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Poverty Reduction Strategies and the Rural Productive Sectors: What have we learnt, what else do we need to ask?

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Despite the fact that more that 75 percent of the world's poor live and work in rural areas, five years of experience with Poverty Reduction Strategies (PRSs) show that they have generally not dealt well with rural poverty and the rural economy, owing to: a poor understanding of rural poverty, weak links between poverty assessments and policy formulation, and biases in favour of public spending and against enabling measures for productive sectors. This paper argues that significant challenges remain in exploring the potential contribution of the rural productive sectors to growth and poverty reduction. One is to seek consensus over paths to pro-poor economic growth and role of the state in the rural productive sectors. Another concerns the wider political interests that might constrain the engagement with pro-poor policy change. Three policy messages emerge: a stronger rural poverty focus in PRSs is required, the political dimensions of pro-poor policy debates have to be built into the PRS process, and country specific research is needed on the politics of pro-poor policy in the rural productive sectors.

'Given that 75% of the world's poor live and work in rural areas, rural poverty reduction deserves more attention in PRS processes.'

Policy conclusions

- Even though 75 percent of the poor live in rural areas, the treatment of the rural economy has been surprisingly limited in PRS.
- The study of PRSs and the rural productive sectors has to move the focus of analysis beyond the instrument itself to consider the broader policy debates and political interests which might determine the feasibility of pro-poor change.
- The linkages between rural growth and poverty reduction need to be better understood and fed into policy making.
- The increasing recognition of the potential role of non-state actors in the rural productive sectors raises questions about the sufficiency of the PRS framework (which is fundamentally a government-led policy process) as an instrument to address poverty reduction through those sectors – additional frameworks which build more on local realities and on the role of non-state actors might be required.
- Political interests have to be factored in – this means going beyond technocratic prescriptions and might mean adjusting pro-poor policies to what is feasible or shifting incentives to give powerful policy actors an interest in pro-poor policy change.
- Additional case-study research needs to build on from the work already produced on the politics of PRSs and pro-poor change.

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Introduction

Poverty Reduction Strategies (PRSs), together with the Millennium Development Goals (MDGs), are central to current efforts to reduce poverty.

PRSs were established in 1999 as a new form of conditionality to access World Bank and IMF concessional lending and debt relief under the Enhanced Highly Indebted Poor Country initiative. Strong national ownership and wide participation were envisaged, with policy interventions falling in four priority areas:

- macroeconomic stability and structural policies to support economic growth,
- sector policies and programmes addressing human capital,
- infrastructure development, and
- good governance and healthy institutions.

In reality, PRSs have varied widely from the original prescription, with important differences in the degree of national ownership, the status of the PRS relative to other national policy instruments, the type of design choice for the PRS document, the participatory nature of the formulation and implementation processes and the level of sophistication of supporting monitoring and evaluation mechanisms. The resulting PRSs have often been a hybrid combination of ideas from donors and governments.

Five years of experience have generated

numerous reviews and assessments. Although the challenges are still significant – in particular in relation to the active engagement of key stakeholders (particularly national parliaments and the poor), analytical foundations of policy prescriptions, consistency between policy objectives and resource allocation, and impact evaluation – it is widely agreed that PRSs have helped in mainstreaming poverty reduction efforts and in creating new spaces for domestic policy dialogue.

That said, there is concern that PRSs to date have tended to emphasise the public provision of goods and services – roads, water, health, education, etc. – and paid less attention to productive sectors.

Some 75 percent of the world's poor live and work in rural areas (IFAD, 2001). This paper reviews existing knowledge on PRS and the rural economy by providing a brief overview of three recent pieces of work: a World Bank literature review of rural development aspects of 32 PRSs (World Bank, 2005), an ODI literature review of 16 PRSs (Shepherd and Fritz, 2005), and an ODI study (Cromwell et al., 2005) of three countries' experiences – Malawi, Nicaragua and Vietnam.

This paper emphasises the need to look beyond the PRS instrument itself in order to understand the treatment given to the rural economy and the rural productive sectors in PRSs. Wider policy debates and processes are the key to understanding the nature and potential reach of the PRS agenda, particularly where – as in the productive sectors – public policy roles are highly contested.

The rest of the paper consists of three parts: policy content of PRSs, PRS process, and the challenges of pro-poor growth from the perspective of the rural productive sectors.

2. PRS policy content

Various studies have suggested that PRSs, or at least the first generation of them, are weak in terms of the analytical content of policies. Studies focusing on the rural dimensions of poverty and the rural economy conclude likewise and identify at least four types of problems: deficient poverty diagnoses, lack of correspondence of diagnosis to policy recommendations, bias to activities that concern public spending, and failure to explore the links between growth and poverty reduction.

Taking these in turn: In PRSs, the rural poor are frequently treated as a homogeneous group with little discussion of the determinants of their poverty status (World Bank, 2005). The neglect of dynamic aspects of poverty –opportunities for the poor to participate in economic growth as well as the risks of the non-poor descending into poverty – has also been noted (Shepherd and Fritz, 2005).

An additional concern is the extent to which poverty diagnoses, or indeed participatory assessments involving the poor, actually inform the setting of policy priorities and targets. The links between poverty assessments and policy are seldom straightforward. The World Bank review notes, for example, that half of the 32 PRSs analysed included water-related issues in the poverty diagnosis, but only one quarter included actions related to this sector. Livestock provides a similar example. By contrast, decentralisation and local governance were linked to rural poverty in only 28 percent of the PRSs but considered a priority area of intervention in 72 percent of them (World Bank, 2005).

PRSs seem to have failed to draw from poverty diagnoses, or to explore the rural dimensions of poverty, and so convey little understanding of the poverty reduction potential of the rural productive sectors.

PRSs have a strong public expenditure focus, and pro-poor policy prescriptions are greatly determined by the prevailing pattern of public sector intervention. This is said to have created a bias in PRSs – a bias reflected in the MDGs also – against the productive sectors (Shepherd and Fritz, 2005; Cromwell et al. 2005). The public expenditure focus is not surprising given the initial tight link between the PRS process and debt relief, and the fact that PRS processes have often been coordinated by ministries of finance. This might have left little space for considering enabling (and less expenditure-focused) public sector measures and for exploring linkages between the public sector and the profit and non-profit non-state sectors with great poverty reduction potential.

Nor have the linkages, or trade-offs, between poverty reduction and growth been adequately explored (World Bank, 2004). There are sectors, such as tourism, where considerable scope for poverty reduction exists but has rarely been explored in PRSs (Shepherd and Fritz, 2005). Often, the implicit pro-poor growth model in PRS is one of 'trickle-down', which tends to treat growth and poverty reduction as one and the same thing, overlooking the connections between the two (Cromwell et al., 2005).

Box 1 PRSs and other policy planning frameworks, Malawi and Nicaragua

Experience in Malawi and Nicaragua shows that the PRS is not the leading policy framework on poverty reduction. Other policy documents have quickly rendered the PRS obsolete or redundant.

Malawi:
- Malawi Poverty Reduction Strategy, 2002 – following closely the original prescription, the PRS had the following priority areas: (i) sustainable pro-poor growth, (ii) human capital development, (iii) improving quality of life of the most vulnerable, (iv) good governance, security and justice.
- Malawi Economic Growth Strategy, 2004 and Malawi Growth and Development Strategy, 2005 – the new President elected in 2004 and other key stakeholders thought that the approach in the PRS was inadequate for promoting rapid economic growth and designed these strategies to fill the gap. It has been argued that the new approach focuses on immediate actions benefiting the large-scale private sector with little concern for poverty reduction – in particular, it ignores the maize-based subsistence agriculture on which two thirds of the population rely.

Nicaragua:
- Reinforced Strategy for Economic Growth and Poverty Reduction, 2001 – the PRS includes as priority areas: (i) economic growth, (ii) investment in human capital, (iii) protection of the vulnerable, (iv) good governance and institutional development.
- National Development Plan, 2002 – this plan reflects the priorities of the new government which took over in 2002. It stresses economic growth and largely assumes that poverty reduction will be achieved through trickle down effects. The growth model is based on attracting foreign capital and investment to favoured geographical areas (in terms of land potential and market access) where competitiveness can be harnessed. The implication for the poor in remote areas is that they migrate and relocate to take advantage of jobs created in the high potential clusters.

Source: Cromwell et al. (2005)

3. PRS process

Participation is one of the principles of PRS formulation and implementation, but has been modest, with low engagement of, especially, rural stakeholders and limited to the diagnostic stage of the PRS process (Shepherd and Fritz, 2005; World Bank, 2005). In addition, PRSs have generally been one amongst several policy processes and statements, rather than the overarching policy framework on poverty reduction (Shepherd and Fritz, 2005; Cromwell et al., 2005). Their importance has been undermined by changes in governments, or in national development plans that have supplanted them. Box 1 provides examples from Malawi and Nicaragua.

Donor efforts to link poverty reduction and the rural productive sectors have also been insufficient. Large shares of donor funds to these sectors are still made available through off-budget projects and programmes, undermining coordination and transparency (Shepherd and Fritz, 2005).

One reason for this is that it has proved difficult to achieve a consensus on the detailed priorities for agricultural and rural development. Box 2 provides an example of donor disagreement on agriculture

Box 2 Donor disagreement on agricultural policy: the case of the Starter Pack scheme, Malawi

The Starter Pack scheme was devised to help in spreading new maize production technology in Malawi. Small bags of seed and fertiliser were distributed to all small farmers to get them over the hurdle of the initial investment. It was anticipated that once yields increased as a result of SP, small farmers would finance their own input purchases on a self-sustaining cycle.

DFID and other donors supported government efforts to run SP from 1999, as a productivity-enhancing programme, and the scheme was successful in the first two years (aided by two good agricultural seasons). However, donor disagreements since then have significantly reduced the intended impact of the scheme.

DFID increasingly felt the need to justify investment in SP in terms of social protection and, accordingly required the scheme to be targeted to the poorest households. This had negative aspects: difficulties in reaching the poorest households, jealousy, and reduced impact on domestic food prices. More fundamentally, productivity-enhancing inputs may not protect poor households with little land and labour.

Meanwhile, USAID and the European Union became increasingly critical of SP, citing the perceived negative impact on private sector input traders and their own agricultural credit programmes.

Whilst these debates continued, SP became a major component of the government's PRS spending on agriculture, arguably to the exclusion of other relevant agricultural expenditure (on rural infrastructure, extension, etc). At the same time, the suspension of budget support resulted in annual donor-government negotiations on funding which delayed procurement and distribution of inputs and impeded the delivery of accompanying extension advice. With the 2004 election campaign, returning to fertiliser subsidies was added to the list of policy options, apparently primarily for political reasons.

In 2005, the debate about agricultural support in Malawi appears to have ossified around entrenched positions of the major players. Neither donors nor government are engaging in the kind of evidence-based debate that is needed to identify the most appropriate components of an agricultural strategy for Malawi.

Source: adapted from Cromwell et al. (2005)

policy in Malawi.

The World Bank (2005) review documents the lack of coherence between PRS priorities in rural development and those taken up in Poverty Reduction Strategy Credits (PRSCs), other instruments and by other donors (Box 3). This disconnect was found to be particularly pronounced for rural finance, rural private sector development, food security, risk and vulnerability, livestock, decentralisation and governance issues.

4. Pro-poor policy and the rural productive sectors – what are the challenges?

This section takes the analysis beyond the PRS instrument itself to more fundamental policy ideologies and political interests. It questions the suitability of the PRS framework to deal with pro-poor growth in a context (and in sectors) where the role of the state is contested, where there are many conflicting interests at play, and where, increasingly, the potential contribution of non-state actors is being called upon.

Pro-poor growth or pro-growth poverty reduction – what's the right sequence?

Despite the potential of the original prescription, PRSs have said and done little about the postulated links between economic growth and poverty reduction.[1] Experience with PRSs has been disappointing in this respect. Growth and poverty reduction have either been treated as separate realities – with poverty reduction in the realm of social services provision – or it has been assumed that gains from economic growth would eventually trickle down to the poor.

Many have argued, however, that poverty reduction and growth have to be tackled simultaneously, by exploring the synergies but also recognising the difficult trade-offs (Box 4 illustrates some of the tensions).

Farrington et al. (2004), for example, offer various suggestions on how to strengthen the link between poverty reduction and growth in the agriculture sector, by incorporating growth perspectives into social protection interventions (through employment generation schemes, cash transfers, microfinance) and incorporating protection against risk and vulnerability into growth-promoting interventions (through promoting secure access to assets for the poor, or through investment and service delivery provided in a way that maximises benefit to the poor – for example, crop technology combining both robustness and production potential concerns). What is being advocated is that there is much to be gained from combining growth and social protection objectives, but much remains to be learned about the complementarities and trade-offs within and beyond agriculture.

The challenges here are fundamentally ideological and political – they are about choosing and committing to a more equitable model of social allocation of resources. PRSs have so far missed the opportunity to strike this difficult balance.

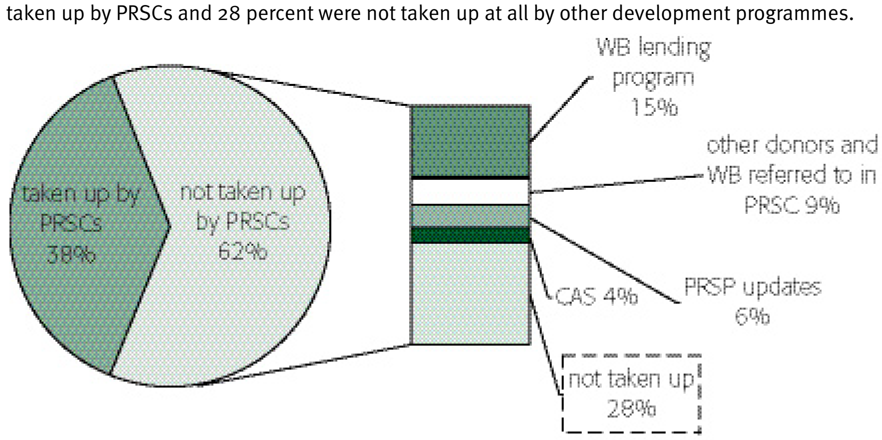
What role for the state in the pro-poor agenda?

In relation to the productive sectors, the private sector is the dominant actor not the state, many quite diverse groups make up that private sector, the state role is more one of regulation and enabling than of public spending, and government activities are spread across several ministries. Not surprisingly, there is ample scope for disagreement over policy objectives, instruments, and responsibilities. In this latter regard, there may be a general consensus on the role of public sector as a facilitator of private enterprise; but in practice, the details of this are often contested – not least by ministries unwilling to see their previous programmes of regulation and heavy public spending cut back (Cromwell et al., 2005).

It is in this context that the appropriateness (or sufficiency) of the PRS – which is largely a government-led process – as a policy framework to tackle rural poverty through the rural productive sectors has

Box 3 Donor uptake of PRS rural priority actions

The World Bank review analysed a total of 12 countries with approved PRSCs and observed that 62 percent (117) of the 189 rural priority activities that were included in PRS action matrices were not taken up by PRSCs and 28 percent were not taken up at all by other development programmes.



The review also noted that the first group of PRSCs did not concentrate sufficiently on the areas where most of the poor live, nor on and the sectors from which they derive their livelihoods.
Source: World Bank (2005)

Box 4 Tensions between poverty reduction and growth in land policy, Vietnam

Tensions have emerged over land policy in Vietnam between pro-poor objectives and the promotion of growth. The pro-poor features built into the design of the land allocation process have been weakly enforced in many parts of the country. Land allocation has, therefore, often increased socio-economic differentiation, as manifest in increased land concentration and landlessness in the Mekong Delta. These outcomes have occurred for a variety of reasons: some are the result of failure, or inability, to implement the policies effectively, while others are a result of corruption and policy misapplication.

In areas of rapid economic development (such as many coastal, urban and peri-urban areas) commercial interests vie with equity concerns. The former has seen pressure and support for 'economic farms' and for government-promoted policy to allow for a higher limit on the size of land-holdings.

Such policies can act to undermine the equitable intentions of the original land allocation policies. Indeed, many of the policy decisions over land can be viewed as safeguarding the rights of certain groups, as for example in the case of the recent recognition of informal urban land rights, which can be seen as a reaction to complaints and demands of the elite.

Source: Cromwell et al. (2005)

to be discussed. Development agencies might, for instance, work through additional frameworks which build more on local realities and on the role of non-state actors, while establishing the necessary links with PRS processes.

How to drive pro-poor change?

Elite interests are often inimical to pro-poor change, particularly in the productive sectors where class-based and vertical patronage politics tend to feature significantly (Cromwell et al., 2005). Seriously committed pro-poor policy will have to challenge these interests, via e.g. equitable land redistribution and tenancy arrangements (Box 4).

Booth (2005) noted that the 'buy-in' to the PRS process has so far been mostly technocratic and that fundamental political interactions and change processes have not been much affected. The conflict of interests in pro-poor policy is, however, widely recognised. The Drivers of Change strand of research on pro-poor policy has made substantial contributions to improving the understanding of these issues.[2]

Pragmatic ways forward are likely to come from policy alternatives that acknowledge the political interests of powerful actors while contributing to poverty reduction. The ideal pro-poor solutions might need to be 'moderated by what is feasible within existing structures of power and resistance' (Hamner and Booth, 2001: 25).

The greater challenge would be to shift incentives in such a way as to make pro-poor policy change part of the interests of the powerful. Moore and Putzel (1999) note that poverty reduction can be seen as a public good and that the non-poor can benefit from it: '[t]he non-poor may suffer from poverty because of the links to crime, disease, social unrest and poor national economic performance through an inefficient (because unhealthy, uneducated) labour force.' (p. 22)

5. Conclusions

Three policy messages emerge.

One, given that about 75 percent of the world's poor live and work in rural areas, rural poverty reduction deserves more attention in PRS processes.

Two, debates on rural economic development are not simple, but progress will depend on taking differences of interests and opinions (namely on the productive sectors contribution to pro-poor growth, and on the role of the state) more explicitly into account.

Finally, the analysis of policy and the politics of policy is specific to contexts. More country case-study research is thus required.

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Endnotes

1 The World Bank PRSP Sourcebook indicates the following: 'Possible tradeoffs between the pursuit of short-term versus long-term poverty reduction and other macroeconomic goals should, as far as possible, be explicitly addressed. The distributive impact of policy changes needs to be considered...' – Poverty Reduction Strategy Papers Sourcebook, World Bank, p. 16.

2 For an overview of the approach and examples of experiences with its application see: Warrener, D. (2004) 'The Drivers of Change Approach', Synthesis Paper 3. London: ODI.

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