 In many African countries, adherence to traditional sources of livelihood is associated with persistent poverty. This is especially the case in about 20 countries where the proportion of pastoralists is as high as 5-6 percent of the total population. For such societies, which lead a nomadic life, frequent episodes of drought can result in sharp declines of welfare. Natural disasters such as floods and drought can also contribute to the poverty of large segments of society.

3. Bank Experience with Poverty Reduction

3.1 Evolution of Bank Experience

3.1.1 The Bank's approach to poverty reduction has evolved over time. Since its establishment, its mandate has been to "contribute to the economic development and social progress of its regional members countries (RMCs)." The assumption had been that Bank support for economic development would also reduce poverty in so far as economic growth contributes to poverty reduction. The evolution from this general position to one which focuses directly on pro-poor growth has followed three distinct stages: pre-1992, 1992-1996 and 1996-present.

3.1.2 Prior to 1992, the priority given to poverty reduction by the Bank was evident in guidelines for successive replenishments of the African Development Fund (ADF). Under ADF V (1988-90) the stated objective of Fund activities was to meet "the basic needs of the poorest sections of the populations in low-income countries." In practice, Bank action for poverty reduction involved support for the Social Dimensions of Adjustment program, which focused on capacity building for poverty analysis. Indeed, the Bank financed a number of projects in integrated rural development, rural water supply, and rural health in the 1980s and early 1990s. In addition, it financed several policy-based lending operations as well as sectoral, structural and trade adjustment programs in a number of countries. However, the Bank did not have a policy framework that dealt with poverty explicitly during this period. In fact, a recent evaluation concluded that the impacts on poverty reduction of these projects would have been easier to identify in the presence of poverty-focused, outcome-based monitoring and evaluation systems (African Development Bank 1999).

3.1.3 The period 1992-1996 marked an important change in Bank thinking on poverty. ADF VI (1991-93) identified "poverty alleviation as the main aim of Fund development activities in borrowing countries." It broadened the poverty reduction mandate to include human resource development, environmentally sustainable development and the enhancement of gender equality. In addition, special attention was given to the imperative of developing specific and measurable indicators to monitor changes in living conditions of the poor over time.

3.1.4 In 1992, the Bank's first *Poverty Alleviation Strategy and Action Program* was prepared and it took into account the essential elements of the World Bank's 1990 World Development Report (WDR) on poverty. This was followed by the publication of *Guidelines for the Implementation of the Action Program* in 1994. The main thrust of the 1992 Strategy was support for an enabling policy framework conducive to sustainable economic growth, environmental protection and human resource development. The Strategy specified sectoral priorities and covered cross-cutting themes (gender, environment and private sector development) and partnership including coordination among donors, engagement with NGOs and grassroots groups and methodologies for better targeting of the poor.

3.1.5 The 1992 *Action Program* also identified areas within the Bank's operational context that required priority actions. These included: improvements in poverty analysis in country programs; development of a poverty-focused classification system for project design and appraisal; formulation and systematic application of output and outcome indicators related to poverty projects; recruitment of social scientists; training of staff in poverty analysis and allocation of increased financial resources for poverty-related activities.

3.1.6 The Strategy and Guidelines introduced new approaches that promoted the integration of poverty reduction objectives in country programs. Poverty profiles and poverty action plans were prepared in a number of countries including Burundi, Sierra Leone, Senegal and Malawi. However, the other priority areas identified in the guidelines received less emphasis. For instance, greater efforts could have been made to implement the recommendations for increasing the number of staff and strengthening training in order to sharpen the poverty focus of lending and non-lending activities of the Bank.

3.1.7 Under ADF VII (1996-98), VIII (1999-2001) and now ADF IX (2002-2004), support for poverty reduction was emphasized even more. For instance, the Environment and Sustainable Development Unit (OESU) was established in 1996. The rationale for setting up OESU was to mainstream the cross-cutting issues, including poverty, into Bank operations in an effective and sustainable manner. ADF VII required that poverty concerns be reflected in all activities of the Fund while ADF VIII expanded the poverty focus of participatory approaches with a view to empower the poor at all stages of projects it finances. In addition, ADF VIII Deputies stipulated that investment projects meet at least two of the following criteria, namely, that a specific mechanism exist for reaching the poor, that the participation of the poor be promoted and that changes in living conditions of the poor be measured. The Deputies for ADF IX also emphasized support for the preparation and implementation of PRSPs and the importance of Bank contributions to the achievement of the MDGs. As a result, they have underscored the need to deepen the coordination with development partners in order to improve measurable results on the ground. Accordingly, Bank involvement in the harmonization of policies and procedures in countries with sound policy environment and a strong commitment to poverty reduction will be given a high priority.

3.1.8 Since the mid 1990s, the Bank has been using micro-finance as an instrument of poverty reduction. The establishment of the AMINA program in 1998 strengthened Bank support for poverty reduction using micro-finance. The main objective of this pilot program was to build the capacity of micro-finance institutions in RMCs.

3.1.9 Moreover, the Bank has supported a number of grass roots oriented stand-alone poverty projects. They are intended to respond to the expressed needs of local communities and have tended to focus on micro-credit, training, and provision of social services. Many of these have been implemented in conjunction with NGOs.

3.1.10 The most important development during the ADF VIII has been the adoption in 1999 of the Vision Statement, which specifies poverty reduction as the Bank's overarching goal and states the Bank's intention to focus its development assistance on 'selected key areas where it can take leadership, and make a significant and measurable development impact'. The Vision Statement has resulted in putting poverty at the center of Country Strategy Papers (CSPs) and projects thus strengthening the effort to mainstream poverty reduction within the Bank. This effort has been enhanced further by the preparation of the Bank's first Strategic Plan in 2003. The Strategic Plan articulated the importance of supporting RMCs in the preparation and implementation of PRSPs and accelerating the achievement of MDGs.

3.1.11 In 1999, the first year of the ADF VIII period (i.e. 1999-2001), total lending (including support under the HIPC initiative) amounted to 497.42 millions of UA. The corresponding amounts for 2000, 2001, and 2002 were 1130.0 millions, 1380.5 millions and 960.74 of UA, respectively. This represents an increase of 93 percent during this period⁶. Between 1999- 2002, priority was given to agricultural and rural development and the social sectors. Together, these sectors accounted for 56.7 percent, 42.3 percent, 42.6 percent, and 54.6 percent of total ADF loan and grant approvals in 1999, 2000, 2001, and 2002, respectively⁷.

3.1.12 Projects in agricultural and rural development focused on improving agricultural output and household food security on a sustainable basis, and for enhancing rural incomes and reducing poverty. In addition, to direct support for agriculture and rural development, lines of credit were provided to the financial sector to make loans available to small and medium scale farmers and other micro-entrepreneurs engaged in agriculture and related income-generating activities.

3.1.13 Lending for the social sector focused on improving the access and quality of education and health services, particularly basic education and primary health care. Support to the social sector also focused on improving access to micro-finance, especially for women, and building institutional and income generating capacities of target populations.

3.1.14 In the transport sector, ADF operations focused primarily on improving the efficiency of transport infrastructure and services to spur the economic and social development of African countries. This is achieved by rehabilitating and maintaining road networks that link agricultural areas with industrial and urban zones or ports to facilitate the transport of goods destined for export.

3.1.15 Since January 2000, the Bank has also been actively involved in the PRSP process. In June 2000, a Task Force was established which proposed strategies to enhance Bank involvement in supporting PRSPs at the country level and to strengthen collaboration with the Bretton Woods Institutions. At the country level, the Bank has undertaken several missions to assess the demand for Bank support for work on PRSPs. It has also provided PRSP-related training to experts from RMCs through the African Development Institute and the Joint Africa Institute (JAI). In addition, many countries are benefiting from Bank support for economic and sector work, which is being carried out to enrich the content of PRSPs. Moreover, a PRSP Dutch Trust Fund has been used to support its work on PRSPs, especially for the promotion of the participatory approach at all stages of the PRSP process.

⁶ The high increase is attributed partly to the significant share of Bank support for the HIPC initiative.

⁷ In line with the Deputies request under ADF VIII, the Bank has started to prepare progress reports on poverty reduction. The activities in 1998-2000 were reported in the first progress report entitled "Progress Report in Poverty Reduction 1998-2000", October 2001. Work on a similar report covering poverty-related activities in 2001 and 2002 is in progress. Beginning 2004, annual poverty reports will be prepared. The main objective of these reports is to examine the extent to which the Bank's poverty policy guides its lending and non-lending operations.

3.1.16 Bank staff have also participated in PRSP training courses in conjunction with the IMF and the World Bank. Internationally, the Bank contributed to the PRSP review organized by the World Bank and the IMF in January 2002. In this review, it articulated the opportunities and challenges that PRSPs provide not only for the respective countries but for their development partners as well. In 2002, the Bank together with the World Bank prepared the Global Poverty Report on MDGs. The report highlighted that Africa is the only region that is unlikely to meet the MDGs. In 2003, the Bank collaborated with the World Bank in the organization of two policy harmonization workshops to facilitate coordinated support for the implementation of PRSPs at the country level. These workshops were organized to advance the PRSP-related agenda of the High Level Policy Harmonization Forum, which was held in Rome in 2003.

3.2 Lessons Learned and Recommendations

3.2.1 In the past three years, the Operations and Evaluations Department (OPEV) of the Bank has documented the Bank's experiences in lending for several sectors. These include lending for Poverty Reduction Projects, Agricultural Sector Adjustment Programs, Trade Adjustment Programs, Policy Based Lending Operations, Structural Adjustment Programs, Rural and Urban Water Supply, Rural Health and Rural Finance. Some of the programs and projects examined were approved in the 1980s and early 1990s before the Bank's poverty policy was prepared. Others are still being implemented.

3.2.2 In general, the evaluations focused on the institutional environment both at the Bank and its RMCs under which the projects were designed and implemented. In some cases, however, attempts were made to assess the impact on poverty reduction of the projects. According to the conclusions of the evaluations, some of the adjustment programs have created a favourable policy environment for growth and poverty reduction. The projects in agriculture, health, rural finance and water supply also addressed poverty issues in the respective sectors both directly and indirectly. However, the lessons learnt regarding the lasting impact of these programs and projects on poverty reduction are rather limited. This is attributed primarily to institutional weaknesses including lack of appropriate monitoring and evaluation systems for a systematic assessment.

3.2.3 Based on its experiences in the past decade including the recommendations of the OPEV studies highlighted above, the Bank has taken important steps to put poverty reduction at the center of its operations. This is reflected in its increasing support of work on PRSPs; poverty focus of recent CSPs; capacity building at the country level; economic and sector work; and design, implementation and supervision of Bank-financed projects in line with the priorities of PRSPs.

3.2.4 Lessons learnt from the experiences of the Bank in the past decade also suggest the following considerations in order to promote the poverty reduction agenda even further:

- commitment of management to implement the poverty policy;
- dialogue with RMCs and their stakeholders to improve its implementation;
- maintenance of a balance between the promotion of pro-poor growth policies and the delivery of social services of high quality in an efficient and equitable manner;

- reduction of high levels of inequality in access to productive assets to promote pro-poor growth and meaningful poverty reduction;
- dissemination, widely, of the policy paper within the Bank and outside through workshops and seminars in order to enhance the poverty focus of Bank operations and its collaboration with other institutions on poverty reduction;
- strengthening Bank support for monitoring and evaluation systems at the country level;
- improvements in training of Bank staff in poverty analysis; and
- promotion of applied research and economic and sector work on poverty with a view to enhancing the effectiveness of the Bank operations.

4. The New Conceptual and Strategic Frameworks

4.1 The New Conceptual Framework: The Changing Understanding of Poverty

4.1.1 There have been three major changes in thinking about poverty over the past decade. These changes have been articulated in a number of recent reports on poverty commissioned by major multilateral donors, the United Nations Systems, the Bank's Vision and its first Strategic Plan.⁸

4.1.2 First, the concept and measurement of poverty has been broadened. This is reflected in the shift from a simple basic needs approach to one that incorporates broader social issues with important policy implications. In this regard, the broadened definition of poverty includes inadequate consumption, nutrition, health, education, water, and sanitation. It also covers inequality, lack of respect, human rights⁹, dignity, voice and vulnerability to risks. Each of these aspects of poverty requires appropriate pro-poor socio-economic policies.

4.1.3 Second, the analysis of the causes of poverty has widened. A decade ago, the analyses of the causes of poverty focused on the lack of economic capital such as land, labour, and equipment, and human capital such as education, health and nutrition. Current analysis incorporates social, political, and natural capital. There is also a clearer recognition of the links between poverty and lack of social organization and empowerment (social capital), participation and voice (political capital), and environment degradation (natural capital). This broadening of the understanding of the causes of poverty is accompanied by the expansion of the policy options involving good governance, environmental protection and empowerment of communities.

4.1.4 Third, the framework for the analysis of the causes of poverty has deepened. As a result, the movement of individuals into and out of poverty as well as the changes in the stock of poverty over time is emphasized. This aspect of poverty is influenced by the concept of vulnerability, which is a function of exposure to internal and external shocks such as political conflicts, natural disasters, fluctuations in commodity prices and illnesses, which in turn result in displacement of large numbers of people involving refugees both internally and externally, loss in employment and income. Strategies to address vulnerability are referred to as strategies of risk reduction, mitigation or coping mechanisms and they depend on the sources of vulnerability such as civil strife, floods, drought, epidemics and unemployment.

4.1.5 The Bank is developing approaches to operationalise the key components of the new conceptual framework. For example, issues of empowerment and social mobilization (social and

⁸ This includes the World Bank's *World Development Report 2000/1* entitled *Attacking Poverty*; the Strategic Partnership with Africa's (SPA's) status report on poverty entitled *African Poverty at the Millennium*; the International Fund for Agricultural Development's (IFAD's) *Rural Poverty Report 2001*; the United Nations Development Programmes' (UNDP's) *Poverty Report 2000: Overcoming Human Poverty, the Human Development Report 1997* on poverty and the Human Development 2002 on the Millennium Development Goals, UNCTAD's 2002 "The Least Developed Countries Report 2002: Escaping the Poverty Trap", ILO's 2003 report on Working Out of Poverty and the World Bank's WDR 2004 on Making Services Work for the Poor.

⁹ Amartya Sen has articulated the crucial role of human rights and freedom in the development process thus emphasizing the centrality of democracy, participatory development and good governance in poverty reduction. The linkages are expounded in depth in his book entitled "Development as Freedom" (Sen, 1998).

political capital) are being addressed through policy-based loans and community-based development projects. Likewise, it is giving increasing attention to the links between poverty and environmental issues through explicit assessment of the social and environmental impact of projects.

4.2 The New Strategic Framework: The Changing Face of External Aid

4.2.1 Since the mid-1990s a consensus on a new *modus operandi* for development assistance has emerged. There have been five major critical changes in this regard. First, there is considerable focus on national ownership of development programs and new forms of partnerships, which replace traditional donor-recipient relationships. Second, poverty reduction is being put at the center as the overarching objective of national and international development programs. Third, there has been a call for widespread participation, especially by members of the civil society in all stages of the development of policies and programs. Fourth, there is a call for stronger partnerships and better harmonization of policies, procedures and intervention mechanisms across development institutions on the basis of the shared objective of poverty reduction¹⁰. Fifth, there has been a concerted move to evaluate performance of interventions for poverty reduction using outcomes that reflect the welfare of the poor.

4.2.2 The increased support for national ownership of poverty strategies based on broad partnerships has been driven mainly by the realization that national commitment is essential for success in socio-economic development. Harmonization of donor intervention mechanisms and procedures is also expected to strengthen ownership and reduce transaction costs and to enhance development effectiveness. This means donor reliance on national frameworks, processes, institutions and planning instruments such as budgetary support and Sector Wide Approaches (SWAPs).

4.2.3 The increased focus on poverty reduction has gained momentum due to the delinking of development assistance from geo-political considerations following the end of the Cold War. The implications for development assistance include reliance on national poverty reduction strategies, especially PRSPs, as the entry points for donor assistance and as central tools of donor coordination. Furthermore, the allocation of development assistance should reflect poverty reduction concerns and reward genuine national commitment¹¹ to improvements in the welfare of the poor. Finally, there is the need to promote policy coherence in donor countries in line with poverty reduction strategies of recipient countries.

¹⁰ The call for donor harmonization of policies and procedures addresses past problems involving lack of focus and coordination in external aid including fragmentation of projects, multiplicity of donor objectives other than poverty reduction, variety of intervention mechanisms, and rigidity in terms of conditions tied to external aid often leading to high transaction costs. The new harmonization agenda emphasizes the importance of supporting, in a coordinated manner, the preparation, implementation and evaluation of PRSPs for low income on the basis of the shared objective of poverty reduction and in a country-led environment.

¹¹ The Bank uses its Country Policy and Institutional Assessment (CPIA) framework to assess national commitment for poverty reduction and allocate resources for ADF countries. In this regard, clusters on poverty reduction, gender, and governance play a critical role for examining the relevance of government policies on equity and poverty reduction.

4.2.4 The focus on participation is driven by considerations similar to national ownership: the fact that development effectiveness depends on popular acceptance of reform programs. This is especially the case with project interventions, where participation at all stages of the project cycle is a critical ingredient of success. Achieving widespread participation in policy formulation and implementation, including the participation of the poor is a challenging process involving long-term strategies. However, tools such as Participatory Poverty Assessments (PPAs) are being designed quickly and implemented widely in order to ensure that the poor participate in approaches developed to improve their lives. It is also necessary to build the capacity of communities and CSOs in order to enable them to participate in the articulation, formulation and implementation of poverty-related macro-economic and sector policies.

4.2.5 Historically, the delivery of aid was based on multiple objectives of different donors with limited focus on poverty reduction. The multiplicity of donor objectives often led to fragmentation of aid programs with limited impact on poverty reduction. Differences in donor objectives and variations in approaches and procedures also resulted in higher transaction costs of the delivery of aid both for the donors and the recipient countries. In recent years, there is a wide recognition of the value of stronger partnerships based on poverty reduction not only for reducing transaction costs but also for maximizing the impact of external aid on poverty reduction. As a result, there is a call for harmonization of donor support of PRSPs and coordination of activities in specific sectors through instruments such as budgetary support, SWAPs and poverty related capacity building at the country level.

4.2.6 The emphasis on adopting an outcome orientation stems from 'donor fatigue' due to public perceptions of aid ineffectiveness and the ensuing imperative of demonstrating results on the ground. This entails greater reliance on performance criteria based on outcomes. These criteria should be applied to assess both government and donor performance. Impact evaluations, audits and public expenditure reviews including benefits incidence analysis are examples of tools, which are being used to realize the potential of a results-based approach to poverty reduction.

4.2.7 The new strategic framework presents a challenge to the Bank for designing and implementing policies, procedures and operations. In terms of policies, there is a need to identify and support pro-poor strategies including growth policies within the Bank's priority sectors. Operational and institutional arrangements also need to take into account the changes in approach to poverty reduction outlined above. The policy paper is one of the steps towards Bank efforts to meet this challenge.

4.3 Poverty Reduction Strategy Papers

4.3.1 The experience in the three years shows that PRSPs are critical for achieving the national and international poverty reduction agenda. As national strategies of poverty reduction, they are prepared by the countries following a process of broad consultation and based on existing development policies. They set out a three year plan of action, monitored annually, but set in the longer time frame required for sustainable development. Due to the links of PRSPs with the HIPC initiative, many African countries eligible for this initiative have prepared PRSPs and in a number of countries, the implementation of PRSPs is well underway. However, PRSPs are not

the only planning mechanisms for poverty reduction. This is especially the case for ADB countries of the Bank. In these countries, poverty reduction strategies could be articulated in their overall development plans.

4.3.2 The tools, which are used to operationalize the principles of PRSPs depend on several considerations. These include national capacity to prepare and implement a PRSP as well as national commitment at the highest level to poverty reduction and participation. There are a number of stages, which are particularly relevant for the PRSP process.

4.3.3 The preparation stage entails work on the poverty diagnostics in order to identify the characteristics of the poor and the causes of their poverty. At this stage, there should be active involvement of national partners including academic, research and statistical institutions in data collection and analysis. Participatory tools of data collection and analysis, such as those in PPAs, should also be used to complement information from household surveys. This should be accompanied by the preparation of poverty profiles, poverty assessments, economic and sector work and the formulation of appropriate policies. In addition, there should be widespread consultation among diverse stakeholders including sectoral ministries, regional administrations, parliaments, the private sector, and CSOs. National mechanisms of strategic planning should provide the general framework within which these poverty reduction programs are formulated and costed.

4.3.4 To facilitate the effective implementation of PRSPs, it is important to cost the strategies fully and link them to the national budget. The recent call for international financial assistance in the form of budgetary support is an indication of the importance given to the links between national budgets, Medium Term Expenditure Frameworks (MTEFs), SWAPs and PRSPs. In addition, implementation strategies should support on-going processes of decentralization with due attention paid to addressing capacity constraints and preventing elite capture of program benefits. Furthermore, greater harmonization of reporting of aid provided by donors to reduce administrative burdens on national governments should be promoted. Finally, technical assistance to support the preparation, implementation and evaluation of PRSPs should include knowledge transfer and capacity building.

4.3.5 The monitoring/evaluation stage involves the development of national Poverty Monitoring Systems (PMSs), which monitor the impact of specific poverty reduction programs as well as trends in key indicators of well-being similar to those of the MDGs. Monitoring program outputs should be integrated closely with the MTEF process. Effective use of national budgetary processes requires systematic efforts to monitor public expenditure using a range of quantitative and qualitative techniques. Support for sectoral Management Information Systems will also be important to improve the quality and the timely production of administrative data.

4.3.6 PRSPs have become the central vehicle of national poverty reduction for many African countries. The Bank has integrated its poverty reduction activities within the three phases of the PRSP process. For instance, the format of CSPs has been revised to ensure that the content of the CSPs draws on the poverty diagnostics, sectoral priorities and outcome indicators specified in PRSPs. In addition, it provides capacity building for national PRSP teams and CSOs involved in work on poverty reduction, carries out economic and sector work to inform its operations and enrich the content of PRSPs and collaborates with its development partners on PRSPs.

5. The Policy

5.1 The Goal

The goal of the Bank's poverty policy is to ensure that poverty in Africa is reduced. This involves development of strategies that facilitate national ownership, participation and an orientation towards improvements in the welfare of the poor, especially in the achievement of MDGs.

5.2 Objectives

The objectives of the policy are to bring poverty reduction to the forefront of the Bank's lending and non-lending activities and to support its RMCs in their efforts towards poverty reduction. Support for country-owned PRSPs plays an important role in this respect.

5.3 Guiding Principles

5.3.1 **Poverty-Focus.** Poverty reduction has been the overarching goal of the Bank for the last four years. The realization of this goal requires a more focused analysis of the incidence, depth and causes of poverty in Africa. Such focus on poverty reduction allows the formulation of relevant policies and intervention mechanisms. For instance, it is necessary to go beyond a general support for agricultural, human resources and private sector development by designing and implementing pro-poor policies within these broad areas.

5.3.2 **National Ownership, Participation and Outcome Orientation.** The principles of the new strategic framework form the basis for the policies discussed in this chapter. A number of policy measures such as support for national capacity building, promotion of the participatory approach, development of new forms of partnerships and establishment of poverty monitoring systems relate directly to these principles.

5.3.3 **Internal Policy Coherence.** The importance of the priority areas and the cross-cutting issues has been discussed in the Bank's sector-specific policies. The purpose of the poverty policy is to strengthen existing sector policy prescriptions and to fill gaps in specific areas from the standpoint of poverty reduction. In this regard, the policy paper adds value by drawing on pro-poor policies articulated in existing policy papers in a holistic manner in order to address poverty reduction issues consistently and coherently.

5.3.4 **Country-led Partnership.** The policy also underscores the importance of a coordinated donor response to the demand from RMCs for supporting their PRSPs. A strong partnership ensures the consistency between the Bank's poverty policy and the poverty reduction strategies of its RMCs as articulated in PRSPs for ADF countries and similar planning documents for ADB countries.

5.3.5 **Enriched Conceptual Framework.** The policy takes into account the new conceptual framework, which expands the concept of poverty beyond income measures and its causes. It also addresses the economic and non-economic causes of poverty.

5.4 Pro-poor Growth and the Macroeconomic Environment

5.4.1 This policy is based on the understanding that rapid and sustained economic growth of high quality with respect to its composition and distributional effects is the most important element of any poverty reduction strategy. This requires the adoption of policies and programs that enable the poor to have access to human, physical, and financial assets that can increase their productivity and incomes. However, it also recognizes that economic growth is a necessary but not sufficient condition for meaningful and sustainable poverty reduction. As a whole, the sources of growth need to be broadened in order to enable the poor to participate as well as benefit from the growth process. Achieving such growth requires macroeconomic stability, higher levels and productivity of investment, expanded trade and durable structural reforms.

Macro-economic Stability

5.4.2 Macro-economic stability is characterized mainly by the existence of low inflation, realistic exchange rates, low budget deficits as percent of GDP, relatively free trade and low interest rates. Imbalances in any of these factors affect the poor both directly and indirectly. For instance, the instability in growth and the persistence of high inflation hurt the poor disproportionately. Very often, in times of economic crisis, the consumption levels of poor households decline sometimes below levels necessary to maintain minimum nutritional requirements. The poor may also be forced to withdraw their children from schools and reduce the utilization of essential health services as a result of declining incomes thus undermining the development of their human capital. On the other hand, high inflation hurts the poor, especially those in urban areas, more than the non-poor because they have their assets mostly in cash and their real incomes can decline precipitously. An unstable macro-economic environment also adversely affects the investment climate necessary to realize the potential of the development of the private sector for growth, income generation and poverty reduction. The creation of a sound and stable macro-economy with sustainable fiscal, monetary, exchange rate and interest rate policies, therefore, is a prerequisite for the implementation of the pro-poor growth, public expenditure and sector policies as well as the development of the private sector.

Levels and Productivity of Investment

5.4.3 Overall, high levels of investment are required to support sustainable economic growth. However, in comparison with other developing countries, current levels of investment in many African countries are low. For instance, in the early 1990s, total investment as a proportion of GDP was only 20 percent and private sector investment accounted for only 12 percent. In order to mobilize higher levels and quality of investment to promote sustainable growth, African countries need to deepen their financial sector reforms. Improvements in the banking sector, support for micro-finance initiatives and development of non-bank financial instruments should be an integral component of the effort to increase investments.

Volume and Composition of Exports

5.4.4 The experience in Africa and elsewhere shows that sustained growth rates would need to be supported by increased imports of capital and consumer goods. In this regard, fast export growth is the most important guarantee that such imports could be purchased without facing serious balance of payments or debt repayment problems. African countries, therefore, need to take advantage of the opportunities that globalisation presents. However, it is important to recognize that participation in the global economy entails considerable risks. These risks could be mitigated by reducing the dependence on a narrow range of export commodities, diversifying the composition of agricultural exports and entering the global market for labor-intensive manufactured products and services.

5.5 Sectoral Priorities

5.5.1 Agriculture and Rural Development

5.5.1.1 Agriculture and rural development will continue to be the engine of pro-poor growth in Africa for a number of reasons. First, poverty is still a predominantly rural phenomenon and agriculture-based growth has a high potential to contribute to poverty reduction compared to manufacturing-based growth. Indeed, agricultural growth reduces poverty directly, by increasing agricultural production, enhancing food security and generating demand for agricultural labor. This in turn boosts the rural non-farm sector, itself a major employer of labor. Second, growth in agriculture, especially growth in exports of agricultural products continues to be an important source of foreign exchange. The focus on rural development also mitigates migration to urban areas, which is often one of the causes of urban poverty.

5.5.1.2 In the last three decades, however, many African countries have not been able to realize the potential of the agricultural sector to contribute to sustainable poverty reduction. In fact, Africa remains the only region of the developing world where per capita agricultural production has fallen during this period. In many cases, growth in agricultural output relative to population growth has been low, yields of important crops have stagnated and productivity of agricultural labour has declined.

5.5.1.3 The poor performance of the agricultural sector in many countries is attributed to several constraints. As indicated in paragraph 2.2, these include high population growth compared to growth in agricultural output; low levels of agricultural technology as represented by inadequate use of mechanized farm equipment, improved seeds, fertilizers, and irrigation systems; limited development of rural infrastructure; low levels of human capital for farmers; high dependency ratios in rural areas; declining commodity prices, especially for important export crops such as coffee, cocoa and cotton; continued reliance on rainfall despite the recurrence of severe drought in many countries; complicated tenure systems and inequitable access to land, especially by women farmers. In recent years, the prevalence of the HIV/AIDS pandemic and the resurgence of malaria have adversely affected the productivity of individuals involved in agricultural production.

5.5.1.4 The consequences of these constraints include problems of persistent food insecurity and migration of rural residents to neighbouring towns and cities thus worsening problems of urban poverty. In addition, the persistence of these problems undermines the prospects for permanent investments by the private sector to realize the potential of the agricultural sector in the creation of employment opportunities for the rural poor.

5.5.1.5 In order to revitalize African agriculture, it is important to promote effective mechanization and commercialisation of the agricultural production systems, diversify agricultural production, improve the efficiency of agricultural institutions, and facilitate the introduction of appropriate incentive structures for preventing the poor from migrating to large cities. The creation of a favourable policy environment to attract the private sector to invest in rural areas is also crucial. In addition, bringing farm and non-farm employment opportunities; social services including health, education, and good governance; and safety net programs such as insurance arrangements for protection against natural disasters, negative shocks and vulnerability to crop failures closer to rural households should not only lead to increased agricultural productivity but also contribute to the reduction in rural-urban migration. The implications for the Bank of the need to transform African agriculture substantially in order to reduce rural poverty in its RMCs are highlighted below.

5.5.1.6 The Bank's policy on agriculture and rural development, as stipulated in the *Agricultural and Rural Development Sector Policy (1999)*, covers a wide range of issues, many of which are relevant to pro-poor growth. Through this policy, the Bank promotes sustainable use of natural resources; strengthens rural institutions; addresses problems of land-tenure systems; encourages the introduction of producer incentives; supports improvements in agricultural productivity; and creates an economic environment conducive for the commercialization of agriculture, enhanced food security, and increased poverty reduction.

5.5.1.7 The Bank will place particular emphasis on those initiatives which will:

- improve access of the poor, especially women farmers to productive assets such as land and credit as well as agricultural inputs including improved seeds and fertilizer;
- promote regional integration in Africa and increase access to regional and global markets for agricultural products;
- support commercialization of agriculture in ways that benefit the poor and guard against fluctuations in commodity prices;
- reduce regional disparities within a country in overall well-being by promoting policies and programs directed to poorer geographical areas and historically neglected socio-economic groups such as pastoralists/nomads;
- develop rural infrastructure and public utilities in ways that disproportionately benefit the poor, especially through geographic targeting;
- facilitate social risk management schemes such as labor-intensive public works and seasonal nutritional programs with a view to generating employment and reducing vulnerability to seasonal poverty; and

- encourage the participation of the poor in the analysis of their own livelihood patterns and in designing programs and projects that will benefit them.

5.5.2 Infrastructural Development

5.5.2.1 Infrastructure composed of transport, power, water, sanitation, and telecommunications is crucial not only for the promotion of broad-based and equitable growth but also for the timely and efficient delivery of essential social services. It is also important for the promotion of regional integration and the creation of employment opportunities in different sectors. In this regard, improvements in the quantity and quality of infrastructure services strengthen the productive capacity of all sectors. For instance, a well-developed rural infrastructure facilitates the inflow of farm inputs including information on new technology and the outflow of agricultural products to domestic and international markets with high demand thus contributing to income growth and poverty reduction. Accordingly, the reduction in distance to schools, clinics and water supply systems contributes to improvements in the delivery of essential social services.

5.5.2.2 Given that the collection of water and fuel supply is the responsibility of women in many African countries, investments in time-saving infrastructure can increase the progress towards gender equality in access to resources and participation of women in remunerative economic activities. For instance, reduction in distance to water and fuel supply can reduce the “time poverty” of women by allowing them more time for schooling and building their human capital. This paves the way to their economic and political empowerment. In addition, the development of power supplies and establishment of telecommunications in rural areas can enhance the abilities of rural communities to take advantage of the employment and income generation potential of small and medium sized enterprises thus contributing to pro-poor growth and the reduction of poverty in rural areas.

5.5.2.3 To facilitate the contributions of infrastructure to poverty reduction, the Bank will:

- support the development of basic infrastructure and public utilities, especially in rural areas;
- promote the access of the poor to efficient, safe and affordable infrastructure services;
- involve the poor in the development and maintenance of essential infrastructure;
- address regional inequity in access to basic infrastructure; and
- examine the possibilities for promoting public-private partnership in the development, maintenance and delivery of infrastructure.

5.5.3 Human Resources Development

5.5.3.1 As fundamental human rights, basic education and good health are ends by themselves. They are also critical for accelerating economic growth and strengthening the fight against poverty. This is because of the strong relationship between high levels of education, good health and poverty reduction. In contrast, underdeveloped human capital is a key determinant of the low returns to the most abundant asset of the poor, their labor. This is the case with labor productivity both in the agriculture and informal sectors.

Education

5.5.3.2 The importance of education to poverty reduction has been recognized for many years. Education reduces poverty by increasing the stock of human capital and labor productivity and facilitating technological change. In addition, education enhances international competitiveness thus contributing to increased exports and economic growth. Better education of the labor force can also lead to improvements in the distribution of income, protection of human rights and empowerment of the poor.

5.5.3.3 The contributions of better education of females to social welfare are also well known. For example, educated women can play a significant role in the reduction of fertility and improvements in the nutritional status as well as school enrollment of children. Furthermore, better education influences the ability of the poor to send children to schools and facilitate involvement in the political process.

5.5.3.4 The recently revised Education *Sector Policy (2000)* identifies a range of pro-poor approaches for Bank support including: provision of basic quality education for all; support to non-formal educational programs focused on functional literacy and vocational training; implementation of policies to help create demand for education; address equity issues, in particular gender equity; and improve quality of instruction and relevance of the curriculum.

5.5.3.5 The Bank will focus attention on efforts designed to:

- support demand for education among the poor, especially girls through measures such as school feeding programs and reduction of financial barriers to access;
- promote change in curriculums to reflect problems and life experiences of the poor and to provide graduates with relevant and functional skills including HIV/AIDs related education;
- strengthen coping strategies used by the poor to reduce seasonal vulnerability by integrating schooling schedules with seasonal patterns of labor demand; and
- allocate public expenditures in favor of educational benefits for neglected regions and income groups.

Health and Nutrition

5.5.3.6 Very often, the poor suffer from the burden of disease and ill health. They die predominantly from preventable diseases and have little or no insurance for protection against illnesses. As a result, illness is considered a shock, which leads to loss in working days and productivity, reduction in income and subsequently increased poverty. In addition, ill health contributes to poverty through high treatment costs that deplete limited household resources, higher disability, lower labor productivity and low incomes.

5.5.3.7 Poverty also adversely affects access to health care and health outcomes as poor people are less able to afford the cost of health consultations or treatment, are more susceptible to preventable diseases because of inadequate caloric intake and lack of access to clean water.

Moreover, the poor tend to be engaged in occupations that are relatively more demanding physically and hazardous. Poor health, therefore, is both a cause and consequence of poverty. In this regard, investments in health in favor of the poor are justified both on welfare and productivity grounds.

5.5.3.8 The Bank's *Health Sector Policy Paper (1996)* identified three priority areas for action: public health and health promotion; investing in health systems; and creating a supporting environment for health. As highlighted in the health Policy Guidelines (1999), these would be achieved by a number of pro-poor interventions including support for primary health care systems and reproductive health; disease control in rural areas; promotion of information, education and communication programs to encourage healthy behavior and the finance and delivery of a minimum package of essential clinical services. The *Malaria Control Strategy (2002)* is also designed to complement existing Bank policies for pro-poor growth, poverty reduction and social development, especially in malaria-infested countries. This strategy, which takes into account the causes behind the resurgence of malaria in Africa is based on a multisectoral approach in line with the Roll Back Malaria (RBM) activities in RMCs.

5.5.3.9 In addition, the Bank will support initiatives that serve to:

- promote sound health and nutritional practices among the poor through joint campaigns with specialized agencies which address their concerns;
- facilitate the design, finance and implementation of a minimum package of essential public health care and clinical services;
- eliminate the prevalence of infectious diseases which disproportionately affect the poor;
- encourage the development of decentralization schemes that enhance the delivery of health services of high quality;
- improve research on the major health problems of the poorest, the key barriers to improved access to health care and benefit incidence analysis of expenditures on health;
- reduce inequalities in access to health care by expanding services and facilities to under-serviced areas and socio-economic groups; and
- promote pro-poor public expenditures by managing resource allocations between primary and tertiary care and between urban and rural areas.

5.5.4 Population

5.5.4.1 The relation between population growth and economic development is complex in that high fertility, migration, productivity, and poverty interact in ways that make it difficult to separate the causes from the effects. For instance, one of the most important demographic phenomena in Africa is that its fertility rate is the highest in the world. The high fertility is attributed partly to the need of poor households to meet the high labor demand in a predominantly labor-intensive agricultural production system. Poor households also desire to have a large number of children to protect themselves against poverty in times of old age. In general, the quantitative evidence of these relationships is sometimes ambiguous.

5.5.4.2 In countries where there is more land relative to labor, larger family sizes can contribute to higher per capita incomes, increased savings and improved living standards. In the majority of African countries with land constraints, however, the high fertility rate has two major effects. First, if population growth is higher than growth in output, per capita income will decline. In this regard, continued decline in per capita incomes can lead to poverty. Secondly, high fertility in such countries is often associated with a large proportion of young people in the total population, which in turn leads to high dependency ratios where there are relatively more consumers compared to producers. The consequences of a large number of children, therefore, include reduced per capita incomes, reduced savings, increased poverty, prevalence of child labor and rural-urban migration.

5.5.4.3 In general, middle-income countries can learn from the experiences of developed countries for mitigating the negative consequences of high fertility. For instance, they can introduce social security and pension schemes in order to reduce the need of poor households for support from adult children in times of old age. Such systems should reduce the burden on adult children in the labor force and contribute to increased national savings. This is especially possible in countries where the percentage of the overall population employed by the formal sector is high. However, the design and implementation of such a system in poor countries where the major sources of employment are the agricultural and informal sectors and institutions are weak may not be feasible due to the huge resource and administrative requirements. In these countries, the education of mothers and provision of reproductive health services plays a more important role in terms of breaking the vicious cycle of poverty stemming from high fertility.

5.5.4.4 The phenomenon of rising rural-urban migration is another demographic characteristic closely linked to poverty in Africa. In general, migration from rural to urban areas is induced by pressure on the agricultural land and expectations of better opportunities especially in access to employment and social service in urban areas. Similar to high fertility, the effect of migration depends on the socio-economic circumstances at points of origin as well as destination. In some cases, migration can lead to less pressure on agricultural land in rural areas thus increasing the productivity of those who remain on the farm. This in turn can result in increased incomes and reduced poverty. On the other hand, for the majority of the African countries, it is often the able-bodied and energetic members of society who migrate from rural areas leaving the old and the young with low productivity and poverty behind. On the positive side, migration can be a source of high remittances either from urban areas or from abroad with notable implications on improvements in the welfare of the recipients in rural areas thus contributing to poverty reduction.

5.5.4.5 As with health and education, high fertility and migrations, therefore, are both causes and consequences of poverty. High fertility reduces household consumption per family member, increases the risk of maternal mortality for older mothers with higher birth-order of children, reduces the opportunity for escaping from poverty for families less able to invest in their children's education and health and may increase environmental degradation if not offset by effective strategies of natural resource management. Poverty, in turn, is a likely cause of high fertility because poorer families are more likely to respond to higher infant and child mortality by having more children.

5.5.4.6 Some aspects of population policies are related to those for pro-poor health and education. For instance, policies involving education for girls as well as programs to reduce maternal and infant mortality are likely to reduce fertility. The Bank's *Policy on Population and Strategies for Implementation* (2001) includes measures, which promote access to reproductive health services and rights, social, economic and political empowerment, and management of migration, urbanization and environmental protection. Furthermore, it promotes the empowerment of youth.

5.5.4.7 From a poverty perspective, appropriate interventions will be based upon an understanding of the causes of high fertility among the poor and remedies will take into account the particular constraints facing poor men and women. For example, access to reproductive health services may be severely curtailed by physical remoteness; the effectiveness of information and education campaigns may be limited by lack of education and behavioral change including condom use. On the other hand, behavioral changes may be difficult in poor rural communities where there are rigidities in cultural values.

5.5.5 HIV/AIDS

5.5.5.1 The negative socio-economic consequences of the HIV/AIDS pandemic and its adverse impact on the poverty reduction efforts are widely recognized. The relationship between HIV/AIDS and poverty, however, is more complex. Although HIV/AIDS did not begin as a disease of the poor, increasingly the poor, especially women are being affected disproportionately by the pandemic. HIV/AIDS precipitates the impoverishment of those afflicted and their families by reducing productivity, family income, and increasing health care expenditures thus depleting limited household financial resources, and contributing to the rise in the number of orphans. It also undermines agricultural, health and education systems by eroding the supply of managers, farmers, health care workers and educators. In addition, it strains traditional coping mechanisms involving family and communal support. Poverty also limits access to treatment of HIV/AIDS as anti-retroviral drugs are expensive. In general, due to the negative impact of the pandemic on life expectancy, labour productivity and child mortality, the social gains of the last four decades are being lost in several African countries.

5.5.5.2 The Bank has recently taken measures to respond to the crisis. This includes the preparation of the *HIV/AIDS Strategy Paper (2001)*. The policy identifies priority areas and strategies for the Bank some of which address issues of poverty, vulnerability and the new strategic framework explicitly. Specifically, the strategy recommends the incorporation of HIV/AIDS in PRSPs, more focus on vulnerability to infection, and development of partnerships to combat the disease. To strengthen the links between the fight against HIV/AIDS and poverty reduction, the Bank will support initiatives to:

- integrate HIV/AIDS issues in PRSPs and CSPs by including indicators of HIV/AIDS incidence and infection within poverty monitoring systems and emphasizing the incorporation of the cost of combating HIV/AIDS;
- identify and disseminate best practices related to the fight against HIV/AIDS and poverty reduction at the same time;

- reduce the risk factors of vulnerable groups including unemployment of the youth, gender inequality, especially in sexual relations, and the predicament of refugees; and
- build partnerships to combat HIV/AIDs with CBOs in RMCs and with other donors under the umbrella of the International Partnership Against AIDS in Africa (IPAA).

5.5.6 Private Sector Development

5.5.6.1 The potential contributions of a vibrant private sector to employment, income generation and poverty reduction are well recognized by the Bank. The private sector can contribute to poverty reduction in two major ways. First, it can provide direct investment that generates employment opportunities. It can also participate in the development of infrastructure within the framework of public-private partnership. In addition, the private sector is an important source of tax revenue, which is crucial for financing the delivery of essential public services for the poor.

5.5.6.2 To realize the potential of the private sector, it is essential to create a socio-economic environment conducive to increasing investment and promoting domestic entrepreneurs. The environment should include favourable macro and sector policies, greater institutional capacity, predictable legal systems that protect property rights, and support for good corporate governance and reliable infrastructure. Support for private sector-led growth should also include the promotion of small and medium enterprises, which provide opportunities for employment and income generation in both rural and urban areas.

5.5.6.3 As part of its support for the private sector development, the Bank will provide assistance for policies and programs which:

- promote regional integration and improved access to regional and global markets for products in sectors that employ a high proportion of the poor;
- create an appropriate legal and regulatory framework for private sector development with due regard paid to the effects on the poor of such measures as the enforcement of contracts and property rights;
- build private sector capacity particularly among small and medium enterprises (SMEs) through the provision of packages that include credits and training;
- mobilize domestic and foreign investment to enhance the role of private-sector led growth to poverty reduction; and
- support public-private partnership.

Micro-Finance

5.5.6.4 Micro-financial intermediation includes a range of instruments such as the provision of small loans, savings and deposit services, equity investments, leasing, money transfer, business development services, and micro-insurance. In general, micro-finance is an effective instrument for poverty reduction. Accordingly, it is being used to reduce vulnerability and smoothen consumption in times of external shocks thus guarding against impoverishment and the need to sell productive assets in times of economic crisis.

5.5.6.5 The Bank has been actively involved in promoting micro finance intermediation since the mid 1990s. In 1998, it strengthened this effort by establishing ADF Micro-finance Initiative for Africa (AMINA). The objective of the AMINA program was to provide micro-entrepreneurs, in particular women, with better access to micro-financial services including savings and credit. Recently, AMINA has been transformed into the Central Micro-finance Unit (OCMU). In continuing its support to pro-poor micro-finance, the Bank will pursue efforts to:

- promote best practices in pro-poor micro-finance and disseminate results widely to relevant stakeholders;
- integrate financial sector development within the PRSP framework, with particular emphasis on linking poverty analyses with the provision of financial services;
- maintain and strengthen partnerships around micro-finance with organizations such as the Consultative Group to Assist the Poorest (CGAP); and
- build the capacity of micro-finance institutions to achieve standards of best practices.

5.5.7 Governance

5.5.7.1 The links between governance and poverty are quite strong. Poor public financial management, delivery of public services of low quality, pervasive corruption, lack of participation of the poor in decision-making as well as a legal system biased against poor and neglected groups are factors which perpetuate poverty. Indeed, it is being realized that transparent, participatory democracy, and rule-based governance should be an essential element of any long-term strategy of poverty reduction. Good governance and participation of Civil Society Organizations (CSOs), therefore, are critical to operationalize the principles of national ownership, poverty-focus, participation and outcome orientation of PRSPs.

5.5.7.2 The Bank's policy on governance (1999) and the Policy on Civil Society Organizations (2001), propose a number of strategies most of which are related to poverty reduction. Emphasis is placed on measures to increase accountability and transparency, combat corruption, promote participation, and support legal and judicial reforms. In order to enhance the poverty focus of governance interventions, the Bank will promote efforts in three broad areas.

5.5.7.3 First, in order to increase participation of the poor in decision-making processes, the Bank will support initiatives which:

- strengthen national institutions which facilitate CSO participation in policy formulation, implementation and evaluation;
- facilitate participation of credible CSOs in the preparation of CSPs and involvement of the poor throughout the project cycle;
- support pro-poor, equitable and effective decentralized public service delivery schemes with due attention paid to capacity constraints; and
- promote CSO participation in public financial review processes.

5.5.7.4 Second, to improve public sector performance in financial management and planning, the Bank will support efforts to:

- strengthen national capacity in pro-poor strategic planning, budgeting, data collection, processing and analysis in the context of the PRSP processes;
- target anti-corruption initiatives for illegal activities that undermine the welfare of the poor through misappropriation of funds;
- monitor the implementation of public expenditure programs through mechanisms such as parliamentary oversight committees, public expenditure reviews, and participatory monitoring exercises in close association with on-going MTEF processes;
- assess RMC commitment as well as progress towards pro-poor policy reform within the context of the Country Policy and Institutional Assessment (CPIA) framework; and
- encourage RMCs to participate in NEPAD's Peer Review Mechanism

5.5.7.5 Third, the Bank will direct its support for legal reform to measures which:

- enhance public financial management through processes such as amended Public Service and Audit Acts;
- create an environment conducive for private sector development, including the formulation of appropriate measures to reduce the administrative burden on the poor and better access to productive assets such as land; and
- facilitate access to justice for the poor including legal literacy and right-to-information.

5.5.8 Cross-Cutting Issues

Gender

5.5.8.1 In Africa, men and women share the burden of poverty differently. Women and girls tend to be disadvantaged in terms of social outcomes such as education and health. They also have limited opportunities to make decisions about issues that affect their lives and bear the brunt of domestic violence, are more susceptible to infectious diseases. In addition, they have a greater workload compared to males when domestic and 'productive' work is combined. In many RMCs, significant gender differences in access to and control over the resources necessary for overcoming poverty are also prevalent. Overall, women are not allowed to inherit or own land, face restrictions on the use of their own labor, have limited access to credit and have little control over household income.

5.5.8.2 The *Gender Policy approved in 2001* underscores the need to address gender issues in the Bank's lending and non-lending activities consistently and systematically. For example, in agriculture, special measures are required at the policy, programs, and project levels to promote women's access to extension services and credit. Likewise, in education, action should be taken to promote high female enrollment rates by reducing distance to schools, making schools girl-friendly and curriculums attractive to girls.

5.5.8.3 As a whole, mainstreaming gender within the context of poverty reduction requires the integration of gender into poverty analysis. Accordingly, the Bank will support initiatives to:

- improve analysis of gender differences across the various dimensions of poverty and develop gender-disaggregated databases and indicators of well-being;
- conduct research on the factors that restrict participation of poor women in economic activities and that limit their access to public services and hampers their contributions to pro-poor growth;
- monitor gender differences in outcome indicators with the active involvement of men and women; and
- support the integration of gender concerns in PRSPs and MDG-related activities by incorporating relevant information, analysis and policies.

The Environment

5.5.8.4 In Africa, poverty and environmental degradation affect each other in various ways. In many cases, poverty forces poor farmers and other rural residents to engage in environmentally unsustainable practices such as deforestation, overgrazing, reduction in fallow periods, cultivation of marginal lands, and shifting cultivation without adequate replenishment of soil nutrients. High fertility rates, which increase pressure on the land and reduce fallow periods, aggravate these processes. Likewise, poverty contributes to the depletion of fish stocks, wildlife and common property resources and to the contamination of water sources through inappropriate disposal of waste products. Sudden environmental shocks at the local level such as floods, landslides, earthquakes, storms and global changes in the climate also lead to environmental degradation and poverty. Furthermore, environmental degradation in developing countries is linked partly to the high level of consumption of natural resources by developed countries.

5.5.8.5 However, poverty does not always cause environmental degradation. There are well-known cases in the forest-savanna region of Guinea and the Machakos district in Kenya of active regeneration of forest cover, and reduction in soil erosion through natural resource management of the poor using local techniques. In addition, even when the poor contribute to degradation of natural resources, it is not only due to poverty but also to inappropriate policies or to changes in underlying social relationships. Thus, the depletion of common property resources such as forests, water, grasslands, and common ponds can be attributed to the collapse of local natural resource management systems including lack of land tenure rights and inappropriate agricultural and natural resource price policies.

5.5.8.6 As highlighted in the Bank's policy for the Environment (2003), the integration of the protection of the environment in poverty policies requires closer examination of the issues highlighted above both at the local and the global level. Accordingly, the Bank will support efforts to:

- increase understanding of the interdependence between poverty and environmental change in different contexts;
- facilitate data collection and analysis of local natural resource management strategies of the poor;
- conduct environmental impact assessments of poverty reduction policies, programs, and projects; and
- incorporate environmental concerns within the PRSP process in a coherent manner.

Water and Sanitation

5.5.8.7 As an important natural resource, availability of water together with sanitary and hygienic practices is a basic need. The link between water, sanitation, and poverty, therefore, is very strong. In addition, it is a human right both for the rich and the poor. This makes water a scarce resource requiring careful economic, social and environmental management. The problem of water scarcity has been exacerbated by the high population growth rate and rapid urbanization in many developing countries.

5.5.8.8 In the case of the poor in these countries, water is important not only for consumption activities but an essential input in the production of major sources of income such as the agricultural sector. For instance, the poor depend primarily on rain fed agriculture for their livelihood. As a result, lack of adequate and timely rainfall can cause persistent food insecurity, hunger, and chronic malnutrition, especially for children and women living in rural areas.

5.5.8.9 Lack of access to clean water supply and adequate sanitation, including hygiene education also undermines the prospects for the achievement of important social indicators including three of the MDGs, i.e. reduction in infant mortality, improvements in school enrolment (especially for girls) and the promotion of gender equity. In the case of children, the high infant mortality rate is attributed mainly to lack of access to clean water supply and proper sanitation. On the other hand, low literacy rates for adult women and low school enrolment rates of girls are associated with long distances travelled by women to fetch water for domestic consumption thus hampering their human capital development, engagement in productive economic activities and contributions to poverty reduction.

5.5.8.10 In line with the Bank's Policy for Integrated Water Resources Management (2000) the Bank will support efforts to:

- integrate water and poverty issues in the preparation, implementation and evaluation of PRSPs;
- mobilize official development assistance (ODA) for financing water-related projects, programs and institutions; and
- create a favorable environment including incentive systems as well as appropriate institutional arrangements for the involvement of the private sector, NGOs, community based organizations and the poor themselves in the provision of clean water supply and adequate sanitation for rural and urban areas of Africa.

Vulnerable Groups

5.5.8.11 In many African countries, problems of poverty are exacerbated by episodes of frequent drought, crop failures, and natural disasters such as floods, political conflict and epidemics. For instance, in many African countries, the number of internally and externally displaced people due to political conflict is quite high. In general, victims of such calamities are unable to benefit from the pro-poor growth and public expenditure policies. As a result, it is necessary to provide safety nets for such groups.

5.5.8.12 The Bank also recognizes that the success of safety net programs depends on a number of factors including fiscal affordability, the availability of adequate information on the potential beneficiaries and the administrative capacity to reach targeted groups. To this effect, the Bank will support the provision of the following social protection-related activities:

- public works programs that create employment for the able-bodied poor, particularly in rural areas,
- re-training of public employees retrenched as a result of adjustment programs;
- child feeding programs, especially for HIV/AIDS-related orphans; and
- emergency relief including food aid in times of natural disasters;

6. Implementation Strategies

6.1 The Strategic Framework and the Bank: Principles and Instruments

6.1.1 The principles of national ownership, poverty-focus, participation and outcome orientation articulated in PRSPs have far-reaching consequences for the Bank. They suggest operational and institutional changes with important implications for country programs, project lending, organizational structure and life-long learning of Bank staff. Efforts are underway to apply these principles using a number of instruments.

6.1.2 The commitment to national ownership implies working within the context of national institutions, in particular national planning processes and the national budget. The PRSP will be of paramount importance as the core planning document for poverty reduction, a central instrument for donor coordination and a vehicle for integrating development expenditures within the national budget. Bank support for national capacity building will pay particular attention to these areas. The Bank will also consider different lending modalities such as budgetary support and SWAPs, where appropriate, and strengthen its partnership with governments and donors in the process.

6.1.3 The focus on poverty reduction as the overarching development objective implies that it be effectively put at the center of Bank operations and procedures. This will strengthen the incorporation of poverty issues in all stages of the projects cycle. The impact on poverty reduction of macro-economic policies, sectoral interventions and specific projects will be assessed timely. The increased poverty focus also necessitates the introduction of an institutional environment that promotes life-long learning.

6.1.4 The concern with participation entails opening-up the development processes to broader segments of society. The Bank will support initiatives to promote wider consultation in policy formulation, program and project management within RMCs and the institution. In addition, due attention will be paid to the human resource aspects in order to meet the demand for appropriate skills.

6.1.5 The emphasis on outcome orientation implies that the assessment of performance be based on results. The Bank will support initiatives to assess the effects on poverty reduction of policies, programs and projects within the context of national poverty monitoring systems developed in the context of the PRSP process. This includes support for benefits incidence analysis to examine the extent to which the poor have benefited from the allocation of public resources for critical social services important for the welfare of the poor. It will also support the institutionalization of review mechanisms within RMCs such as the annual progress report for PRSPs. Donor performance within countries will also be assessed.

6.2 Operational Strategies

6.2.1 Country Strategy Papers (CSPs) and PRSPs

6.2.1.1 The Bank has recently improved the quality of poverty analysis in CSPs. The coverage of poverty issues has been strengthened and the preparation of CSPs follows consultation with stakeholders at the country level. The PRSP process also offers an additional opportunity to transform the CSP into a document with an explicit poverty focus. Accordingly, the format for the preparation of CSPs has been reformulated to strengthen the links between their poverty focus and sectoral priorities with those in corresponding PRSPs.

6.2.1.2 The preparation of the new generation of CSPs will be based on the poverty diagnostics, sectoral priorities, outcome indicators and cost projections specified in the PRSPs. The process of their preparation will build on the experiences with the participatory approach undertaken within the context of preparation of PRSPs. Support for further research on poverty issues will be based on gaps identified by national institutions during the poverty analysis and economic and sector work for PRSPs.

6.2.1.3 At the implementation stage, the Bank's choice of lending modalities will be informed by those specified within PRSPs after careful consideration of their strengths and weaknesses. The Bank will consider support for lending instruments such as budgetary support and SWAPs, which forge new partnerships with RMCs and other donors¹². In addition, measures will be taken to promote pro-poor decentralization schemes with due regard for capacity constraints and elite capture at the local level. New forms of technical assistance with an active component of capacity building will also be encouraged, including training in poverty analysis.

6.2.1.4 Through CSPs, the Bank will support national efforts to elaborate and implement poverty monitoring systems, which track indicators of well-being as well as program and policy outputs. The poverty focus of its overall lending portfolio and its consistency with the priorities of the PRSP will be assessed periodically. In addition, country governance profiles, which gauge the commitment of RMCs to poverty reduction and PRSP implementation, will be pursued within the context of the Country Policy and Institutional Assessment (CPIA) framework.

6.2.1.5 In addition to efforts to establish close links between CSPs and PRSPs, the Bank will support efforts to improve the poverty analysis in CSPs. Foremost is the imperative of greater multidisciplinary input from teams with diverse disciplinary backgrounds and sector specializations.

¹² The Bank recognizes that the Public Expenditure Management (PEM) Systems in many African countries are quite weak. As a result, its budget support will be informed by the quality, transparency and accountability considerations of the PEM systems in its RMCs. In the meantime, it will join its development partners in building PEM-related capacity at the country level.

6.2.2 The Project Cycle

6.2.2.1 The new strategic framework has important implications for project cycle activities. The principles of poverty-focus, national ownership, participation and outcome orientation will figure prominently throughout the stages of the project cycle.

6.2.2.2 Many of these principles are stipulated in existing Bank guidelines on project lending. As indicated in Section 3, the ADF VIII Deputies proposed three poverty-focused criteria to apply to all Bank investment projects. In addition, all Bank projects are expected to address a key development need, meet the Bank's basic development and poverty reduction criteria and be owned by the borrower and stakeholders.

6.2.2.3 At the stage of project identification, the Bank will apply systematically the principles of national ownership, poverty-focus and participation. It will engage in broad consultation with RMCs, civil society organizations and other donors and ensure consistency with the core strategic priorities identified in the PRSP. Effective measures will be taken to develop and apply screening criteria, which assess the poverty-reducing potential of projects.

6.2.2.4 The subsequent stages of preparation and appraisal require social impact assessments. The Bank will assess the likely impacts of projects on the poor and vulnerable groups. As much as possible, participatory techniques of rural appraisal and beneficiary assessment will be used. If negative effects and high risks are anticipated, the Bank will consider specific mitigating measures.

6.2.2.5 At the implementation stage, the Bank will take additional measures to enhance greater involvement of community-based organizations and NGOs. When monitoring and evaluating projects, emphasis will be placed on outcomes and impact assessments will be conducted with greater frequency. Furthermore, participatory techniques of project monitoring and impact evaluation will be used extensively.

6.2.3 Partnerships

6.2.3.1 In order to enhance the impact on poverty reduction of its lending and non-lending activities at the country level, the Bank will strengthen its collaboration with its development partners on the basis of the shared objective of poverty reduction. Currently, the Bank collaborates with a number of institutions including the Strategic Partnership with Africa (SPA) in the assessment of the PRSP experience, the IMF and World Bank in the development and implementation of the HIPC Debt Relief Initiative, the ECA through its support for the Africa PRSP Learning Group, and the MDBs Informal Working Group on Poverty in the preparation of the annual Global Poverty Report. In addition, a PRSP Dutch Trust Fund has been established within the Bank with resources provided by the Government of the Netherlands. The Trust Fund is being used to support RMCs in the preparation and implementation of their PRSPs. In the future, the Fund will be used to support Poverty and Social Impact Analysis (PSIAs) at the country level¹³. The Bank also collaborates with DFID

¹³ The need for PSIAs evolved out of the negative experiences of the early days of structural adjustment programs supported by multilateral institutions and bilateral agencies. In this regard, the Bank, together with its

in the preparation of its poverty policy, the UNDP in supporting work on statistical capacity at the country level related to PRSPs and GTZ on poverty related training of staff. Regarding data for poverty analysis, the Bank supports the International Comparison Project (ICP) and the Paris 21 Initiative both of which are established to improve the quality of poverty data and analytical capacity on poverty issues at the country level.

6.2.3.2 In addition, the Bank has signed a Memorandum of Understanding (MOU) with the World Bank, which includes joint support for PRSPs at the country level. The MOU specifies the Bank's leadership in regional integration, governance and agriculture/rural development. On the other hand, the World Bank's leadership includes work on macro-economic analysis, economic and sector work, financial sector reforms, large-scale infrastructure projects, micro-finance and private sector development. This relationship will be modified on the basis of the opportunities that the new strategic framework provides.

6.2.3.3 Additional efforts will be undertaken to strengthen partnerships across regional blocs such as IGAD, COMESA, SADC, ECOWAS and AMU around the theme of poverty reduction. The establishment of the Partnership and Cooperation Division should strengthen this aspect of the Bank's work on collaborative activities on poverty reduction.

6.3 Strategies of Institutional Change

6.3.1 Organizational Change

6.3.1.1 The Bank has put in place a new organizational structure since January 2002. The new structure is designed to implement the Bank's Vision and the institutional set up is conducive for operationalizing the key elements of the strategic framework. The preparation and implementation of the Bank's first Strategic Plan is an important step in this respect.

6.3.1.2 Since poverty reduction has been given prominence during the implementation of the recommendations of the reorganization study, a Sustainable Development and Poverty Reduction Unit (PSDU) has been established. The Unit reports directly to the new Vice Presidency of Policy, Planning and Research (PRVP) and it is mandated to mainstream poverty and cross-cutting issues in the Bank's operations. The establishment of this Unit is consistent with arrangements in similar institutions where poverty reduction has been brought to the fore by associating it with strategic planning activities of the Bank. Accordingly, efforts are underway to ensure that PSDU receives the necessary resources including the recruitment of additional poverty specialists in order to carry out its poverty reduction mandate in a coherent and sustainable manner.

6.3.1.3 The Management of the Bank committed itself to strengthen the Operations Evaluation Department (OPEV) by recruiting new staff to cover the evaluation of social sector and poverty reduction projects and programs, and new result-oriented country assistance strategies. Activities of the Department will be carried with a view to improve dissemination of lessons learnt, and provide assistance to operations departments and regional member countries

development partners will carry out PSIAAs to assess, ex-ante, the impact on poverty of major reform programs associated with the implementation of PRSPs.

with Monitoring and Evaluation methodologies. Furthermore, an Annual Report on Development Effectiveness will be prepared by the Department with the purpose of reviewing the progress made towards the attainment of the overall goals and objectives of the Vision and the Strategic Plan at the core of which are poverty reduction and sustainable development. It will cover all aspects of development effectiveness and determine the measures to be taken with a view to improving the Bank performance and results on the ground, thus optimising its contribution towards a greater impact on the economic and social development of its regional member countries.

6.3.2 Creating a Learning Environment for Poverty Reduction

6.3.2.1 An effective learning environment for poverty reduction comprises actions in the areas of applied research, continuous training and interdisciplinary collaboration. The Bank is taking the necessary measures for the creation of an institutional environment conducive to life-long learning of its staff. In this regard, the Bank recognizes that training in poverty analysis is the *sine qua non* for putting poverty reduction at the center of its operations.

6.3.2.2 An important step was also taken for bolstering Bank research capacity by establishing the Development Research Department under the new PRVP. The Department is mandated to spearhead the promotion of intellectual leadership in development thinking. It is composed of three Divisions: Development Research Division, Statistics Division and the African Development Institute. The African Development Institute is responsible for training and knowledge dissemination in RMCs. The Bank will ensure that applied research on poverty reduction, including support for economic and sector work, will play a central role in the agenda of this Department with a view to integrating poverty reduction in the Bank's lending and non-lending activities. In order to avoid duplication of efforts, some of the applied research including economic and sector work will be carried out in collaboration with institutions such as the ECA, the IMF, the UNDP and the World Bank.

6.3.2.3 To strengthen the skills of Bank economists and sector specialists in the various dimensions of poverty, courses in the Economics of Poverty are being designed. For technical specialists, courses in the measurement of poverty, the elements of pro-poor growth, the assessment of the effectiveness of pro-poor public expenditures including benefits incidence analysis, costing of PRSPs and monitoring and evaluation systems will be provided. The Bank will also pursue efforts to develop and implement Bank-wide training on poverty reduction in conjunction with institutions such as the ECA, GTZ, and the World Bank.

6.3.2.4 The multi-dimensional nature of poverty calls for collaboration across staff with different sectoral expertise. There is a need for formal and informal mechanisms to forge closer working relationships between operations and non-operations Departments, between different sectoral specialists, economists and non-economists. The Bank will take measures to improve collaboration across different disciplines by drawing on the experiences of country/interdisciplinary teams from organizations such as the World Bank.

7. Conclusion

7.1 The Bank has taken significant steps in the past ten years to bring poverty reduction to the forefront of its operations. It has moved beyond concern with economic growth to explicit consideration of policy options and operational programs in support of pro-poor growth and effective delivery of social services. The *Vision Statement (1999)* and the accompanying Strategic Plan clearly specify poverty reduction as the overarching goal of the Bank. In particular the Strategic Plan articulated clearly the importance of supporting country-owned PRSPs and maximizing contributions to the achievement of MDGs. The policy paper is an additional step in an evolving process through which the Bank promotes the poverty reduction agenda in Africa.

7.2 The Bank's increased focus on poverty reduction has occurred in a changing international environment for enhancing socio-economic development in Africa. For instance, poverty reduction has emerged as the overriding objective of development assistance. In addition, the principles of national ownership, participation and outcome-orientation are widely accepted as central to the development process. This new strategic framework requires the development of pro-poor policies as well as implementation strategies, which rely on country-led strategic development frameworks and planning instruments. It also implies operational and institutional changes within the Bank with implications for country programs, project lending, organizational structure and institutional learning. The paper specifies many of the requisite changes and affirms the Bank's commitment to adopt them.

7.3 The consensus in favor of poverty reduction has developed within the context of a broader understanding of poverty. The concept of poverty has expanded, as have the range of policy options to reduce it. Issues of good governance, empowerment and sustainable livelihoods now feature prominently in the poverty agenda, as do measures to reduce vulnerability and inequality. The policy paper, which explicitly links poverty reduction to governance reforms, environmental protection, and reduction in inequality and exposure to vulnerability reduction, demonstrates the Bank's resolve to putting this new conceptual framework to work.

7.4 Poverty in its different forms remains widespread in Africa. As the premiere development institution devoted to improving living conditions throughout the continent, the Bank is well placed to address these problems. The poverty policy affirms the Bank's commitment to champion the poverty reduction agenda and provides guidance on how to design and implement its programs and projects in line with priorities of PRSPs and the MDG agenda for ADF countries and related programs for ADB countries.

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