



External Comments and Contributions on the Joint Bank/Fund Staff Review of the PRSP Approach

Volume I: Bilateral Agencies and Multilateral Institutions

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The IMF and the World Bank, as part of their joint staff review of the PRSP approach, solicited comments from the public through their external websites. These volumes contain comments and contributions about the overall PRSP approach submitted through January 2002. They do not include various studies that did not specifically address issues related to the review, or that addressed only country-specific experiences.

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Partners and Countries

**BMZ Contribution to the
World Bank/IMF PRSP/PRGF Review
(Work in Progress)**

1. Introduction

As part of its decisions on implementing the enhanced debt relief initiative for the poorest countries, the international community agreed upon a shared framework for national Poverty Reduction Strategies (PRSs). The German government expressly welcomes this new approach and supports its implementation bilaterally and multilaterally.

Even before the PRSP approach was conceived, poverty reduction was already a cross-cutting issue for German development cooperation. The German government's Program of Action 2015 thus covers many initiatives that resulted from this long-standing involvement. PRSP offers a concrete opportunity to design national and international efforts for poverty reduction in such a way as to make them a joint and partnership-based endeavour.

In the international debate, many objectives of development policy that have not yet been reached are projected onto PRSP; from the central contribution towards the international development goal of halving the proportion of people in extreme poverty world-wide by 2015, to enhanced coordination and harmonization among the various donors and their activities and procedures, to the need for taking greater account of the national environment (such as development orientation of state action/good governance) and the importance of a conducive international environment for poverty reduction.

The review of PRSP progress and implementation is intended to help in the international discussion, especially in the consultations among World Bank and IMF Governors in spring 2002. So far, five countries have produced Full PRSPs, while 36 countries have submitted what is called Interim PRSPs. An early preliminary review can help us improve this instrument in time and keep track of it before a final conclusion can be drawn as to its success or failure. To this end, we have analyzed the feedback received, in particular, from our embassies, KfW, GTZ, NGOs and other donors. The following remarks therefore do not cover all issues related to PRSPs, nor do we intend to offer final answers; we rather wish to highlight a few aspects which German development players consider particularly important and pinpoint to problems and questions that need further attention.

In conclusion, we arrived at the assessment that the PRSP approach already amounts to a constructive step forward. There are two aspects in particular which we would like to highlight:

- To date, the PRSP approach has already visibly increased the poverty orientation of many developing countries' policies, and has provided impetus to more effective external support. Not only did developing countries accept their ownership of their own development in, and through, the PRSP process, but this ownership has, in particular, initiated concrete political processes and a change of awareness, as a result of increased civil society participation in formulating the Strategies. In many countries, the PRSP process has established poverty as a central policy issue.
- In all PRSP countries, poverty-related expenditure in public budgets has undergone a clear increase. The incorporation of PRSP priorities in budgets - especially in the context of medium-term expenditure frameworks (MTEF) - is a clear sign of greater poverty orientation.

In future, it will be vital to further develop the effectiveness of public expenditure policies along these lines.

1.1 Summary: Main Results

After almost two years of drafting and implementing PRSPs, notwithstanding the deficits still existing, the positive sides of this instrument predominate:

- PRSPs are no longer exclusively associated with HIPC.
- The instrument of Interim PRSPs helped reduce time pressure, which had been a problem.
- The CDF principles are used as a basis for the PRSP process.
- Even in countries where governments have reservations about stronger participation by broader sections of the population, PRSPs have given additional political scope to civil society, thus generating new dynamism.
- PRSPs bring about discussions on political priorities and greater transparency of government policy, among other things regarding the budget and spending priorities.
- PRSPs have restored attention for the importance of basic social services provided by the state as one fundamental element of poverty reduction, and they will result in real improvements in the provision of resources for these fields.
- PRSPs have also given new momentum to action among donors; coordination and coherence with a view to countries' national poverty reduction strategies have become more important; the discussion on harmonization and new instruments of cooperation has also been advanced.
- PRSPs have also resulted in more focused activities, and openness towards other donors, on the part of multilateral organizations, and have lent a welcome boost to the practice of reviewing structural adjustment measures and other activities for their poverty relevance before they are implemented. Bilateral donors have been encouraged to draw up Joint Assessments if their perspective differs in some aspects from that of the World Bank and IMF.
- PRSPs offer an opportunity for cross-cutting development issues such as good governance, participation, gender, and environment to become more firmly established.
- PRSPs have also given a major boost to the discussion on improving the effectiveness of development cooperation and on improved impact monitoring.

In addition to this, there are also a number of opportunities that have not yet been fully tapped, and also risks, which can be noted after two years of PRSPs:

- PRSPs have a profound influence on political processes. Ultimately, sustainable poverty reduction touches upon fundamental issues of interaction within society. If policymakers set priorities for the benefit of pro-poor policies, they will always have to overcome profound clashes of interest, resulting in political compromises. In many PRSPs, it has not yet been possible to use the analysis of underlying causes of poverty to arrive at compromises which are viable but also suitable for addressing these causes and which tackle even difficult issues (such as corruption, distribution of land and income). In many cases, this can also be seen from the insufficient definition of priorities.
- In some cases, PRSPs are still mistaken for a blueprint for development and overburdened with goals. But PRSPs cannot address all central development problems simultaneously. Also, insufficient attention has been given so far to the limited capacities of our partners - not only at the central level but especially at levels below that. We should avoid a renaissance of

the planning euphoria of the 1970s. A realistic assessment of what is feasible should continue to be the main principle guiding partner governments and donors in their actions.

- In terms of sectors, PRSPs still concentrate too much on basic social services and neglect productive, employment-generating sectors, which is also reflected in the overemphasis on expenditure as opposed to revenue in public budgets.
- In many cases, PRSPs are based on overoptimistic growth scenarios, thus avoiding the need for truly setting priorities. But in this way, they perpetuate continued dependence on donors.
- PRSPs have not succeeded in all instances in reducing complexity and administrative workloads for our partners, and in some cases they even pose a risk of overburdening the process.
- PRSPs pose a risk of centralization. So far, it has not been possible in most cases to give sufficient attention to the importance of capacities of sector ministries and devolved units or decentralized levels in the process of drafting and implementation.
- The need for participation has not been recognized universally yet; some continue to view this as an unavoidable provision imposed by donors.
- The sustainability and institutionalization of participatory processes continues to pose a challenge, especially in the transition from the drafting to the implementation phase.
- The potential offered by creating links to, and making use of, other national strategies - such as NSSDs but also sector and subsector plans - has not been put to sufficient use so far in the PRSP process. The same goes for the mainstreaming of cross-cutting issues such as good governance, environment, gender, HIV/AIDS.

These deficits do not mean that one should not have faith in the success of this instrument and of the CDF principles underlying it. Our partners and the donor community should undertake additional efforts to make better use of the potential described. For donors, this also means to take ownership seriously, to leave partners time for their process, and sometimes to put their own quality standards off until a later time in the process. It also means, not least, that donors should review their own instruments on a country-by-country basis, rather than prescribing dogmatically the standard set of instruments, and to make use of the comparative advantages of the various donors.

2. PRSP as a Blueprint for Poverty Reduction?

PRSPs are the result of internal political processes and thus reflect the realities existing in a given partner country. On the basis of as broad-based an analysis as possible of the causes of poverty, it is the process of strategy formulation and, in particular, the degree and depth of participation by society, which is the major determinant of the substance of the strategy. The implementation of this substance, in turn, should be reflected in the appropriate prioritization of public spending and policies.

In the following, the key statements of our summary will be explained in detail. The focus is always on the interaction between process and substance, which we believe is the fundamental characteristic and the strategic innovation of the PRSP approach.

2.1 PRSP and Participatory Processes

Based on recent experience in the partner countries it can be said that the PRSP approach has lent impetus to processes in the arenas of politics and civil society. Even though the implementation of PRSPs is only just beginning and many countries are still in the drafting phase, this is an important step forward associated with the PRSP approach. A clear and positive change in the political climate can be noted in many countries. Civil society organizations have become aware of new opportunities for action; government administrations which previously kept their distance from society have experienced that cooperation with civil society is productive and can strengthen government action. The media is increasingly addressing topics related to the PRSP context. The participation of parliaments, on the other hand, often continues to be unsatisfactory and requires improvement. Civil society participation must not become a substitute for, or enable players to bypass, legitimate political institutions. In Uganda or Bolivia, for instance, broad-based civil society participation developed even at the non-central levels. In Mozambique, where the government previously had little experience with civil society participation, the PRSP process clearly helped to forge relationships and build mutual trust. The supporting PRS study coordinated by Britain's ODI for the Strategic Partnership with Africa (SPA) emphasizes quite rightly the political scope for action which was created in a number of countries through the HIPC/PRSP Initiative.

However, in those places where the principles of good governance have not become firmly established and where neopatrimonial clientelist systems are entrenched it has become evident that the creation of new scope for political action must be paralleled by the will to make use of that scope. The mentioned ODI study points out that politics matters, meaning that for the HIPC/PRSP Initiative to be successful it must be integrated with the existing political system and the reform of that system.

2.2 Participatory Processes and Priority-Setting

One core issue for PRSPs is how to reconcile the process of forming opinions within society on the measures that are vital for poverty reduction with the need to provide scarce public resources for the priority areas thus identified. Not all activities can be carried out, so how, and by whom, will a decision be taken on the priorities for public budgets? Given the tension between PRSPs' claim to comprehensiveness and the selectivity needed to reach concrete results, the strategy has good prospects of succeeding if it refrains from trying to cover the entire range of possible actions.

It is becoming evident that - with the support of the World Bank and the IMF - visible progress has been achieved everywhere as regards the incorporation of PRSP priorities into budgets. In some of the cases, a highly important process of discussion within society about the importance and transparency of public budgets was either launched or supported. Since political commitment becomes manifest in budgets, this development is highly welcome. In many cases, however, this has not yet led to a final definition of priorities and posteriorities. So far, legitimate institutions, especially parliaments, in the partner countries have not always been playing the role they should in this process. Also, the mainstreaming of PRSPs into the budget is faced with constraints in PRSP countries with poor governance.

Moreover, it can be noted - an observation which, incidentally, also applies to other participatory drafting processes of national strategies - that the participatory process sometimes gives rise to expectations that are very difficult to meet. The more comprehensive poverty analysis encouraged by the PRSP process results in a higher number of options for action. It is important for governments to point out, from the beginning, the limits on what can be done. Participatory processes that are conducted with a great deal of effort may result in wish lists which do not add up to a strategy if they are simply combined. The degree to which the political process - in institutions that enjoy relevant legitimacy - is consistent and transparent in bringing together the participatory processes and their results into a strategy determines the degree to which strategies are realistic. We have found that in many cases the strategic options for poverty reduction have not always been derived consistently from the poverty analysis.

The PRSP process has launched a more intensive, broader poverty analysis, even if some PRSPs limit this analysis to describing the extent of poverty (e.g., Ghana, Kenya). Many PRSPs concentrate largely on a standard set of strategies. Based on the deficits in the provision of basic social services, many PRSPs contain routine calls for improved basic education and health services. We share the view that in many cases this is an appropriate and necessary approach; clear increases in spending on education and health, such as that evident in Mauritania's draft 2002 budget, are a long-term basis for sustained poverty reduction if the quality of services is improved at the same time. However, the strong - sometimes exclusive - focus on social sectors is often a reflection of internal political processes - and also of donor interests - which make it impossible to arrive at a consensus on controversial issues if strong interests are involved, which leaves agreement on the lowest common denominator as the only option. In many countries, the PRSP process has not yet succeeded in incorporating in the Strategy suitable responses to the political and economic power structures which the poverty analysis has found to contribute to the impoverishment of broad sections of the population. Issues that are sensitive in terms of power politics, such as corruption or extremely unequal distribution of incomes, are only addressed in the PRSPs to the extent that the government is willing to pursue reforms, or civil society forces are strong enough to push for reforms, or donors have pressured countries to address them (as they have in a number of African countries with regard to corruption). So it must be welcomed that what is sometimes very candid criticism of corruption can be found in all chapters of Uganda's PRSP. In some other countries, on the other hand, there is a striking contrast between the far-reaching plans for reforms and reality. This jeopardizes the credibility of PRSPs among the public.

Through their poverty analyses and the political process of participation launched by them, PRSPs help to make these political and structural causes of poverty more transparent. PRSPs should really be seen not so much as a complete product containing maximum demands, but rather as the beginning of a long-term process involving realistic options for action. The task of development cooperation is to encourage our partners to address sensitive issues, and to facilitate this by means of increased capacity-building support to the government and civil society, among other things with a view to establishing transparent mechanisms of participation.

2.3 Focus on Social Sectors and Pro-Poor Growth

The interaction between governments and official donors in the HIPC/PRSP process tends to focus the poverty agenda on the options for action and expenditure existing in the public sector,

including its effectiveness and efficiency. This is undoubtedly an important first step, especially because it is vital to ensure that resources freed up through debt relief are used in a targeted and effective manner.

The focus on expanding basic social services that can be observed in many PRSPs gives rise to the question how to finance the necessary investment, maintenance, and recurrent cost. An additional aspect is that much of this funding is provided in the form of loans, meaning that countries run a risk of slipping back into debt (plus the exchange rate risk) if official revenue is not increased from other sources. Many PRSPs do not yet contain convincing ideas on how to address this. Among donors, this question is often dismissed from the debate by referring to the future need for basket or budget financing. There is mounting evidence that many partners are banking on funding from external donors (e.g., Bolivia) and are expecting permanent transfers. Explicit mention of reforms to improve official revenue (for instance by improving tax collection and reforming tax systems), by contrast, is only made in few PRSPs (e.g., Ghana). It must be expected that the political sensitivity of tax policy aspects (many incomes are not taxed, no tax progression based on income) is adding to this omission and imprecise treatment. But budget constraints limit governments' options for distribution in the social sectors and are ultimately to the detriment of the poor.

However, there is also broad agreement that sustainable poverty reduction can only be reached if private-sector activities are vitalized and expanded on a continuous basis. If there are no efforts to stimulate the formal and informal private sectors, it will not be possible to achieve sustained increases in income and employment.

A broad-based PRSP revolves around two main political axes along which public and private action should develop:

- Public budgets: reorienting budget priorities to the social sectors and reforming official institutions, incorporating this in medium-term expenditure frameworks, and budgeting expenditure directly related to HIPC.
- The productive private sector: improving the legal, institutional and financial environment for private investment and for the financing of such investment from domestic sources, incentives for income and job creation.

Notwithstanding the focus on basic social services, many PRSPs do contain elements addressing the need for sustained vitalization of private-sector activity, which is the prerequisite for income and employment, which in turn is the prerequisite for sustained poverty reduction. However, considering the fact that this aspect - pro-poor growth of productive sectors - forms one of the main axes of the PRSP prototype, there are many PRSPs in which it plays too weak a role. Irrespective of the complex question whether economic growth is in all cases an indispensable prerequisite for a sustainable poverty reduction strategy, the existing (I-)PRSPs generally view growth as a prerequisite for reaching the ambitious goals of the Strategy. It may be noted that the forecasted growth rates are generally very ambitious and in some cases simply unrealistic. The macroeconomic growth rates to be found at regional and international levels are far from the increase considered necessary for poverty to be significantly reduced. Moreover, the current global economic climate, but also the dependence of many economies on factors such as unpredictable weather conditions, show the uncertainty of growth forecasts.

On the other hand, vast research suggests that active macroeconomic policies and targeted interventions in the distribution of income and factors in PRSP countries are not only feasible but would even be able to reinforce growth processes. This applies, for instance, to land reform measures, especially if they are designed under gender aspects. These findings could be put to meaningful operative use in the PRSP approach.

So far, efforts for the promotion of growth have largely concentrated on improving factor allocation at the sectoral level. Improved allocation is desirable but does not guarantee sustainable growth or increased employment. There should also be a review of ideas for an active macroeconomic policy that goes beyond traditional stabilization strategies, and of their feasibility.

Many national players in our partner countries share the view that there is a need for active strategies for the promotion of productive sectors, as was evidenced by the proposal for a new agricultural strategy contained in Tanzania's PRSP. However, it is rare to find serious attempts to implement such elements. Uganda's program of agricultural modernization is a positive example in this regard. To put it in positive terms: if sufficient technical and financial support is provided for proactive growth strategies, it is possible to strengthen the impact of the HIPC/PRSP Initiative on poverty considerably in the next phase.

PRSPs also pave the way for improved analyses of the poverty impact of government activities and donor policies. For instance, the restructuring and privatization of state-owned enterprises do not only result in efficiency gains but also involve the layoff of people who cannot find new employment immediately and who are not protected by an adequate social safety net outside their family structures. The introduction of cost-covering tariffs for water, power and local transport also places a disproportionate burden on poor population groups. Reviewing PRSPs for their poverty impacts also means reviewing the recommendations made by the World Bank and the IMF under the same aspect. The World Bank and the IMF are trying to use their Poverty and Social Impact Analyses (PSIAs) to assess whether their activities and program loans (Poverty Reduction Support Credits from the World Bank, IMF's Poverty Reduction and Growth Facility) are socially compatible, something that the German government, among others, had been calling for a long time. However, there has not yet been sufficient experience with these instruments for assessing them within the framework of the PRSP Review.

The ex-ante impact analyses of structural adjustment programs can also identify openings for pro-poor growth policies. The provision of PSIA instruments can - and should - help to describe macroeconomic and structural policy decisions with all their potential consequences and to prepare such decisions; what is more important than the precision of these instruments in terms of methods and forecasts is that they be manageable and transparent. Ultimately, PSIAs are intended to help describe policy options in such a way that they can be used as input for a participatory process of discussion and decision-making.

2.4 Coordination

The PRSP approach provides governments, civil society, and supporting donors with a shared framework for goals and actions, which lays a basis for effective coordination and monitoring of progress. However, the options existing for more efficient support to national poverty reduction measures have not been used to the full so far - neither in formal and procedural terms (transaction cost) nor in terms of substance:

In our partner countries we have noted visible pressure on sector ministries with regard to programs and projects that had previously been implemented without regard for national priorities and with the support of individual donors: ministries are being urged to create stronger links between such projects and the national PRS. As donors bring their activities increasingly in line with the PRSPs, this trend will increase. It will become more difficult to justify pro-poor spending that falls outside the PRSP. On the other hand, we have noted a trend of PRSP processes concentrating too much on the ministry of finance - a trend reinforced by the PRSP and by some donors - without sufficient involvement by sector ministries and levels below the central level. From our point of view, the challenge involved in the PRSP process is to contribute towards more pro-poor national priority-setting, including in the budget, while at the same time ensuring that sector ministries and non-central/devolved levels are involved and taken account of, as they are of vital importance for the successful implementation of the PRSP.

The donor side, too, has not just created new coordination bodies but also made substantial improvements as regards coordination. Even in countries such as Kyrgyzstan, which have only been involved in development cooperation for a few years now, it has been possible for the PRSP to provide important impetus to the joint process of priority-setting. The PRSP approach has had a mobilizing effect on many donors. Many donors are providing direct support to the PRSP process, an indication that they are genuinely interested in orienting their own programs more closely to the implementation of the PRSP.

However, it can be noted that the process of coordination between multilateral donors on the one hand and large and smaller bilateral donors on the other has been difficult. Since there is such a strong focus on implementing a joint program, the donors too are now more concentrated in just a few bodies. The coordination process often becomes even more complex - also for our partners. While in the past the World Bank and the IMF approached individual governments on their own, and directly, to negotiate one central structural adjustment program, bilateral donors now perceive an increased need for making their position heard in the process if they are to bring their bilateral development cooperation in line with the results afterwards. So far, experience has been mixed, even though the World Bank in particular has been demonstrating far greater openness than in the past.

In a number of countries, bilateral donors organized so as to complement the World Bank/IMF Joint Staff Assessments by actively sharing their own views (e.g., Bolivia and Tanzania). For European donors, cooperation on the basis of a coordinated approach is promising because the combined contributions of the EU member states and the EU Commission often exceed those of the Bretton Woods institutions. This can be seen, for instance, in the governance standards laid down for Europe's Cotonou development cooperation, which are in some aspects more stringent than those of the World Bank and the IMF, sometimes resulting in conflict with these two institutions. It is becoming more difficult especially for smaller donors and for donors with a weaker local presence to make their voices sufficiently heard in this process. Also, there is a risk of every single donor trying to have their specific issues included in the process of consultation on the PRSP and of its implementation. The notion of some donors that existing difficulties should be addressed at the level of instruments (e.g., formation of programs, harmonization of procedures, pooling of resources, budget financing) are welcome and a natural effect of this process, but some of these approaches only shift the problem. The required program documentation, oversight and monitoring requirements (including more inside information on budget issues), extensive progress reports and accountability requirements

regarding the use of funds, as well as countless visits by donor missions might again result in "process overload." The need for harmonizing procedures so as to reduce the excessive administrative burden on partners in countries working with a large number of donors, and to reduce the transaction cost of external assistance shows just how difficult this process between headquarters, local representatives, and partners can be. There is a risk that the PRSP approach might make partners' tasks even more difficult and complex and might result in a fixation on donor procedures and processes, diverting attention from concrete improvements for the poor and delaying implementation.

The situation is slightly better in those countries where strong donor coordination bodies existed prior to PRSP: Mozambique, Uganda, Tanzania. In other countries, the situation is far from transparent. Especially those PRSP measures that are undertaken by the World Bank and the IMF are not communicated to all partners in an open manner, even though there has been progress on this compared to the period before PRSP. Experience shows that in order to achieve tangible qualitative progress, there is a need for reaching clear local agreements (benchmarks for donor coordination):

- Have donor contributions in support of the PRSP been presented and coordinated in the Donor Assistance Group in the partner country?
- Who arranged for this coordination, a "lead donor" or the government?
- Is there a list of the support measures?
- Is there a joint financing basket for support to the PRSP process?

One central aspect will be whether donors and partners develop the ability to pursue a pragmatic strategy that is suitable for the situation in the partner country; there should be binding agreements between the two sides to avert the risk of getting bogged down in discussions on structures and resources and losing sight of realities.

2.5 Cross-Cutting Issues

"Good" Poverty Reduction Strategies are primarily those that are based on a broad internal consensus and discussion process (principles of ownership and participation) and in which players do not shy away from sensitive issues. In this regard, the PRSP approach puts great emphasis on the process character: it is the process that is a main determinant of the substance of the strategy. Optimal strategies, accordingly, are those on which internal political agreement has been reached, which will meet with acceptance, and which achieve their aims. The experience gained to date with PRSP processes shows that these processes do indeed reflect the realities of the partner country, including the political setting; however, it is too early to assess whether the strategies are reaching their aims.

So it should not be surprising that cross-cutting issues - such as environment or gender - which have been given special importance in the international debate on poverty reduction and sustainable development are rarely made a priority area for action in PRSPs, especially as these fields often play but a minor role in the advice provided by the World Bank and the IMF. So far, only few PRSPs have addressed environmental concerns, even in countries such as Mali, where this issue and the link to poverty reduction is rather obvious. Even though the majority of the poor are women, gender aspects have only been given insufficient attention so far: a World Bank study showed that most Interim and Full PRSPs do not address this issue, or only in

passing. Where it is mentioned at all, reference is often only made to "classic" sectors such as basic education and health, whereas fields such as agriculture and financial services are often described in "gender-neutral" terms. Most PRSPs contain no strategic priority-setting for measures to overcome gender-specific discrimination, nor do they incorporate gender-specific indicators in their plans for monitoring. Another open question at this point is to what extent the equal participation of women and their organizations will be ensured in the participatory process.

After the I-PRSPs were submitted, some donors managed to persuade partners, relying on a mix of political pressure and advisory services, to include these aspects in their papers. However, the donor community has to strike a delicate balance here if it does not wish to come into conflict with its own principles laid down in the Comprehensive Development Framework (CDF), such as ownership, since experience has shown clearly that without ownership, even the most well-meaning strategies will not result in sustained impact and will have little chance of being successful. On the other hand, it is precisely long-term donor engagement that is the lever for making issues such as environmental concerns part of political priorities, sometimes via civil society groups.

The dilemma between process and substance cannot be resolved on command or by conditionalities but only by constantly bringing up relevant issues in the process. What is more, PRSPs are not the first attempt to present an overarching architecture for all development efforts. The Rio process provided impetus to national sustainability strategies. However, only weak links have been established so far between environmental issues and broader problems of sustainable development on the one hand and the poverty agenda on the other. Rather than playing one agenda off against the other, the major issues of poverty and sustainability must be mutually integrated, both in PRSPs and in the National Strategies for Sustainable Development (NSSDs) and subordinate strategies that evolved, for instance, from the desertification and biodiversity conventions, so as to produce maximum synergies. This is also a demand made by the new OECD/DAC Guidelines on Poverty Reduction. Just like all issues related to PRSP, this aspect has a *process* dimension (civil society participation on poverty and environment) and a *substance* dimension. The integration of sustainability and environmental concerns, as well as gender, into the substance and process dimensions of Poverty Reduction Strategies is an important challenge for 2002 and for our involvement in the Rio+10 process in Johannesburg.

2.6 Monitoring

It is one of the merits of the PRSP approach that it has given fresh impetus to closer and continuous monitoring of the impacts of poverty strategies and of donors' assistance. By emphasizing the need for involving nongovernmental players in the PRSP process, more scope was also created for independent monitoring of government policies. Positive examples such as Uganda show that the participation of civil society organizations in collecting and interpreting data and the publication of results improve the transparency of public decision-making (this process can currently be observed in other countries as well, for instance Ethiopia). Ideological frictions between the state, civil society, and the media are reduced somewhat. Through a joint national PRSP review process, a foundation can be laid for implementing existing plans more effectively. Target-oriented medium-term expenditure frameworks and public expenditure reviews can contribute towards continuous monitoring.

Monitoring within the framework of PRSP processes also offers great opportunities to parliament for keeping better track of, and assessing, government plans and activities. However, this will only be possible if a limited set of clearly defined indicators is developed which are kept simple, given the context existing in PRSP countries, which is marked by lack of resources and capacity. Experience gained to date indicates that donors, too, often overtax the structures existing in these countries with their assistance by proposing too many, and too complex, indicators and monitoring systems (a risk also involved in the World Bank's Poverty and Social Impact Analysis (PSIA), even if this instrument was designed not so much for ongoing and ex-post monitoring but rather for ex-ante reviews). Second-best solutions that work are often more useful in practice than ambitious concepts that can only be implemented with enormous external assistance. The inclusion of civil society may also help to complement purely quantity-based methods with quality-based and participatory methods of monitoring. The link between goals and indicators at the level of the PRSP and of sector strategies can also be strengthened further. However, if the goals have been formulated too vaguely in the PRSP, it will be difficult to make up for that at the level of monitoring.

The development of monitoring systems which might replace donors' own monitoring and evaluation systems in future has only just started. Accordingly, harmonization efforts among donors are only beginning but are being pursued through joint program approaches and - in Germany's development cooperation - through systematic stock-taking of partners' own systems and indicators, for the drafting of Germany's bilateral Priority Area Strategies. The Poverty and Social Impact Analysis used by the World Bank also constitutes important progress. It would, however, be desirable to link PSIA to the monitoring system. Many measures of indirect poverty reduction are not yet suited for systematic impact monitoring and their impact could hardly be assessed convincingly with the methods existing to date and without excessive effort.

December 11, 2001

The Canadian International Development Agency's Experience with the PRSP Process in Bolivia:

A Report Prepared by CIDA's Bolivia Country Program and Policy Branch

1. Introduction

Unhappiness with many of the results of development co-operation efforts over five decades, and an accumulation of hard lessons from these experiences, underlay the creation of the World Bank's Comprehensive Development Framework and the Bank/IMF Poverty Reduction Strategy Paper process. The notion behind the CDF, formally proposed by Bank President Wolfensohn in January 1999 but influenced by the evolution of development ideas over the past decade, was that a set of broad parameters should guide national development planning. These included the definition of a long-term vision of a country's future, country ownership of a holistic approach to development, country-led co-ordination of development efforts with both internal and external partners, and a focus on results. Later in 1999 the Boards of the Bank and the Fund agreed that a critical part of a country's planning process would be the preparation of a PRSP, which would further operationalize the CDF, i.e., define the national poverty reduction targets and develop the strategies required to meet those targets in ways consistent with CDF principles. A country wishing to access debt relief under the enhanced HIPC Initiative and/or concessional financing would have to prepare a satisfactory PRSP as a condition for securing this financial support.

Since the PRSP process was launched, the Bank and the Fund have periodically published staff reports evaluating how the process has been progressing -- which countries have prepared interim (I-PRSP) or full PRSPs, and what the perceived strengths and weaknesses of the documents and the ways in which they have been developed are. In August 2001, the Bank and the Fund announced a major review of the process, and solicited input from any organization or persons wanting to participate in it. A large international conference on this subject will be held in Washington in January 2002; a comprehensive Bank/Fund staff report on the findings of the review will be presented at the subsequent Spring Meetings.

CIDA has supported the preparation of individual country PRSPs to varying extents, has provided its assessments of the I-PRSPs or full PRSPs which have come to the Boards of the Bank and the Fund for review, and has participated in many bilateral and multilateral discussions of issues associated with CDFs and PRSPs. There is strong support within the Agency for the idea that it is now time to analyse CIDA's experience with the PRSP process in depth, in order to draw practical lessons which bear on programming from it, and to help formulate an Agency position on the future directions of the process writ large.

CIDA's internal Poverty Reduction Network is currently sponsoring a series of seminars examining the Agency's PRSP experience in a number of countries; recent seminars have discussed PRSP processes and outcomes in Malawi, Ghana, Senegal, Guyana, and Vietnam.

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This paper, a collaborative effort between the Bolivia Country Program and Policy Branch with support from Multilateral Branch, is a case study examining the Bolivian experience. It is based on 30 field interviews with representatives of Bolivian civil society and other development experts, and discussions with the Bolivia Country Program's professional staff in both La Paz and Hull, as well as on a reading of the Bolivian PRSP and a range of background documentation associated with it. We list the interviews and discussions which informed the paper in Appendix 1.

We prepared the paper with two purposes in mind. We hoped that by documenting the experience in Bolivia we could identify issues relevant to ongoing CIDA programming in the country, and contribute to the discussion in the Agency on future programming directions in general. We hoped as well that the study could form part of CIDA's overall contribution to the Bank/Fund PRSP review.

The paper has four more sections. Section 2 provides an overview of the Bolivian PRSP -- the context in which that PRSP was developed, the issues it addresses, its strengths and weaknesses. Sections 3 and 4 focus in turn on the role CIDA and other donors have played in the PRSP process in Bolivia, and on how the process in turn is influencing CIDA's programming there. The final section provides our conclusions.

2. Bolivia's PRSP

Background

Bolivia's national income per capita in 2000 was about US\$ 1,000, only 27 per cent of the average income in the Latin American and Caribbean region as a whole.[1] The country's distribution of income is very unequal (although not unusually so in the regional context) -- the top quintile accounts for over 60 per cent of income.[2] The incidence of poverty calculated on the basis of national poverty lines is high -- in 1999, 82 per cent of people in rural areas and 63 per cent of the population overall were estimated to be poor, with 37 per cent of the population defined as being "extremely poor"[3]; Bolivia has one of the highest incidences of poverty in

[1] World Bank, *Bolivia at a Glance*, worldbank.org/data.

[2] The 2001 *World Development Indicators Report*, Table 2.8, shows that Bolivia has the fourth highest Gini coefficient among eight countries in the region whose Ginis are higher than .55. The coefficient values reported in Table 2.8 of the WDIs are: Nicaragua, .603; Brazil, .591; Honduras, .59; Bolivia, .589; Paraguay, .577; Chile, .575; Columbia, .571; and Guatemala, .558. Data refer to 1996, 1997, or 1998, depending on the country concerned.

[3] These incidences of poverty are reported in the Bolivian PRSP. The national poverty lines which underlie them were based on the cost of a basket of food and non-food necessities. The poverty lines calculated in this way were US\$ 29 per month in urban areas, US\$ 23 per month in rural areas, somewhat lower than the commonly-used World Bank measure of US\$ 1/day. Individuals or families whose income (or expenditure) fell below the poverty lines were defined as poor; those whose incomes were lower than the cost of a basic food basket were defined as

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the region.[4] Bolivia's indigenous peoples, who comprise the majority of the population, have higher incidences of poverty or extreme poverty than the rest of the population.[5]

These rather stark global numbers mask improvements which have recently occurred in several important social indicators. Infant mortality, for example, has been cut by as much as a half from the 1990 level of 120 per 1,000 live births.[6] The adult illiteracy rate has fallen from 20 per cent in 1992 to less than 15 per cent in 2000.[7] The annual rate of coverage of births attended by trained personnel rose from 56 per cent in 1997 to 64 per cent two years later.[8]

Bolivia made the transition from military dictatorship to democracy in 1982. Three years later the Government of Bolivia (GoB) began to implement a large and in many ways very innovative macroeconomic stabilization and structural reform agenda, whose measures included the establishment of the independence of the Central Bank, tax reform, deficit reduction, financial market and trade liberalization, price deregulation, privatization, and a variety of other regulatory reforms. The privatization ("capitalization") initiative of 1995-97 is a good example of the GoB's often imaginative approach to structural reform. Under this program, "strategic investors" chosen through a competitive bidding process were given 50-per-cent controlling interests in the largest state-owned enterprises, in exchange for commitments to invest certain levels of funds in the businesses within agreed-upon time frames. The remaining 50 per cent of the shares were put into a collective capitalization fund, to be managed as part of the reformed pension system.

In the mid-1990s the GoB began to supplement its ongoing structural reform agenda with social and governance reforms. The most dramatic of these, the Popular Participation Program of 1994, combined support for grassroots political processes with decentralization. The Program transferred significant decision-making authority and 20 per cent of national revenues to over 300 municipalities, most of them newly created, in rural areas of the country where government

extremely poor. Republic of Bolivia, *Poverty Reduction Strategy Paper -- PRSP (La Paz, 2001)*, pp. 21-23, 32-35.

[4] Chart 2.1, p. 22 of the Bolivian PRSP provides incidences of poverty for 12 countries of the region at the end of the 1990s. Honduras is the only country in this group with a higher overall incidence of poverty than Bolivia's. The poverty estimates based on an international poverty line (which incorporates purchasing power parity adjustments) in the *World Development Indicators Report* show substantially lower poverty incidences, but rankings are similar. Thus, for example, Honduras remains the only country in the region with a higher incidence of poverty than Bolivia's. Table 2.6.

[5] Bolivia, *PRSP*, pp. 32, 37.

[6] Davidson R. Gwatkin et al., *Socio-Economic Differences in Health, Nutrition and Population in Bolivia (The World Bank, May 2000)* report a 1998 infant mortality rate of 73.5 per 1,000 live births. The World Bank Group's *World Development Indicators database*, April 2001, gives the 1999 rate as 59 per 1,000 live births.

[7] *Ibid*; and Bolivia, *PRSP*, p. 37.

[8] The World Bank, *A Country Assistance Strategy Report of the World Bank Group for Bolivia, 10 May 2001, Annex II*.

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services had hitherto been minimal or non-existent. It established Bolivia's first system for the direct election of local officials. It also offered legal status **(involving specified rights, obligations, and functions) to community organizations, many of which were long-established indigenous organizations, as a way of encouraging citizens to participate actively and collectively in local affairs, and to exercise oversight over the newly empowered municipalities. More than 16,000 of these community organizations had received legal recognition by mid-1997.**[9]

The various reform measures including the elimination of massive production and price subsidies have made possible a shift in the composition of government spending towards the social sectors. This is most pronounced with respect to investment: the share of total government investment in education, health, rural sanitation, etc., rose from 10 to 50 per cent during the 1990s.[10]

Shortly after taking office in August of 1997, the government of President Hugo Banzer incorporated the multi-track reform process of previous governments within a new conceptual framework. It conducted a consultation exercise called National Dialogue One, which produced the idea that the government's programming could be organized around four themes or "pillars": *opportunity (economic and environment issues); equity (social programs, rural development, decentralization); institutionalality (state modernization and institutional reform, including anti-corruption measures); and dignity (code for the government's intention to eradicate the growing of coca and remove Bolivia from the coca-cocaine circuit). The Four Pillars were adopted by the GoB as the framework for its 1997-2002 Action Plan.*

At the same time the relationship between the GoB and donors was evolving. There was widespread concern among donors that substantial ODA flows -- seven per cent of GDP on average during the decade beginning in the late 1980s -- had been ineffective in alleviating poverty. In May 1999 the Bank referred to Bolivia as "a good example of a country that has achieved successful stabilization and implemented innovative market reforms, yet made only limited progress in the fight against poverty." [11] There was also considerable enthusiasm among donors for the GoB's evident commitment to reform.

In this context new forms of co-operation aimed at increasing aid effectiveness were being explored, and the GoB began exercising leadership to try to co-ordinate donor programming around the Four Pillars. The objectives of a new government/donor approach were defined in

[9] Bolivia Country Program, *Bolivia Country Development Program Framework, 2001-2006, draft, July 2001*; Philip Oxhorn, "Building the State Through Civil Society: Bolivia's Popular Participation Law and the Challenge of Local Democracy," mimeo., 1999; UNDP, *Country Strategies for Social Development: The Experience of Bolivia, undated.*

[10] Bolivia, *PRSP*, p. 29. *As a share of GDP, government current expenditure rose by 34 per cent between 1995 and 1999. Most of this increase, however, represented the cost to the GoB of a fundamental reform of the pension system. Ibid., p. 31.*

[11] The World Bank, *Bolivia: Implementing the Comprehensive Development Framework*, 21 May 1999, p. 2.

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the GoB's June 1999 document entitled "New Framework for Relations between the Government of Bolivia and International Cooperation." The New Framework reflected the development ideas and principles, including those of the CDF and the OECD/DAC's *Shaping the 21st Century, gaining currency at the end of the decade*.^[12] *The New Framework proposed the preparation of a strategic development plan for Bolivia, with clear priority setting and results-oriented programming, undertaken in a participatory manner and with extensive donor co-ordination and harmonization. The Bank endorsed the Four Pillars and the New Framework as Bolivia's CDF, and intensified its participation in a GoB-led donor co-ordination process which by this time was well underway, and which was characterized by close and collaborative working relationships and considerable optimism.*

This was when the Bank and the Fund launched the PRSP process. The GoB was required to prepare a PRSP in order to access HIPC II debt relief and concessional funds; this process took a year and a half. Bolivia's interim PRSP was published in January 2000; the full PRSP was developed during the rest of 2000 and early 2001.

The PRSP: Main Strengths and Weaknesses

The Bolivian PRSP is a big, impressive, and in some places remarkably candid document, over 300 pages in length including its 10 annexes. It reflects a substantial amount of interdepartmental work, and a massive exercise in civil society consultations called the National Dialogue 2000 which ran from April until August 2000 (and which itself was supported by a series of other consultation processes). National Dialogue 2000 consultations occurred at the local, regional, and national levels, and centred around the three broad topics of social, economic, and political policy. In March 2001 the draft PRSP went back to another set of public workshops called "The Government Listens" before it was finalized.

The PRSP reviews the history of Bolivia's reform process since 1985, acknowledging that the social reform measures introduced in recent years have not been as effective as hoped thus far in reducing poverty.^[13] It provides a lengthy and multi-dimensional analysis of the causes and the extent of poverty in the country, distinguishing between the situations in urban and rural areas and noting the disproportionately high incidence of poverty among indigenous peoples. It reports results of the National Dialogue 2000 process, including what participants identified as the main causes of poverty and what they wanted the government to do about them. It then outlines the poverty reduction strategy, how its proposed actions will be financed and how their impacts will be monitored, the role the GoB sees for donor agencies in the implementation of the strategy, and the macroeconomic context. The paper is very clear that sustained economic growth is a necessary although not sufficient condition for poverty reduction, and that the specific actions proposed in the strategy must be consistent with macroeconomic stability and ongoing structural reform.

[12] CIDA's own Policy on Poverty Reduction approved in 1996 reflects the same principles of comprehensive development analysis, national ownership and capacity building, and donor co-ordination.

[13] Bolivia, *PRSP*, p. 24.

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The core of the PRSP is its hundred pages which describe the government's specific poverty reduction proposals. These are clustered within: four "strategic" categories (expanding opportunities for employment and income for the poor, developing the productive capabilities of the poor, increasing security and protection for the poor, increasing societal participation and integration); three categories of cross-cutting issues (the development with identity of indigenous and native peoples, promoting gender equality, the sustainable utilization of natural resources and environmental preservation); and a final category of institutional measures. These latter proposals include the commitment to continue and to strengthen the decentralization process begun in 1994 -- moving the delivery of education, health, and other services to the municipal level is seen as critical to ensuring that the poor benefit from spending in these areas. They also include two innovative proposals which emerged from National Dialogue 2000 -- the distribution of debt relief funds to municipalities under a transparent formula benefiting poorer municipalities disproportionately, and the strengthening of existing mechanisms of citizen oversight over governments and the establishment of new oversight mechanisms. The National Dialogue law approved by the Bolivian Congress in July 2001 endorses the formula for the distribution of debt relief funds and institutionalizes participatory processes.

By our count there are about 150 individual elements which are listed in the various action plans which comprise the PRSP. Most if not all of these proposals were also featured in the Four Pillars Action Plan. Many of them are large and open-ended, such as, for example, "construction and maintenance of rural roads," "construction of basic agricultural infrastructure," "construction of drinking water and sanitary sewer systems." A look just at the main topic headings in the action plans (see Appendix 2) gives a sense of the PRSP's scope. Under *developing the productive capabilities of the poor*, for example, are the headings:

i) Improving educational quality and access

- (a) Reforming the curriculum
- (b) Transforming the training and administrative system for teaching staff
- (c) Promoting decentralization of municipal level educational management with community participation
- (d) Strengthening the regulatory and supervisory capacity of the governing authority
- (e) Other strategic actions
 - Technical and alternative education
 - Higher education

(ii) Improving health services conditions and access

- (a) Ensuring efficient human resources management
- (b) Expanding the health insurance system
- (c) Improving control of transmissible diseases and strengthening the epidemiological surveillance system
- (d) Improving the population's nutritional status
- (e) Implementing the cross-cultural approach in health
- (f) Other strategic actions

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(iii) *Improving habitability conditions: basic sanitation and housing*

- (a) Providing and improving infrastructure and strengthening institutionalization in the basic sanitation sector
- (b) Improving housing infrastructure and strengthening housing sector institutions.[14]

All in all, the PRSP is an outstanding example of the capacity (which many observers have remarked on) of the GoB's senior officials to produce a substantive policy paper. It builds upon the program of macroeconomic stability and structural reform begun in the 1980s and the more recent planning processes linked to the Four Pillars. There is plenty of good analysis, and a number of innovative proposals, in it. All of the individual elements of its various action plans seem useful and well worth doing. The Bank/Fund Joint Staff Assessment (JAS) of the PRSP concluded that it "presents a credible poverty reduction strategy and provides a sound basis for Bank and Fund concessional assistance and for [full HIPC II debt relief]," and recommended that the Executive Directors of their respective institutions endorse it, which they did in June 2001.[15]

But the strategy which the paper outlines also contains important weaknesses, starting with its analysis of poverty. The main problem with the PRSP's analysis of poverty, in the view of the Bank/Fund staff who prepared the JAS, is that it does not examine the successes and failures of past efforts to address long-standing and well-known causes of rural poverty. This is one reason to question whether the PRSP "has it right" -- that is, whether the actions it proposes would be likely to have the poverty reduction impacts it foresees.[16] More fundamentally in our view, though, the paper does not go far enough in exploring the implications of the long-standing systemic exclusion of Bolivia's indigenous peoples, who account for over 60 per cent of the total population. The PRSP does propose some specific measures to address ethnically-based exclusion and its effects. The capacity of the Ombudsman's Office (La Defensoria del Pueblo) to protect the rights of indigenous peoples is to be strengthened, for example, and special training for indigenous peoples in the better utilization of natural resources is to be provided. As well, if the GoB were to successfully implement its rural development strategy of general applicability, indigenous peoples would certainly benefit from that to some extent. However, these proposals seem relatively minor given the evident magnitude of this sensitive problem.[17]

The financing of the strategy is a second area of weakness. The sections of the document which

[14] Bolivia, *PRSP*, pp. 82-104.

[15] International Monetary Fund and the International Development Association, *Bolivia, Poverty Reduction Strategy Paper: Joint Staff Assessment*, 10 May 2001, p. 12.

[16] *Ibid.*, p. 4.

[17] A recent study prepared for DFID examined 16 I-PRSPs and three full PRSPs of sub-Saharan African countries, and observed that, "Ethnicity, a key factor influencing rights and well-being in most poor African countries, rarely features in these documents, no doubt due to its political sensitivity." Neil Thin, Mary Underwood, and Jim Gilling, *Sub-Saharan Africa's Poverty Reduction Strategy Papers from Social Policy and Sustainable Livelihoods Perspectives*, Oxford Policy Management, March 2001, p. 10.

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deal with funding estimate the cost of implementing the strategy at US\$ 7.4 billion over the six years 2001-2006. Domestic and external sources of funding for US\$ 4.8 billion are identified, mainly for the investment components of the strategy. But with respect to the estimated US\$ 1.7 billion of recurring operating and maintenance spending associated with these investments, the paper simply notes that Bolivia will not be able to cover these costs itself. As well, no sources of funds are identified for nearly US\$ 900 million of high-priority proposals involving the country's road networks, rural electrification, and land tenure. The paper's answers to the shortfalls are summary statements about the need to develop revenue-increasing tax policies, access more concessional financing, and secure private sector funding of some investment through public and private partnerships.

In addition, the budgetary projections underlying the PRSP are based on a more optimistic macroeconomic scenario than Bolivia's past and current **performance and its vulnerability to external shocks and natural disasters warrants. The projections show the growth rate of GDP rising from 4 per cent in 2001 to 5 per cent in 2003 and 5.5 per cent in 2008, and remaining at that level until 2015. But GDP grew at an annual average rate of about 4 per cent during the 1990s, and performance recently has been very weak: the growth rate was 0.4 per cent in 1999 and 2.4 per cent in 2000, and is expected to be only about 1 per cent this year. The September 11 attack on the United States and the apparent slide into recession now occurring is widening the gap between the actual economic situation and outlook, and the projections.**

The Bank and the bilateral donors are recommending that the projections be revised in light of current realities. If this occurs, it will throw the PRSP funding shortfall into sharper relief. It will as well highlight the fact that an important poverty reduction target is likely to be missed. The PRSP forecasts that the incidence of extreme poverty will be halved between 2000 and 2015 (from 36 to 17 per cent), and thus that Bolivia will achieve this particular Millenium Development Goal. But this is entirely dependent on the strategy's optimistic **macroeconomic scenario, as the paper makes clear.**[18]

Overshadowing these and other problems, however, is the issue of implementation. Even if the PRSP's analysis of the root causes of poverty and how to deal effectively with them were thoroughly comprehensive, and funding were available for all of the components of the strategy, the GoB's ability to implement the necessary policies successfully remains a question mark. Capacity at all levels of government is limited. The multi-party political structure and the need to form governing coalitions has led to a system of patronage appointments throughout the bureaucracy. **While the problem of corruption is being tackled, it remains widespread. Municipal governments, which will be responsible for delivering much of the programming envisioned in the PRSP, are still trying to cope with the extensive new responsibilities devolved to them through the decentralization process. Civil society organizations lack the capacity to perform effectively the oversight functions which they are supposed to receive. And indigenous peoples and the poor in general do not yet, for the most part, have an effective role in the implementation process.**

[18] Bolivia, *PRSP*, pp. 175, 196.

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The situation has been further complicated by former President Banzer's unexpected resignation in August 2001. Although recently-sworn-in **President Jorge Quiroga is respected for his management skills and his commitment to change, the time remaining in his term of office is short, national elections will be held in June 2002, he is forbidden by the Constitution to run for the Presidency (a President cannot succeed himself), and he is governing in a context of severe social unrest.**

The PRSP acknowledges the governance and implementation problems in frank language and proposes actions to address them. But the sense which donor commentary on these proposals conveys is one of some scepticism. In part this reflects the fact that donors have become more aware of the GoB's capacity limitations and their implications, by virtue of the close working relationships they have had with the government in recent years. It also reflects donor views that the degree of political and societal support for the PRSP is more limited than had been hoped for, and the climate within which the GoB will be trying to implement its strategy has become very difficult.

Reform fatigue is widespread in Bolivia. Increased hardship for many of the country's most vulnerable appears to have been among the initial effects of the economic and financial reform program which began in 1985. Government expenditure fell by 40 per cent overall between 1980 and 1988. Spending on basic services dropped by more than 40 per cent. Cuts in public sector employment fuelled rapid growth in unemployment and informal sector employment during the same period. The incidence of urban poverty rose sharply in the late 1980s before falling again in the 1990s; urban poverty rates were virtually identical in 1987 and 1996.[19] The recent successful coca-eradication program and customs-system reform have been costly for small farmers dependent on coca cultivation, and those for whom small-scale smuggling and contraband retailing provided income. Price deregulation has raised the cost of several basic necessities.

The two public participation exercises which the GoB has run since 1997 have demonstrated the doubled-edged nature of consultations: cynicism and distrust of the government have mounted because the consultations did not produce quick responses to demands for better schools, health services, water supplies, and better governance in general. Popular resistance to the reform agenda has intensified; seriously disruptive and costly social protests, clear signals of the depth of despair felt by excluded or marginalized groups, shook **the country twice in 2000 and again in 2001.**

Bolivians with whom we spoke in September 2001 **criticized a number of dimensions of the PRSP, in the process confirming other evidence that serious reservations about the PRSP exist within Bolivian civil society. Several argued that although the document outlines many initiatives, it lacks a comprehensive economic development vision and a sense of prioritization of activities. Groups which had initially been supportive of the emphasis on environment and gender as cross-cutting issues were disappointed by what they saw as the**

[19] *Ibid.*, p. 36.

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limited number of concrete measures proposed. Some questioned the seriousness of the proposals offering civil society in general and the Catholic Church in particular a monitoring, evaluation and oversight function. While recognizing that the GoB had made considerable effort to run a broad-based consultation, several representatives of rural movements and other NGOs felt that the potential contributions of their organizations had been restricted because they had been excluded from the municipal-level discussions. There was a general sense that the PRSP did not adequately reflect the messages which emerged from National Dialogue 2000.

All of the evaluations of the Bolivian PRSP to which we have access stressed the magnitude of the implementation problems. The Bank/Fund JAS, for example, provided a catalogue of risks: the possible impacts of continued social unrest, the effects of endemic corruption, the limited extent of civil society support for the strategy, the weakness of municipal governments.[20] A group of donors commissioned its own assessment of the PRSP, and on the basis of its consultants' report pointed to shortcomings related to transparency, accountability in the use of public funds, and capacity limitations at all levels of government.[21] Concerns about these issues were evident at the Consultative Group meeting held in La Paz in September 2001.

In summary, then, a PRSP which in many ways is a strong and innovative set of proposals reflecting significant GoB ownership, and which has been endorsed by the Boards of the Bank and the Fund -- despite weaknesses and difficult circumstances which will likely ensure that the poverty reduction strategy will be implemented only in part, with impacts on Bolivian poverty which will fall short of what the document forecasts.

This is a situation full of contradictions. But this is hardly surprising -- the Bolivian experience reflects the contradictions which pervade the entire PRSP process.

The Bank's web-site recently provided this description of the six core principles which should guide the development and implementation of poverty reduction strategies. "The strategies should be: country-driven, involving broad-based participation by civil society and the private sector in all operational steps; results-oriented, and focused on outcomes that would benefit the poor; comprehensive in recognizing the multidimensional nature of poverty, but also prioritized so that implementation is feasible, in both fiscal and institutional terms; partnership-oriented, involving co-ordinated participation of development partners (bilateral, multilateral, and non-governmental); [and] based on a long-term perspective for poverty reduction." [22]

Read literally and in its entirety this statement has serious shortcomings as a guide to actual development planning. An in-depth discussion of the limitations as well as the merits of the new paradigm of development is needed, and hopefully will occur as part of the PRSP review process.

The contradictions embedded in the paradigm start with the principle of country ownership of

[20] *JAS*, pp. 11-12.

[21] *Joint Position of the Informal Bilateral Cooperation Network in Bolivia (undated)*, p. 1.

[22] <http://www.worldbank.org/poverty/strategies/overview>.

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the development process and country-driven strategies, which is belied by the PRSP process itself -- countries such as Bolivia have had little choice but to prepare PRSPs acceptable to the Bank and the Fund as the condition for accessing debt relief and concessional funding, and unless the current policy framework changes, they will have to prepare annual progress reports and update their full PRSPs every three years. There is also the very real tension between country ownership in the establishment of development priorities and the definition of how donors should support those priorities on the one hand, and core values of particular donors and their accountability to their own citizens for the prudent management of ODA funds on the other. The donor community increasingly expresses its general commitment to align programming, including delivery modalities, with directions established by national governments in Bolivia and elsewhere. But in Bolivia and elsewhere, governance problems impose sharp limitations on the extent to which donors are at present willing to consider measures such as direct budgetary support.

The insistence on "broad-based participation by civil society and the private sector in all operational steps" (our emphasis) is unrealistic. It also involves several contradictions. One pits participation defined in this way against the right of a democratic government to make decisions and govern, and live with the consequences at election time. The degree of popular participation proposed by the Bank is simply not manageable in most places at most times.

The Bank recognizes that it is important for governments to handle participation "with great care not to undermine existing democratic institutions, but [to] seek to strengthen them," and that "[t]his is particularly important where institutions are fragile and this is a new experience."^[23] But this can be very difficult to manage constructively. Part of the difficulty with genuine participatory processes which include the poor and other marginalized groups (and even not-so-marginalized groups), is that they can be disruptive and threatening to the existing order. So, in a fundamental sense, can the whole PRSP process be, and the Bolivian case illustrates the dilemma. As we noted above, there is considerable grassroots unhappiness within Bolivia over many of the reforms which the GoB has introduced since the mid-1980s. Had the GoB been willing to accept the view of many of those organizations which participated in the consultation process, it is possible that 15 years of structural and related reforms and perhaps the debt-relief process itself would have been undone.

The Bank argues that poverty reduction strategies will result in "demonstrable progress for the poor in sharing the benefits of growth, increasing their well-being, and reducing their vulnerability to risks." But it also argues that "lasting development and poverty reduction require a true transformation of society, driven by the countries themselves, [which] must enjoy broad support from the true experts on poverty: the poor themselves," and that "[a] transformation of this magnitude will entail changing institutions so that they are accountable to all, including the poor. . . ."^[24] Another basic contradiction is clear in this: sustained poverty

[23] Comprehensive Development Framework Secretariat, *Comprehensive Development Framework Implementation Experience in Low- and Middle-Income Countries: Progress Report*, 26 April 2001, pp. 9-10.

[24] <http://www.worldbank.org/poverty/strategies/overview>.

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reduction will require ruling groups which benefit most from the status quo, to act as "change agents" in transforming societies in ways which may threaten their own power and influence.

Repeated suggestions that participatory processes should include the political opposition, in order to get the widest possible agreement on a long-term development vision, sometimes sound naive. After all, the duty of an opposition is to oppose, to define and to present a credible alternative to the government in power so that the electorate has real choices. And when an electorate opts for that alternative and votes its government out of office, it translates the potential contradiction between democracy and long-term planning visions into reality. It is an electorate's right to reject its government's long-term vision if it wants to, however much that may complicate the PRSP or any other process. It is certainly possible for a new government to carry on in the same policy directions as its predecessor, but there is of course nothing certain in this. Bolivia will have a new government after next June's elections, and it may have a different vision than that reflected in the PRSP.

One of the most important contradictions is that the PRSP process -- with its requirements for analysing the causes of poverty in detail, organizing the necessary consultations, defining and implementing policies and programs to reduce poverty, co-ordinating bilateral and multilateral donor activity in support of these policies and programs, putting in place monitoring systems to track results, and so on -- places extraordinarily heavy demands on notoriously weak developing country institutional capacities. This in turn reduces the ability of governments in these countries to manage their permanent base programs effectively.

It would strain the capacities of Canada or any other rich country to undertake a full-blown PRSP process. It is worth asking how many developed countries have recently carried out successful, long-term, comprehensive planning exercises analogous to what developing countries are now tasked with doing.

In reviewing these contradictions inherent in the PRSP process, we are not trying to make a case against its *raison-d'être*. *We are suggesting, though, that the contradictions are real and serious. In our view they probably mean that sustained poverty reduction will be a longer and slower process, and one which is less comprehensive and holistic, than was envisaged when the CDF/PRSP framework was developed. This suggests that donors in Bolivia should probably reduce their expectations about what is likely to be achieved over the next several years, while continuing to focus and co-ordinate their programming to the extent possible around the priorities identified in the PRSP. This is precisely the conclusion reached by CIDA's Bolivia Country Program over a year ago, while the PRSP was still in draft form.*[25]

If after next year's elections the GoB defines a somewhat different set of priorities, donors will decide then how to respond. Should new priorities emerge, we doubt that it would be useful to have the GoB repeat a comprehensive PRSP exercise. A specific implication of the dichotomy between the institutional capacity of developing countries and the demands that the PRSP process places on it, is that those demands should be reduced at the same time as capacity-

[25] Michael Brownell, *Report: Bolivia Consultative Group Meeting, October 10-11, 2000.*

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building efforts are increased. Some of the resources the PRSP process consumes would be better devoted to implementation efforts.

3. How Donors and CIDA Have Supported the Bolivian PRSP

Donor Participation in the PRSP Process

The donor community in Bolivia has made two major contributions to the PRSP process. First, donors provided comments and advice to the GoB on both the substance of the PRSP and on the process through which it was developed. Their second important contribution has been made through their joint working groups. These groups are one outcome of the donor co-ordination efforts which, as we noted above, began well before the PRSP process was launched, and have enabled the donor community to undertake joint analysis (including analysis of the PRSP) and put forward shared positions at annual Consultative Group meetings. Two of the donors' current four working groups focus on the PRSP, one (led by the IMF) on the PRSP's long-term sustainability and the other (led by the Netherlands) on ongoing implementation and follow-up.[26]

As has been the case in other countries, the World Bank has played an important role in the preparation of the PRSP. What appears to be fairly unique in Bolivia's case is that a broad group of donors has been very closely involved in the process as well. Their animated participation clearly appears to have been beneficial, but it may have had an important downside as well. Many of the Bolivians we interviewed, both within government and within civil society, wonder whether the donor community's role in the PRSP may not, to some extent, have undermined Bolivians' sense of ownership of the process. There is also a risk that donors will lose legitimacy if the PRSP is not implemented successfully, given the role they have played.

At the same time as the donor community has played an active role in the development of the PRSP, donors themselves are being influenced by it. The GoB has urged donors to base their development cooperation programs on national development objectives as they are set out in the PRSP, and since the PRSP's approval, all donors have agreed to adopt its set of impact, outcome and intermediate indicators as guides to their own programming strategies. As we noted earlier the GoB has actively encouraged donor responsiveness to national objectives since the creation of the Four Pillars Action Plan in 1997 and the New Framework in 1999. Donors in general have been and remain sympathetic, but they have also become more aware (partly because of their intensive involvement in the PRSP process) of the practical limitations at this time on harmonization. Donors, particularly those in the field, have also told us that the PRSP process and the associated consultations have left them (as well as the GoB) fatigued, and that the joint working groups have had costs in terms of the efficient use of time as well as benefits.

CIDA's Support for the PRSP Process

[26] The other two working groups focus on institutionality and corruption issues (Denmark leading) and social integration issues (the UNDP in the lead).

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As well as having been involved in the work of the donor group on the PRSP, CIDA staff in the Consulate and the Canadian Cooperation Office (CCO) in La Paz have participated in **the donor community's various working groups as technical experts**. Through this channel, they have provided feedback on various drafts of the Bolivian PRSP, and are currently participating in joint donor discussions of issues such as PRSP implementation and follow-up. Their engagement in donor working groups represents the continuation of a process which predates the PRSP.

In addition to its direct analytical involvement, CIDA's Bolivia Country Program has supported and is supporting several of the development processes and mechanisms associated with the PRSP. It made a small contribution (US\$ 5,000) towards the work of the group of development experts which revised the PRSP. In 2000 it provided US\$ 700,000 through its counterpart funds to the Bolivian National Statistics Institute, in support of the Improvement in Living Conditions Survey (MECOVI) which was also financed by the World Bank, the IDB, and UNDP. In 2001 it contributed US\$ 500,000, again through counterpart funds, towards the 2001 Bolivian Census. Comprehensive data gathering exercises such as Census 2001 and MECOVI are critical for effective future poverty targeting and planning, and for the allocation of GoB funds to other levels of government.

CIDA has also provided US\$ 2 million in support of the Single Funding Directorate (DUF). The DUF is the chief mechanism through which the GoB plans to distribute more than US\$ 100 million in national and international assistance funds annually, **to finance** public investment at the national, departmental and municipal levels. The intention is to direct funds towards projects which will reduce poverty, with the projects being chosen under transparent criteria. The DUF is thus an important part of the PRSP implementation process.

Finally, through its flexible and locally-managed Public Sector Reform Fund, CIDA provided US\$ 30,000 for analyses carried out to help support National Dialogue 2000. More recently, it has channelled an additional US\$ 30,000 through the DUF to support workshops aimed at informing Bolivians about the implications of the New National Dialogue Law, including the Compensation Policy which defines how funds additional to those of HIPC II will be distributed to municipalities.

These various contributions in support of the PRSP process may seem quite small. However, they are significant in the context of CIDA's programming in Bolivia. In 1999-2000 CIDA directed about US\$ 14.2 million to Bolivia -- US\$ 5.7 million through the Country Program, US\$ 3.1 million through Partnership Branch, and US\$ 5.4 million through multilateral channels. An additional US\$ 4 million was also approved for counterpart funds.

4. The Bolivian PRSP and CIDA Programming

CIDA's bilateral Bolivia Country Development Program Framework (CDPF) stresses that poverty reduction is its chief objective, and it identifies gender equality and environmental

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sustainability as cross-cutting themes throughout its program. It also bases its programming and impact indicators on PRSP priorities.

In the past year, the Country Program has reduced the number of sectors it is concentrating its work in, from 10 to three -- health, water and sanitation, modernization of the state and public sector reform --all of which are identified as priority areas in the PRSP. At the request of the GoB, and through its public sector reform initiatives, CIDA remains involved in efforts to strengthen regulatory regimes capable of creating the necessary enabling conditions for increased productivity, competitiveness and investment in sectors such as mining and hydrocarbons. Also at the request of the GoB, CIDA plans to increasingly concentrate its bilateral program in the provinces of Beni and Pando, which are among the poorest regions in Bolivia.

In addition to focussing its interventions, the Country Program has been making a conscious effort to promote more programmatic approaches and greater donor collaboration. A good example of this is the assistance CIDA is giving the Ombudsman's Office (La Defensoria). This is a multi-donor "basket funding" effort in support of GoB planning, implementation, monitoring and evaluation in this area. The Country Program is currently exploring possibilities of similar basket funding or sector wide programming opportunities in the health and in the water and sanitation sectors. Success depends crucially on partnering with institutions which are ready and able to work effectively with new programming mechanisms.

In parallel to these changes, the Country Program has put considerable time and effort into strengthening Bolivian ownership and capacities. It has supported the development of national delivery mechanisms such as the DUF. It has contributed to municipal capacity-building by piloting innovative information and public service delivery management systems in both the health and water and sanitation sectors. It has aligned its counterpart fund investments with the sectors of concentration used for bilateral technical assistance programming. Counterpart funds are fully integrated with the Bolivian public investment system and are administered by the Department of Finance under the oversight of a joint GoB-CIDA committee.

The Country Program is also expanding the field presence and analytical capacity of the CCO in La Paz. A Canadian health cooperant will soon join the office, giving it increased specialized knowledge in that area. As well, the Country Program intends to post a second Canadian CIDA staff member to La Paz, in order to provide broader analytical support to the CCO and Head of Aid.

The new CDPF is thus consistent with the PRSP, and recent programming decisions have been motivated in part by the desire to further align CIDA's assistance with it. But the process of alignment has not yet been completed. It is an ongoing process: it will take time to develop more programmatic approaches, partner more effectively with national institutions, and make CIDA's program framework fully consistent with the PRSP. It is also the continuation of a process which predates the PRSP. Along with other donors, CIDA has been responding to national objectives and approaching development in ways consistent with **CDF principles, since 1997.**

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The changing programming in Bolivia is rooted in the Country Program's long-standing desire to support state reform processes, and to increase its effectiveness by moving away from multiple and dispersed mini-projects with high transaction costs towards a more concentrated and focussed set of interventions.

The preparation of this paper on the PRSP process has involved research and discussion at headquarters, but it has also had several effects in the field. There, the research effort is causing the CCO in La Paz to expand its knowledge about and range of contacts within Bolivian civil society. It has also prompted the CCO to propose an additional research project which would explore in greater depth how the Bolivian PRSP is being implemented in selected municipalities in which CIDA has been actively involved. Finally, it has sparked a discussion within the CCO about the need for a grid or checklist which would enable the Country Program (and perhaps CIDA's Multilateral and Partnership Branches) to align any new programming with the Bolivian PRSP in a systematic manner. A first draft of a proposed grid has been prepared and is attached to this paper as Appendix 3.

Some Reflections On CIDA's Experience with the Bolivian PRSP

CIDA's Bolivia Country Program has made progress in increasing its focus and leverage, as well as in aligning its work with the Bolivian PRSP. Much remains to be done, however. Some of the issues at stake are particular to CIDA and its own ways of operating, but most of the challenges ahead are common to all donors.

It is very important to strengthen our field presence. This means adapting some of CIDA's headquarters-based procedures so that more of the Agency's critical thinking can be done and decisions made in the field by both Canadian and Bolivian CIDA staff, and jointly with GoB partners.

CIDA also has to shift from a culture of risk-aversion and micro-management towards one of greater flexibility and genuine scope for experimentation and learning. This means learning to "let go": allowing partners to define the parameters of their national development debates and to make their own planning and programming judgement calls; having greater tolerance for calculated risk and novel work, be it because the work involves action in a new sector, or in a poor and remote region of the country; and accepting the occasional failure.

Following a similar logic, working in a more programmatic and collaborative manner with others means that it might no longer be appropriate to insist on "Canadian experience or content," or on having individual CIDA monitors, missions or impact indicators. Put simply, joint development planning and programming can only work when individual donors are willing to put aside national and organizational imperatives for the sake of collective development efforts. The implications of working this way are quite radical: it might mean, for example, that a collective accountability framework would replace a CIDA-designed results-based-management framework.

The Country Program's support of La Defensoria is a good example of the kinds of adjustments

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which donors like CIDA need to make as they move towards more flexible, programmatic and collaborative modalities. Because La Defensoria is a Bolivian institution managed directly by Bolivians, CIDA does not have a contract with an executing agency, as is the norm. Moreover, because it is La Defensoria which plans, implements, and monitors its work, and several donors fund the program jointly, there are no targets or periodic reports for CIDA to approve or reject on the basis of its own schedule and criteria. There are no CIDA monitors, no CIDA-led mid-term or end-of-project evaluations. La Defensoria designs its own five-year plan which is approved by the Bolivian Congress, as is the appointment of the Ombudsman. La Defensoria arranges its own monitoring and evaluation on the basis of its own approach, which is similar to but differs somewhat from CIDA's results-based management model. A single annual program report is prepared by La Defensoria and submitted to the Bolivian Treasury. This same report goes to all of the donors involved in the program; it replaces the multiple reporting requirements usually associated with projects having more than one donor.

Another challenge facing CIDA and other donors is that these new ways of doing development require us to broaden our network of partners and to get along with each other much better. At the field level, if donors like CIDA truly want to support the implementation, monitoring and evaluation of the Bolivian PRSP, then in addition to working with the GoB we may need to make a greater effort to engage, and learn about the strengths and weaknesses of, a wider set of civil society actors, including those who may challenge the status quo. At headquarters the Country Program will also need to work in cooperation with other branches to ensure that both our programs are complementary and in line with the principles and priorities of the CDF and PRSP. CIDA headquarters will need to synthesize the Agency's overall experience with PRSPs as part of the process of developing the appropriate policy instruments to support individual Country Program efforts.

Aligning CIDA programming to a poverty reduction strategy such as that set out in the Bolivian PRSP may require us to reconsider the composition and functions of our staff. To date, CIDA's analytical capacity remains concentrated in headquarters. On top of this, the analytical capacity that does exist is still largely of a sectoral nature. And although sectoral expertise is crucial, CIDA needs analysts capable of working in a multi-disciplinary and multi-sectoral manner and of providing comprehensive thinking and broader policy direction. Moreover, even where the appropriate analytical capacity exists, our analysts are often consumed by process and administration, and not given the opportunities or incentives to exercise their analytical skills. This may well explain why, despite the best efforts of CIDA staff, our relationship to the PRSP process as an Agency has thus far tended to be responsive rather than proactive, and in bits and pieces rather than strategic.

These are all formidable challenges, especially when we consider the resource constraint. Despite the Bolivia Country Program's being one of the largest in CIDA's Americas Branch, it is a small player in Bolivia in the larger scheme of things. This is a real constraint on our field capacity, and on our ability to do analysis and to participate in a meaningful way in locally-driven processes. With its resources dispersed among many countries, CIDA is pressed to be able to achieve leverage in core countries such as Bolivia.

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5. Conclusions

Three principal conclusions flow from this review of the Bolivian PRSP process.

First, an enormous amount of work has been done by the GoB and the donor community during the past several years in trying to define the development and poverty reduction strategy for Bolivia. The strategy now embodied in the PRSP builds on the work done in the context of the Four Pillars and the New Framework.

That strategy has some considerable strengths and some significant weaknesses, which we reviewed at length above. Some donors may feel that the weaknesses in the PRSP should be addressed through another comprehensive planning exercise, perhaps mounted after next year's elections. We think that any tendency towards this should be resisted strongly. More comprehensive planning is not going to fix the critical problems surrounding implementation, for example. These require governance reforms. Nor is more comprehensive planning likely to square the circle on the funding gap; this will be closed through the GoB's implementing less of the PRSP's program than envisaged, or through the materialization of higher revenues than currently foreseen, or through a combination of the two.

Furthermore, imposing another such exercise on the GoB would fly in the face of the importance the CDF/PRSP process assigns to country ownership. The GoB has exhibited considerable ownership so far -- not in the decision to produce a PRSP, which was outside its control, but in the way it ran the process and has continued to give leadership to donor activities.

Our first conclusion is that the donor community's efforts now and for the foreseeable future are best devoted to supporting what the GoB defines as its top poverty-reduction priorities. This should be accompanied by full recognition that the overall development effort in Bolivia will likely be partial rather than comprehensive, and progress will likely be slower than had been hoped two years ago when GoB/donor enthusiasm was at its peak.

The second conclusion is that CIDA's successful support of the Bolivian PRSP will require changes in the way it carries out its programming there, as well as the continuation of some new directions which predate the PRSP. We identified the major areas in which we believe change in the way we do business is required -- more analytical and programming capacity and staff in the field, more decentralized decision-making, more collaborative work with the reduction in control which that implies, etc.

These are of course not new issues -- CIDA's consultation document *Strengthening Aid Effectiveness*, for example, discusses at some length the challenges posed by the new development paradigm to the traditional ways of managing aid delivery. But the urgency associated with them is increasing, as CIDA Country Programs now face the question of how to support country-owned development strategies most effectively.

Finally, in our review of the Bolivian case we have been struck by the tensions and

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contradictions which appear to be an inherent part of the PRSP process -- between the requirement for extensive participatory processes and the right of a government to govern, between the technical demands the preparation of a PRSP makes and the capacity limitations of developing countries, between the principle of country ownership and what donors may for various reasons insist upon, and so on. The recent Bolivian experience illustrates, for example, the very real dilemma extensive participation can pose for a government pursuing a difficult reform agenda.

These are obviously not issues which are unique to the Bolivian PRSP process. We think it would be useful if the current Bank/Fund PRSP review could explore them and their implications.

Comments on and questions about this paper may be addressed to Lilly Nicholls (lilly_nicholls@acdi-cida.gc.ca) or Harvey Sims (harvey_sims@acdi-cida.gc.ca) at CIDA headquarters in Hull, Canada.

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Appendix 1: Acknowledgements and Interviews

This paper has benefited from the valuable input of many people. We would like to express our gratitude to the various Bolivians in government, academia and in civil society at large who shared their views and analyses of the Bolivian PRSP with us. We are grateful to the Canadian Cooperation Office in La Paz Bolivia which not only helped us to arrange these critical interviews, but helped us arrive at a better appreciation of the broader development challenges facing Bolivia. In addition, we are grateful to the Bolivia Country Program in CIDA headquarters which helped us define the parameters of the paper as well as to flesh out some of the key issues and contradictions addressed in the paper. Finally, we would like to thank our other CIDA colleagues for their encouragement and comments on earlier drafts of the paper.

Individuals and Groups Interviewed:

Bolivia Country Program, discussions in Hull HQ, Canada
 Canadian Cooperation Office in La Paz, discussions in La Paz
 Donors in La Paz, Working Luncheon in preparation for CG and informal meetings
 Carlos Carafa, Swiss International Cooperation & consultant to GoB for the National Dialogue and PRSP
 Carlos Toranzo, Instituto Latino Americano de Investigaciones Sociales (ILDES) and Consultant for the National Dialogue and PRSP.
 Horst Greber, PRISMA Research Institute
 George Gray Molina, International Development Department, Catholic University
 Javier Gomez Aguilar, CEDLA, a Bolivian NGO
 Diana Urioste, Coordinadora de la Mujer, a women's rights network
 Jose Pinelo, Comité de Enlace de Productores, a producers' network
 Monsignor Jesus Juarez, Roman Catholic Church
 Juan Carlos Nuñez; Ekatherine Murillo Palenque, CARITAS
 Hugo Fernandez, UNITAS
 Waldo Albarracín, human rights lawyer/activist, Asamblea de Derechos Humanos Humanos,
 Miguel Vera; Wilson Jimenez, Unidad de Analisis de Politicas Sociales y Economicas(UDAPE)
 Maria Machicado, Instituto Nacional de Estadisticas (INE)
 Victor Hugo Bacarreza, Lourdes Espinosa Martinez, Vice-Ministerio de Inversion Publica y
 Financiamiento Externo (VIPFE)
 Marcelo Renjel, Vice-Ministerio de Participacion Popular
 Blanca Laguna and Antonio Aramayo, Defensoria del Pueblo, Bolivia's Ombudsman's Office
 Ramiro Cavero, Directorio Unico de Fondos(DUF) (Joint meeting with other donors and GoB officials)
 Mario Napoleon Pacheco, Milenio Foundation, a research think tank
 Sr. Choque, Fundación Bartolina Sisa, a peasants' association
 Marc Arpin, Canadian partner and mining expert
 Lise Chennard, Canadian partner and mining geologist
 Jean Claude Lauzier, Canadian partner and mining expert
 Gabriel Arancibia, John Gordon, Lucia Frick, Canadian partners and water & sanitation experts
 Tony Galisheff, oil, gas and hydrocarbons expert
 German Crespo, Bolivian health expert

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Appendix 2: Summary Matrix of the Bolivian PRSP

Objectives	Sub-Objectives	Strategic Actions
	<ul style="list-style-type: none"> i) increase productive infrastructure in rural areas (specifically: construction and maintenance of local roads, irrigation systems, and rural electricity services) ii) diversify non-agricultural employment opportunities and increase their remunerative value (specifically: promote rural tourism and artisanal production) iii) increase access to rural productive assets such as land. 	
	<ul style="list-style-type: none"> i) create an appropriate legal/regulatory environment that facilitates competition and business growth among micro and small businesses. ii) promote the development financial and non financial services for micro and small businesses (specifically: technical assistance and training services, market information services, lending and risk investment services) iii) improve the capacity of public and private institutions to support and encourage micro and small businesses. iv) integrate micro and small businesses (including those in the informal sector) into the country's productive structures. 	
	<ul style="list-style-type: none"> i) diversify and increase microcredit service delivery in urban and rural areas ii) strengthen the microcredit regulatory and institutional framework iii) improve the efficiency of micro-credit services 	
	<ul style="list-style-type: none"> i) support the implementation of a new national technology research and innovation system ii) strengthen business development services iii) provide training to improve the provision of private technical assistance services iv) create an information system to broker demand and supply v) promote mixed public-private foundations 	
	<ul style="list-style-type: none"> i) more and better roads (specifically: increasing investment in road construction and maintenance, increasing private sector participation in road sector, and implementing a Transport Master Plan) ii) increase the private sector's role in Highway construction 	
	<ul style="list-style-type: none"> i) through the Law on Property and Popular Credit, give Bolivians access to the Collective Capitalization Fund (FCC) formed after the privatization of public enterprises. Also give Bolivians access to BOLIVIDA (a pension benefit for Bolivians over 65) and to ACCIONES POPULARES (transferable trust certificates for all Bolivians who were between 21-50 years old in 1995) 	

II. Human Capability-building

To develop the human capital of the poor

- a) Improve the access to, and quality of, education services

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b) Improve health conditions and increase access to health services

c) Improve basic sanitary and housing conditions

- i) strengthen the municipal delivery of education services and promote citizen participation in education management (specifically: empower school boards, increase construction and maintenance of education infrastructure, municipalize control over personnel, and provide technical assistance to municipal governments)
- ii) improve sector planning, management and assessment tools
- iii) implement new teacher training systems
- iv) improve pedagogy
- v) strengthen the supervisory and regulatory capacity of government bodies in education

i) improve access to health services, especially by the poor

- ii) improve efficiency of human resource management (specifically: increase the number of health workers, municipalize control over health personnel, improve professional incentives)

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- iii) gradual universalization of public health insurance
- iv) control Bolivia's major transmittable diseases
- v) improve the nutritional standards of the population through more systematic public health education
- vi) strengthen the inter-cultural dimension of health services
- vii) reduce maternal and infant mortality rates

- i) increase and improve water and sanitation systems, and strengthen institutional capacity in the sector (specifically: construct water and sanitation systems and treatment plants, provide technical assistance to municipalities for pre-investment planning, strengthen the Ministry of Housing and Basic Services)
- ii) improve housing infrastructure and strengthen institutional capacity in the sector

III. Security and Protection

To increase the security and protection of the poor

- a) Reduce the vulnerability of the more marginal segments of Bolivian society, including indigenous peoples, children, the elderly, victims of violence and those vulnerable to employment and natural emergencies
 - i) increase the poor's access to employment in times of crisis through emergency employment programs
 - ii) enhance safety nets and social protection programs for aged, food insecure, adolescents and children
 - iii) expand child protection programs (under six)
 - iv) implement emergency programs in cases of natural disasters
 - v) guarantee urban and rural property rights, modernize urban cadastre and regulate management of water resources

IV. Social Integration and Participation

To promote the integration and participation of the poor

- a) Enhance the accessibility and participatory nature of local government

- b) Enhance civil society networks and the participation of both civil society and the poor in public development planning and social control

- c) Promote social cohesion and equity
 - i) strengthen municipal governments
 - ii) encourage popular participation in local government
 - iii) improve mechanisms for social control over local government
 - iv) provide training to improve participation by citizens

- v) promote human rights
- vi) promote ethnic equality

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The Institutional Framework and Transversal Issues

The Institutional Framework: Objective	Strategic Action
<p>To promote good governance in the form of more efficient, transparent and accountable public institutions</p>	<ul style="list-style-type: none"> - further advance decentralization, especially in health and education service delivery - promote a progressive and open distribution of public resources (e.g., via mechanisms like DUF and criteria such as the poverty formula now enshrined in the National Dialogue Law - promote the credibility of civil society - end the monopoly of political parties at the local government level by expanding civil society representation in local government bodies such as the departmental Development Councils and municipal Consultative Committees. - professionalize the public service by introducing a public service career stream and results-based management techniques - increase government's revenue-generation capacity through tax reform - reduce corruption through judicial reform, as well as the reform of the National Road Service and Customs

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A) Gender:	Strategic Action
To promote gender equality	<ul style="list-style-type: none"> - promote policies and actions designed to improve opportunities for women, including increased access to land, market information, technical support and credit. - improve women's access to health, education and other basic public services - improve the capacity and participation of women - projection and promotion of women's rights - address the issue of domestic violence
B) Environment: Objective	Strategic Action
To protect and conserve the natural environment	<ul style="list-style-type: none"> - optimize the use of water and land resources - strengthen capacity for planning, managing and controlling the environment - develop mechanisms and instruments for better management of bio-diversity - promote the sustainable use of forest resources - guarantee the entire population's access to forest lands but under a system of forest management which is environmentally sound and sustainable
C) Indigenous Identity: Objective	Strategic Action
To promote the well-being, culture and needs of ethnic groups and indigenous communities	<ul style="list-style-type: none"> - implement a national Indigenous Development Plan, including the Law for Rural and Indigenous Development - Ensure indigenous persons have full citizenship rights - Tailor education, health and social services to the characteristics and needs of indigenous peoples - strengthen indigenous and native organizations - give indigenous peoples a more active role to play in government.

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**Appendix 3: Draft Guide to Aligning CIDA Programming with the
Bolivian Poverty Reduction Strategy Paper**

1. **Do the objectives of the project or program address any of the three core objectives of the PRSP?**

Poverty reduction
Greater equity
Social integration
If so, explain in a few words:

-
2. **Does the project or program support any of the four core components of the PRSP and their sub-components?**

Income generation opportunities:

Employment
Small and medium enterprise promotion
Microcredit and microfinance
Rural development
Rural infrastructure (e.g., roads, irrigation)
Increased productivity or trade competitiveness
Land titling and access to productive assets

Human development and capacity building:

Basic health
Basic education
Basic water and sanitation

Security and protection:

Social safety nets
Children's security
Safe housing
Natural or economic emergency protection

Participation and social integration:

More democratic and participatory government
Civil society strengthening and participation
Support to indigenous knowledge, culture and organization
Support to information gathering and sharing

3. **Does the project or program support any of the cross-cutting themes in the PRSP?**
 Gender equality

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Environmental sustainability
Development of indigenous peoples.

4. Does the project or program share any of the core process-based principles guiding the PRSP?

- National ownership
 - Participation
 - Coordination
- Equity (gender, class, regional, ethnic)
- Decentralization
 - Capacity building
 - Democratic, efficient and effective governance
 - State/civil society/private sector partnership
 - Sustainability

5. Does the project or program strengthen any of the core reforms or institutional mechanisms championed by the PRSP?

Key reforms:

Electoral and constitutional reform

Judicial and human rights reform

Criminal justice reform

Anti -corruption reform, Code of Ethics

Reforms related to professional, efficient and effective public service

Reforms related to effective government regulation of economy

Reforms related to competitiveness and the attraction of direct foreign investment

Reforms related to social and labour protection

Pension reform

Tax reform

Agrarian reform

Key mechanisms, institutions and initiatives:

- DUF*
 - FDC, FPS*
 - National census, MECOVI*
 - SISER*
 - ARCO*
- Departmental councils*
 - Municipal POAs or PDMs*
 - Municipal vigilance committees*
 - Municipal economic, social and productive councils*
- Civil society, including Catholic Church, national NGOs, Pos, Otbs, etc.*

Summary of answers.

The World Bank questionnaire regarding experience of implementing the PRSP process.

The Danish ministry of Foreign Affairs has requested the Danish embassies in the following countries to respond to the questionnaire, where the PRSP process has started; Bangladesh, Benin, Bolivia, Kenya, Malawi, Mozambique, Nicaragua, Uganda and Vietnam. In addition, separate reviews have been conducted in Burkina Faso and Tanzania. The result of which have already been sent under separate cover. Hence, the countries have not been included in the combined report.

Categories as defined in the World Bank questionnaire.

4) Countries that have completed their PRSP : **Bolivia, Mozambique, Nicaragua, Uganda**

2+3) Countries, which has completed a PRSP and/ are well advanced in the completion of their first full PRSP (expected 2002) : **Bangladesh, Benin, Kenya, Malawi, Vietnam**

OVERARCHING QUESTIONS.

Q 1: What have been the main achievements and challenges to date in developing and implementing poverty reduction strategies?

PRSP countries:

In two of the four PRSP countries the main achievement is that PRSP priorities seems to be well integrated in the core political process (Uganda and Mozambique). Except for Mozambique, all PRSP countries have had a relatively high degree of participation of civil society, NGO's and line ministries in the process of formulating the PRSP – independent of whether the government supported such participation or not (see the case of Nicaragua).

I-PRSP countries:

For I-PRSP countries the main impression is that the political will and capacity of key government institutions (Ministry of Finance, Ministry of Planning) have been the key factors in the formulation of the I-PRSP.

Q 2: In light of the experience to date, how might the guidelines and modalities of the PRSP approach be modified in order to improve its long-term development impact?

I-PRSP countries:

One important obstacle to progress in the PRSP seems to be the quality of cooperation of the IFT's and UN. In some countries the "competition" between UN and World bank and IMF spurs internal political competition between key ministries. In other countries a lack of coherence in objectives for poverty loans (PRGF and PRSC) and objectives for PRSP undermines the authority and usefulness of PRSP. As concluded in the case of Bolivia (PRSP country) more training of IMF and WB staff is needed. Experience indicates that the preference of IMF and WB of having the Ministry of Finance as the main partner may undermine the authority of the PRSP process - as the political priorities of PRSP ought not to be made solely by ministries of finance. Except for the experience of Bolivia there seems to have been a sound agreement and division of work between all the donors in the PRSP countries, which also indicates that progress in PRSP hinges on the quality and intensity of existing cooperation between key donors.

KEY QUESTIONS

Ownership and participation

Q3: Has the preparation of PRSPs been country led and, if so, have governments assumed full leadership of the PRSP process?

PRSP countries:

Except for Nicaragua governments in the four PRSP countries have all assumed full leadership and ownership of the process. The PRSP has in all countries been endorsed by the highest political authorities, but not approved in Parliament. Line ministries have been involved to a varying degree, while local institutions were not genuinely engaged. The IFT's seem to have played a constructive role, keeping a low profile and have not generally obstructed a country led process (except in Bolivia).

I-PRSP countries:

All governments appear to have assumed ownership of the PRSP process. However, some without senior officials attention/leadership, some with ownership almost exclusively vested in core government institutions. In Benin and Vietnam the PRSP process involves all layers and tiers of government, including line ministries and parliament.

Q 4. To what extent has the government been preparing and implementing PRSP in an open and participatory way.

PRSP countries:

Bolivia seems to have been most successful in mobilising civil society and local government in a dialogue focused on the political priorities of PRSP. In Nicaragua there have been two separate dialogues, one between representatives from civil society/local government and one within the central government institutions. Participation of all stakeholders, including civil society seems to a large extent to depend on the political will of the government to allow an open process. Another aspect of participation is whether the government supports a political discussion. In cases where the PRSP process is considered primarily a technical matter the process has a tendency to be run by key institutions in central government without much attention from civil society.

I-PRSP countries:

The experiences are mixed. The conclusion on participation in PRSP countries may apply.

Q. 5: To what extent have participatory processes influenced the content and implementation of the PRSP.

PRSP countries:

In countries where the government has supported the participation of civil society, the interest of some groups of society have generally also been reflected in the final PRSP, and mechanisms for monitoring implementation by civil societies included in the PRSP process (Bolivia, Uganda). Conversely, in countries where the dialogue with civil society has been nonexistent (Vietnam) or not supported by government (Nicaragua) only government priorities are reflected in PRSP and no monitoring systems established.

Q 6: Has the country drawn on existing strategies and integrated the preparation and implementation of its PRSP with core processes of policymaking and programme implementation, including annual budget cycles and medium-term expenditure framework?

PRSP countries:

Only in Uganda has the PRSP been fully integrated into the midterm expenditure framework and sector planning, especially the social sector. The discussions of how to integrate PRSP priorities into core processes of policymaking and expenditure planning have only just started in the remaining countries.

I-PRSP countries:

Three out of five countries have already integrated the priorities of I-PRSP into MTEF and two of these countries are planning to have the PRSP approved by Parliament (Benin, Vietnam).

Q 7: To what extent does the PRSP represent and improvement over previous development strategies?

PRSP countries:

The assessment in all countries is that the PRSP represent a profound improvement.

I-PRSP countries:

Improvements are hard to assess, as the process is less advanced.

Q 8: To what extent is PRSP build on adequate poverty diagnostics?

PRSP countries:

Weaknesses have been identified in poverty data in all countries, except for Bolivia. The overall impression is that there is considerable room for improvements regarding data and analysis.

I-PRSP countries:

The impression is the same as above.

Q 9: To what extent does PRSP have relevant targets and indicators for poverty reduction and appropriate proposals for monitoring and evaluation?

PRSP countries:

Targets, indicators and monitoring systems are generally not well developed.

I-PRSP countries:

Same as above.

Q 10: To what extent does PRSP clearly define, cost, and prioritise public actions that are likely to reduce poverty?

PRSP countries: It seem that some governments are applying a realistic cost estimate (Bolivia ,Mozambique, Uganda) although financing gaps are expected.

Q 11: Have the country needs for technical assistance in the preparation of PRSP been adequately addressed by development partners?

PRSP countries:

All countries receive adequate donor support.

I-PRSP countries.

Yes – but to a lesser extent than the PRSP countries. Donor support may be limited because the government lacks political will to formulate a PRSP or because the IFI's and UNDP do not cooperate by supporting unified leadership of the PRSP process.

Q 12: Have the Bank and the Fund staff provided useful analytical inputs into the PRSP preparation consistent with principles of country ownership and partnership?

PRSP countries:

The Bank and the Fund are found to have been constructive partners in the PRSP process in all countries, except for the Bank staff in Bolivia.

I-PRSP countries:

Same as above, although the Bank has received some critic in Benin.

Q 13. To what extent have external development partners, including the Bank and the Fund, begun to align their financial assistance and policy conditionalities behind the PRSP?

PRSP countries:

Only in two countries (Mozambique, Uganda) have donors to some degree aligned the support behind the PRSP. Less progress has been observed in the remaining two countries.

Q 14: What has been the experience so far in the implementation of the PRSP?

PRSP countries:

For two countries this is too early to comment on (Mozambique, Nicaragua). In Bolivia there is a fear that after the approval of HIPC the government will pay less attention to the PRSP process. In Uganda the assessment is positive, as the process seems to be rather consolidated.

Q 15: To what extent have financial, institutional and political constraints facing both government and civil society adversely affected the development and implementation of PRSP, and has the PRSP approach to date taken adequate account of the country level constraints?

PRSP countries:

In all PRSP countries the institutional capacity and issues of good governance in general are identified as being the main factors affecting the formulation and implementation of PRSP.

I-PRSP countries:

As above. Institutional capacity of government institutions, including lack of a transparent state budget and lack of clear division of responsibilities between ministries are the main factors adversely affecting the PRSP process.

Q 16: To what extent has implementation of PRSP been constrained by external factors?

PRSP countries:

The international economic situation, including market access for some products, is seen as a threat to the implementation of PRSP. In the case of Uganda the implementation of PRSP hinges to a large extent on donor funding.

Q 17: To what extent have external factors affected the timing of the PRSP process?

PRSP countries:

Although, HIPC has made the PRSP document more attractive for governments, HIPC seems not to be determining the pace in most countries.

I-PRSP countries:

As above

Q 18: Has an appropriate balance been achieved between country ownership and the need for donors to be held accountable for the use of their resources?

PRSP countries:

Transparency and accountability of public expenditures are priorities in all PRSP's. However, the assessment differs from country to country as to what degree the PRSP strategies adequately address issues of corruption and poor performance.

Conclusions:

Based on the combined material the following conclusions may be drawn: PRSP processes improves on most indicators the closer countries are to finalise a full PRSP. Participation, data quality and integration of PRSP priorities in national policy and budgeting processes seems to be given a higher priority in countries, which have completed a PRSP. Although most countries are engaging in some sort of formalised consultation with donors on monitoring of PRSP, creation of public monitoring mechanisms seems to be given less priority by governments in general.

Many respondents have highlighted that a critical factor leading to better performance in regard to the PRSP implementation is the integration of the PRSP priorities into the

national political process, and particularly into national budgeting process. There seems to be an awareness of this among I-PRSP countries, who are preparing their PRSP.

The role of the World Bank, IMF and UN and to a lesser degree the bilateral donors seems to influence the progress in the PRSP process.

Suggestions on how to modify the guidelines and modalities of the PRSP process:

- Working towards integration of PRSP priorities and strategies into national budgeting (MTEF).
- At the country level the Bank and the Fund should take a “back seat” position, leaving the government to drive the PRSP process. Bank/donor support for improving the quality of poverty data and analysis are needed in most countries.
- The government should consult different ministries and be more sensitive to having the PRSP hijacked by one key ministry.
- Competition between UN and the World Bank/Fund is not acceptable and should be turned into close collaboration.
- Public monitoring mechanisms must be improved in most countries. The PRSP guidelines should stress the need for further attention by governments to this important part of an efficient participatory PRSP-process.
- The PRSP process should be based on a proven political will to include civil society and local government in the political dialogue leading to the priorities of the PRSP. By now, it seems that several countries have completed a “national dialogue” with success (Benin, Bolivia, Uganda). Based on those cases a framework for how to engage the population in the development agenda should be formulated as inspiration for governments committed to the PRSP process.

Dansk bidrag til review af PRSP-processen i Verdensbanken og IMF

Programsamarbejdslande	Questions	
Bangladesh	<p>1. <i>What have been the main achievements and challenges to date in developing and implementing poverty reduction strategies?</i></p> <p>As the development of the PRSP has started merely to satisfy the donors no achievements so far seems to have been made.</p>	<p>2. <i>In light of experience to date, how might the guidelines and modalities of the PRSP approach be modified in order to improve its long-term development impact?</i></p> <p>As enforcement and coordination generally is a major problem in Bangladesh, any long-term development impact is doubtful.</p>
PRSP expected 2002	<p>3. <i>Has the preparation of PRSP been country-led and, if so, have the government assumed full leadership of the process?</i></p> <p>Country-led and the government has assumed full leadership of the process to an extent that it does not involve other stakeholders. It is not possible to comment whether the sector ministries have been involved.</p>	<p>Ownership has been strong. Government has assumed full leadership, and the work has been endorsed by the highest political level, with Minister for State, Plan and Coordination of Government chairing the process and Ministry for Finance supervising the daily work. Involvement by sector ministries has been strong in most cases, notably the social sectors and Ministry of Environment.</p>
Benin	<p>The process of elaboration a PRSP is progressing in Benin, albeit slowly. The process has been somewhat hampered by presidential elections in March and the campaign prior to elections. A draft PRSP exists, but is subject to internal validation by government and not rendered public yet. The main achievement of this work is to focus on poverty eradication in economic policy formulation.</p>	<p>A clear positioning by the Bank and the Fund alongside Ministry of Finance and UNDP's traditional strong ties with Ministry of Planning has not facilitated the work. Without a clear agreement between the IFI's and UNDP on rules of engagement, Beninese ownership and openness will continue to be difficult.</p>
LPRSP 2000 PRSP expected 2002	<p>The main achievement is the broad and open national dialogue on PRSP, which took place during 2000. Parliament has approved that a national</p>	<p>The approach by the IFIs (IDA, IMF and WB) has to be modified. The experience in Bolivia is that IFIs on the one hand insist on the</p>
Bolivia		<p>The government via Ministry of Finance has ownership to the PRSP. Sector ministries have been partially involved, parliament only</p>

<p>PRSP 2001</p>	<p>liament has approved that a national dialogue be carried out every 3 years. The key challenge is economic growth, which is a prerequisite for implementing the strategies in the PRSP.</p>	<p>IFIs on the one hand insist on the importance of consultations and participation and on the other hand they continue with their traditional imposition of their opinions without consultations with civil society nor other donors. This is unfortunate, especially in light of the extensive national dialog in Bolivia. PRSP training of IFI's staff is needed. IMF should, in particular, insist on the necessity of taking into account the cost of PRSP priorities when discussing the annual budget with the government.</p>	<p>partially involved, parliament only to a limited degree.</p>
<p>Kenya IPRSP 2000 PRSP expected 2002</p>	<p>Main achievements have been that the PRSP-process did after some pressure become a reasonable satisfactory participatory process, while the main challenge is to start implementation of at least some of the issues. There seems to be little political will to follow up on the strategy and less to implement it.</p>	<p>It should be much more of a "political" process and not be seen as merely a technical process led by technocrats from the Ministry of Finance and Planning. This is obviously easier said than done, as it has also been a concern that especially the district consultations should not be "hi-jacked" by local politicians.</p>	<p>Yes, leadership mainly with technocrats in Min. of Finance and Planning. Technocrats in other ministries and NGOs supported the process.</p>
<p>Malawi</p>	<p>Main challenge: The lack of efficient planning and organisation of the process. The lead agencies, the Ministry of Finance and Economic Planning and the National Economic Council have not been able to provide sufficient guidance and leader-</p>	<p>A need to clarify and spell out the link between the PRSP and the national budget process. There is a tendency to approach the PRSP process as an isolated 'academic' exercise rather than an integral part of the national development plan-</p>	<p>Strong national participation in the process, but not at the right level. The Cabinet has yet to endorse the draft paper, senior level officials have not really taken an active interest in the process (apart from off. in the Min. of Finance). Midd-</p>

<p>PRSP 2000 PRSP expected 2002</p>	<p>ship. Consequence: Delays and confusion in the process.</p>	<p>ing process. Consequence: The strategic priorities identified in the PRSP process have little or no impact on the budget process.</p>	<p>le-level off. from the line ministries have been greatly involved. However, without proper senior level guidance, their involvement has not been only beneficial.</p>
<p>Mozambique PRSP 2000 PRSP 2001</p>	<p>Main achievement has been that the PRSP after a long process of formulation, actually today forms the basis for the governments economic and political programme as a whole. Specific targets and budget figures have been established for key sectors, and that 70 % of budget resources will be concentrated to these sectors. Main challenge: the public discussion of the PRSP - there are still some limitations, as the PRSP has not really been widely discussed.</p>	<p>The question is difficult to answer at this early stage.</p>	<p>Country-led, and the government have assumed full leadership of the process. Still very much a government paper, while it has not been discussed by parliament, neither to a large extent by the public. The PRSP is, however, seen as a live process, that will involve adjusting the PRSP annually. It is foreseen to have a broad based monitoring and evaluation process and continued public debate.</p>
<p>Nicaragua PRSP 2000 PRSP 2001</p>	<p>The fairly extensive consultation process in most sectors is an important achievement. The main challenge has been for national institutions and organisations with limited capacity to take up the very comprehensive and ambitious task of formulating the PRSP, while ensuring national ownership. Lots remains to be done in order to ensure ownership from local governments and line ministries.</p>	<p>A certain level of flexibility or room for negotiation should be introduced, especially in regard to the demand for participation, which be many governments seems rather intimidating.</p>	<p>Although, the highest political authorities have endorsed the PRSP process, the process has to some degree lacked political leadership. The involvement of line ministries and local governments has been insufficient, just as the parliament has been ignored in the process. It is the general assessment that the role of the IFI's has been constructive and characterised by a low profile that has not impeded a country-led process.</p>
<p>Uganda</p>	<p>The PRSP is on track; Macro-economic stability being maintained, major pro-poor allocations in public expenditures have been achieved. The growth of the economic has slowed,</p>	<p>Guidelines could be modified to include mainstreaming of gender within the development and implementation of the PEAP/PRSP.</p>	<p>The preparation of the PEAP/PRSP has been country led and the government has assumed leadership of the process. There is, however, a tendency that the proc-</p>

growth of the economic has slowed, but medium-term growth prospects remain good. The main challenges is to reduce the increase in inequality and to managerial difficulties/bottlenecks in the delivery of social services.

however, a tendency that the process is lead (and understood) more by bureaucrats, especially in the Ministry of Finance, than by politicians. PEAP was discussed, but not approved by Parliament. Through the MTEF the sector ministry officials are involved and understand to a large extent the PEAP/PRSP- process and mechanisms. The behaviour of IFI staff in the preparation of PRSP was in general facilitating, although there was a feeling by certain NGO's that the World Bank was pursuing its own agenda, as the PEA/PRSP was linked to HIPC-debt relief and future IDA-lending. IMF and AfDB was less dominant in the PRSP process.

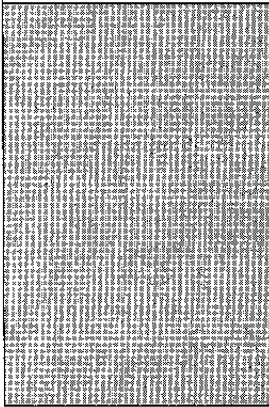
PRSP 2000

<p>Vietnam</p> <p>I-PRSP 2001 PRSP expected 2002</p>	<p>Vietnam negotiated in 1997 poverty reduction loans with WB (PRSC) and IMF (PRGF). An I-PRSP was formulated in 2001 and a full PRSP is expected in 2002. The approach taken in the PRSC is a trickle down approach based on the assumption that the overall strategy of the Vietnamese government is pro-poor. The main challenge for the PRSP process is to concentrate on poverty reduction measures. Another challenge is the formulation of sector policies and to improve the transparency in the budgeting and public expenditure management.</p>	<p>WB's PRSC and IMF's PRGF should support the approach of PRSP of introducing a focus on poverty reduction measures and integration of poverty reduction strategies in all sector policies.</p> <p>Transparency in budgeting and public expenditure management, including improved budgetary data, is an important precondition for effective formulation and implementation of PRSP..</p>	<p>The government has taken full ownership of the PRSP process, opting for a gradual, step-by-step approach, thereby obtained a more solid political support. The PRSP under preparation will be endorsed by the highest government level and the National Assembly (Parliament). The PRSP will be integrated into the government's own medium and long term poverty strategies.</p> <p>Several working groups led by the sector ministries with participation of multilateral and bilateral donors are established to follow the work of the government and to advise in the process of implementing the reform process as part of the PRSP process.</p>
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Questions		
<p>4. To what extent has the government been preparing and implementing PRSP in an open and participatory way?</p>	<p>The Government appears not to involve others</p>	<p>6. Has the country drawn on existing strategies and integrated the preparation and implementation of its PRSP with its core processes for policy making and programme implementation, including annual budget cycles and medium-term expenditure frameworks?</p>
<p>Bangladesh</p>	<p>N/A</p>	<p>Poverty reduction seems not to have been included in the various sector and sub-sector strategies, e.g. not in the Policy for Safe Water, Supply and Sanitation or the agriculture policies.</p>
<p>Benin</p>	<p>The government initiated the process of elaborating the PRSP with hearings (workshops) at provincial level involving departmental structures of ministries as well as representatives from civil society. No local government exist in Benin as yet. The process has also involved some NGO's and a network (association) of leaders of private and public enterprises.</p>	<p>It is expected that the parliament will discuss the PRSP in the beginning of the new year. World Bank representative has at a recent occasion made a presentation on PRSP for the parliamentarians. The PRSP budgetary consequences are integrated in the MTEF.</p>
<p>Bolivia</p>	<p>Conclusions of the National dialogue and the participatory process have been included in the PRSP. This has led to multiple priorities. The success of the National Dialog</p>	<p>The challenge is now to integrate the PRSP in the national current budget and the public investment programme, as well as establishing monitoring and follow up mecha-</p>

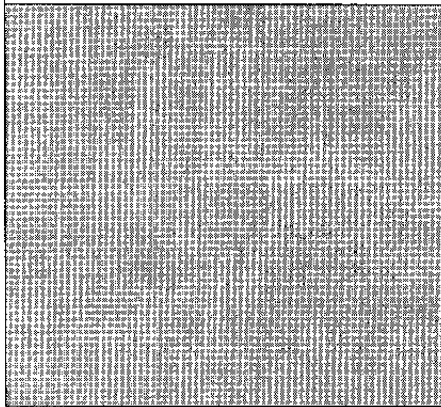
	cially the participation of indigenous people, peasant organisations etcetera. A faction of civil society, particular the traditional trade unions did not accept to participate.	resulted in a provision in PRSP that a social control arrangement should be established in order to strengthen further participation and public monitoring of PRSP implementation.	nisms. This process is under way in collaboration with the donor community (4 working groups of donor and government representatives).
Kenya	The preparation has been open and transparent. No implementation as yet.	See above	Has been integrated with MTEF. The budget, however, is already proven to be unrealistic.
Malawi	Participatory when compared to other similar processes. The role of the development partners has been mixed. On the one hand, involvement has been limited by the government in a fairly arbitrary manner (only two donor representatives pr. technical committee). On the other hand, some long-term technical advisors working with the line ministries have had a rather substantial influence on the development of the sector contributions. There has not always been sufficient time to allow for critical discussion and feed-back.	To a large extent, the draft paper is based on recycled work from previous national and sector strategy planning processes. However, the process of consultation has probably given the PRSP more attention and hence legitimacy.	Drawn heavily on existing work in the development of the PRSP. However, the exercise remains rather isolated from the general budgetary planning process. The PRSP process is linked to the HIPC initiative, not to the Government's overall national resource prioritisation.
Mozambique	The process in this regard could have been better (question 3)	As the participatory process has been limited - so has the PRSP.	Yes, the PRSP is and will be fully integrated with existing systems, and the systems and improvements to planning, budgeting and follow up that is planned.
Nicaragua	Civil society organisations and local government has pressed for an open and participatory approach. The result was that the consultations happened in two parallel processes - one	The conclusions of both consultation processes were not adequately reflected in the final PRSP. The NGO network and involved municipalities has made extensive	National strategies for development did not exist prior to the PRSP. Certain sector strategies and programmes have been integrated in the PRSP, but some of them in a

	<p>led by a network of NGO's and one led by government, supported by UNDP/DfID.</p>	<p>complaints.</p>	<p>less considered manner. Thus far the PRSP is not embedded in Nicaraguan legislation, nor has the PRSP been formally integrated with the budgeting process.</p>
<p>Uganda</p>	<p>The formulation and implementation have in general been open and participatory. Participation has however, been constrained by insufficient funding for taking all stakeholders effectively on board. Implementation done more or less solely by the government, but with TA from donors. As regards local governments administrative officers seems to be more involved than local politicians. Civil society was heard in preparation of PRSP as well as in monitoring implementation, especially in regard to service delivery. Some NGO's are, however, complaining of lack of funds for efficient monitoring of MTEF. The UN-system and bilateral donors have played a more prominent role than the WB.</p>	<p>Civil society had impact on the priorities of the PEAP/PRSP, especially regarding good governance, security and disaster management and the efforts of environmental degradation on the poor were other areas highlighted by NGO's. The "Uganda Participatory Poverty Assessment Report" suggest that the PEAP/PRSP priorities are well in line with those of the poor.</p>	<p>The PEAP/PRSP is guiding the priorities of the MTEF. Within the MTEF the government has created a Poverty Action Fund (PAF), to ensure that increased funds are allocated to poverty reduction activities. The share of PAF in total public spending comprised in 2000/01 fiscal year 31 pct.. Social service delivery has increased substantially. However, PEAP/PRSP is an ambitious plan and the funding for its implementation is still lacking. Apart from continued development assistance the government also hopes to see a growing private sector ensuring service delivery.</p>
<p>Vietnam</p>	<p>The involvement of local governments has not been very extensive. The NGO involvement is virtually non-existing as NGO's are not a common phenomenon and severely restricted. There has, however, been involvement of a wide selection of different groups of society, which are more or less official, including women's groups, farmers groups et</p>	<p>See Q 4</p>	<p>The government has used its own poverty strategies and sector plans in connection with the preparation of the I-PRSP. For the expenditure frameworks the WB and bilateral donors are assisting the government in providing more transparent public expenditure records to be used to develop the PRSP. More transparency is a conditionality for</p>

	<p>cetera. The feedback of how decisions have been made has not been very elaborated. As the PRSP is not yet developed the question of monitoring is not yet relevant.</p>	<p>the release of the second PRSC tranche. The government wished to have the PRSP integrated fully in to its own strategy and planning framework, including the 10 year Socio-Economic Development Strategy, the 5 years plans and the annual budgets.</p>
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Programs	Questions	8. To what extent is PRSP built on adequate poverty diagnostics?	9. To what extent does PRSP have relevant targets and indicators for poverty reduction and appropriate proposals for monitoring and evaluation?
Programsamarbejdslande	7. To what extent does the PRSP represent and improve over previous development strategies?	N/A	N/A
Bangladesh Benin	The draft PRSP seems to be of a relatively good quality compared with other countries PRSP and especially compared to the PFP's produced by Benin.	The analysis of the PRSP is based on recent poverty studies financed by UNDP and Denmark.	Indicators (targets) for PRSP in the social sector (health, education and water) is relatively specific. The PRSP has in general well defined targets.
Bolivia	The PRSP is based on a profound assessment and analysis of the poverty situation resulting in a categorisation of municipalities in five groups according to poverty. HIPC II funds are distributed to the municipalities according to these categories.	See Q7	Relatively concrete poverty targets. Monitoring on three levels; Ministry of Finance, the planned social control system and the working groups of government and donor representatives.
Kenya	There has for years been excellent strategies in Kenya. The problem is implementation	The data collection and analysis could have been of better quality, but not really an issue	There is a real lack of clear targets and indicators, and monitoring mechanisms is only being thought of presently.
Malawi	It is difficult to assess whether the PRSP represents an improvement. The Government has certainly invested more time and attention to this strategy, but it remains to be seen whether the poverty reduction strategy will actually become an integral part of the overall resource prioritisation	The quality of the statistical data is generally acceptable. Recently, the published results of the poverty analysis have contributed to an improvement in the understanding and documentation of the poverty situation.	The targets and indicators and the monitoring and evaluation part of the draft PRSP are sketchy at best.

<p>Mozambique</p>	<p>tion. PRSP represent an improvement, there is a substantial increase in allocations to the priority sectors, and it creates a good frame for the overall government economic and political policy.</p>	<p>There had been a thorough study on the overall level of poverty, but there is room for improvement for both regional analysis and for specific studies of the situation of social groups etc. This, however, forms part of the plan for monitoring of the execution of the PRSP.</p>	<p>Targets and milestones are still inadequate, but a good strategy for further work has been elaborated and is being discussed. It is expected that adequate policies will come in place over the coming year.</p>
<p>Nicaragua</p>	<p>Significant improvements, as no strategy existed prior to PRSP.</p>	<p>The poverty analysis is of relatively high quality (WB financing) but as it is based on consumption patterns alone, it fails to indicate socioeconomic vulnerabilities. As a consequence, several of the municipalities that recently suffered hunger situations due to draught were not reflected on the poverty map. There has been no concerted assessment of impacts of past policies and programmes.</p>	<p>The PRSP does not provide clarity on how to implement the strategy or who will guide the process. – including the task of coordinate international donor support. The monitoring system described in PRSP is insufficient, but is currently being developed by government.</p>
<p>Uganda</p>	<p>Before the PEAP/PRSP a holistic poverty reduction strategy did not exist. The government operated in the 1980's mainly with sector strategies. The PEAP/PRSP provides a long term strategic plan for poverty reduction (2017)</p>	<p>In general the data for the PEAP/PRSP were not sufficient. There was a lack of quantitative indicators. The data was somewhat more elaborated as regards macro-economics than other areas. Social indicators were particular weak, especially at the district level. A enhanced demographic and health survey is presently being carried out together with a service delivery survey</p>	<p>Poverty targets have been well spelled out. Performance indicators have, however, been more of a quantitative than qualitative nature. Whereas performance indicators in areas such as infrastructure and water and sanitation are well defined, indicators have been weak as regards governance and security. The increased volume of social services has proven more difficult to implement and monitor than anticipated.</p>
<p>Vietnam</p>	<p>Yet to be seen on the basis of the</p>	<p>Must await the finalisation of the</p>	<p>A preliminary outline of the PRSP</p>

	<p>preparation of the full PRSP.</p>	<p>PRSP.</p>	<p>has been prepared and discussions been carried out between the government and the donors in the working group on Poverty on how the donors can best support the preparation of the PRSP. The PRSP is planned to be a working document in the years to come with updates every 3 years. The government plans to establish an institutional framework for the future monitoring of the implementation of PRSP.</p>
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Questions	
Programsamarbejdslande	10 To what extent does PRSP clearly define, cost, and prioritise public actions that are likely to reduce poverty?
Bangladesh	<p>The Government has declined donor-financed technical assistance, but has however hired Bangladeshi consultants to draw up the PRSP.</p> <p>The role of development partners incl. IFIs have been limited so far, partly because of different alliances of UNDP and World Bank see Q2. Holland, Germany and Denmark have supported the PRSP-process financially (seminars, consultants, participation of civil society).</p>
Benin	<p>Priorities are; health, Education, agricultural production and infrastructure (water and transportation), as well as decentralisation, budget reform, civil service reform and reform of the judiciary system.</p> <p>The HIPC II funds will be transferred to the municipalities according to the poverty criteria. A very important next step is to modify the annual public budget in accordance with the priorities of the PRSP.</p>
Bolivia	<p>It is not a question of technical knowledge of the IMF and WB staff, but rather a question of attitude towards national counterparts and other development partners. The IMF staff, in particular, still considers that they have a kind of monopoly on information on economic data. Their missions are frequently carried out in a sort of secret environment.</p>
Kenya	<p>No, Needs political will to implement.</p> <p>Yes.</p>

<p>Malawi</p>	<p>The draft PRSP does not clearly define cost nor prioritise public actions that are likely to reduce poverty.</p>	<p>There has been a great deal of donor interest in assisting the PRSP process. The Ministry of Finance has by and large received the support it has requested.</p>	<p>WB and IMF have taken a 'back-seat' position, leaving the Government to drive the process. The quality of the input has been fairly good, although more could probably have been done with regard to support to the organisation of the process.</p>
<p>Mozambique</p>	<p>Although there may be some gaps, the PRSP and policies in different fields to a large extent covers the concerns expressed in the question. Some points: a) The macroeconomic policies and projections seems appropriate and realistic, b) Public expenditure allocations are adequate and the presentation by and large sufficiently comprehensive. c) Structural and sectoral policies are generally by the donor community seen as being adequate.</p>	<p>By and large the donors have provided sufficient finance to the government for the implementation of the PRSP, and as far as it is known by the embassy, the support requested by the government for elaboration of the PRSP has been received.</p>	<p>It is estimated that this has been the case, although not so much is known about the input by The Bank and The Fund in the process.</p>
<p>Nicaragua</p>	<p>The PRSP does not clearly define pro-poor growth and social inclusion. The strategy targets the poor through a social benefit programme, not through a pro-poor growth strategy. The PRSP lacks clear economic measures for income distribution towards the poor. The targets of the macro-economic programme have been reduced in the final PRSP as a response to the recent recession in the country. The targets are, however, still assessed to be optimistic and the financing plan in</p>	<p>Yes. The willingness on behalf of development partners to contribute with TA even exceeded the requests made by the government.</p>	<p>The IFI's has acted in a constructive an open manner during the process.</p>

<p>Uganda</p>	<p>total is assessed to be unrealistic. The MTEF and the PAF has enabled the government to deliver major shifts in public expenditure patterns towards PRSP-priorities, notable the social sector. Sector plans and expenditure programmes are, however, currently focussing on input rather than outcomes. They have, furthermore been financing gaps within most sectors in fiscal year 2000/01. The government hopes donors will fund the gaps.</p>	<p>Donors are assisting government efforts to implement PEAP/PRSP. This involves more robust costing of the poverty programmes and development of improved impact and outcome indicators and monitoring systems. Efforts are also being made to improve local capacity to undertake poverty analysis. Workshops are being undertaken to encourage and empower all stakeholders to seek participatory and sustainable solutions for the poverty and underdevelopment in the national, regional, and global setting. The donor support allows Uganda to consolidate its early gains from the PEAP/PRSP process and exchanging experiences with countries that are also pursuing participatory development..</p>	<p>The government perceive the Bank's input as valid and relevant. The Fund has not played any significant role, but has in general been seen a following Bank priorities. The Bank has financed the household survey, which is a key instrument assessing performance of the PEAP/PRSP.</p>
<p>Vietnam</p>	<p>According to the government the PRSP will clearly define the cost and allocations from the state budget. However, the government will need assistance for doing so as the budget at present is divided into investments and current costs, without the necessary links between the two. The issue is part of the recently initiated Public Administration Reform process.</p>	<p>Donors (Denmark) have made commitment to support the establishment of a small PRSP secretariat in the Ministry of Planning and Investment. Donors are supporting the Public Expenditure Review, the Public Administration Reform, and capacity building in the Ministry of Finance (budget and planning), as well as streamlining of budget procedures and increased transparency at the central and provincial level.</p>	<p>Yes - in regard to the IPSP. The WB are sharing information in small and operational donor groups</p>

Questions	13 To what extent have external development partners, including the Bank and the Fund, begun to align their financial assistance and policy conditionalities behind the PRSP?	14 What has been the experience thus far in the implementation of PRSP?	15 To what extent have financial, institutional and political constraints facing both government and civil society adversely affected the development and implementation of the PRSP, and has the PRSP approach to date taken adequate account of the country level constraints?
Programsamarbejdslande			
Bangladesh	N/A	N/A	N/A
Benin	N/A	N/A	The government seems to possess the technical skills to elaborate the PRSP, but has been challenged in finding the right balance between true ownership and an open and participatory approach. Also the internal, institutional set-up in government has been difficult to establish. Although consensus seems to exist at the political level there are clear indications of competition at staff level (ministries of planning and finance).
Bolivia	To a very limited degree, as many donors argue that their programme already is taking into account the priorities of the PRSP. For many donors, including the WB and IMF, have serious difficulties adapting their development cooperation to the prin-	Bolivia has now obtained HIPC and as the economic situation gets worse and social unrest increases the risk is that government in this environment will give PRSP less priority.	The economic situation is certainly a major constraint on the implementation of PRSP - and so are the institutional issues as well. The government has recently taken important measures to reinforce key institutions in the public sec-

	<p>principles of the Bolivian CDF. Not applicable.</p>		<p>tor. Not really relevant for the Kenyan situation.</p>
Kenya		<p>See above</p>	
Malawi	<p>As the process is still on-going, most development partners have only indicated their willingness to align future funding patterns with the poverty reduction strategy. The draft PRSP is still fairly 'loose' and thus not really directing donor inflows.</p>	<p>It is not possible to assess at this point in time. However, the budget process has been detached from the PRSP process</p>	<p>Insufficient capacity in both Government and Civil Society Organisations has been a major constraint. As well as lack of skilled personnel and an inadequate understanding of the whole PRSP process. The formal process has been taken forward, but the substance leaves a lot to be desired.</p>
Mozambique	<p>Generally most donors back up behind the PRSP, and most of the support is given in connections with either general budget support or SWAP's that are accordance with the PRSP, as the PRSP to a large extent is based on the SWAP's priorities in different sectors. The embassy has not analysed the conformity of the UN or IMP or WB programmes with the PRSP.</p>	<p>To early to respond to this question, as the final PRSP only has started this year.</p>	<p>Main constraint: administrative, as the administration at all level is poorly to implement such an ambitious programme. While this may be a problem initially, there are numerous reform and capacity building programmes underway to underpin the implementation of the PRSP.</p>
Nicaragua	<p>This is too early to assess. Discussions among bilateral donors and IFI's have, however, begun in order to prepare a dialogue with the new government on this issue.</p>	<p>No experience so far.</p>	<p>The PRSP was developed in a pre-election setting, which possible can have affected the process. Most notably in can have increased the government's reluctance to include the issues of corruption, good governance and economic inequalities in the PRSP.</p>
Uganda	<p>In Uganda there is a donor consensus to use the PEAP/PRSP as the baseline development assistance. This has also been confirmed at the CG-</p>	<p>In general there is a feeling that implementation thus far has been rather successful. The government has achieved a very substantial</p>	<p>The importance of good governance and security for poverty eradication has been increasingly recognised. However, key chal-</p>

<p>Vietnam</p>	<p>meetings. This goes for multilaterals as well as bilateral donors. Some donors (for instance the Bank, DFID, NL, Ireland and Norway) are giving general budget support through the MTEF/PAF and thus using the government's methods of transfers. Others are giving project support (USAID) or sector support (for instance Denmark). All donors use the priorities set out in the PEAP/PRSP for assistance.</p> <p>The PRGF of the IMF was linked to the I-PRSP.</p>	<p>reallocation of expenditures to directly poverty reduction activities, including primary education, primary health, and water and sanitation. This has increased the volume of services delivered. Improving quality and ensuring maintenance are, however, continuing challenges.</p>	<p>lenges remains. The creation of a popular political system, combating corruption, building capacity in local governments and enhancing revenue generation is also challenges the government is facing</p>
	<p>N/A</p>		<p>By introducing the I-PRSP the expectation was to reduce the reluctance towards the PRSP process in Ministry of Planning and Investments and in the Ministry of Finance. However, it remains to be seen whether the public Expenditure Review can be carried out effectively, which will ensure that the PRSP can become effectively in particular in regards to costing of policies and the allocation of funds from central level to provincial authorities. Also the lack of transparency in the state budget has constituted a constraint to the PRSP process.</p>

Programsamarbejdslande	Questions	16. To what extent has implementation of PRS been constrained by external factors?	17. To what extent have external factors affected timing of PRSP preparations?	18. Has an appropriate balance been achieved between country ownership and the need for donors to be held accountable for the use of their resources?
Bangladesh		N/A	N/A	The donors have tried to hold the Government accountable for the use of their resources. The donors generally have full transparency.
Benin	See Q2		N/A	N/A
Bolivia	In the present economic situation the lack of market access of Bolivian agricultural products constitutes a problem. The aid flow seems to continue at the same level as in recent years.		None	In general terms this balance was kept reasonable well and also bilateral donors contributed significantly to promote a broad participation of social society. However, the individual promotion by some donors of specific sectors/activities in relation to the PRSP had a negative impact on donor coordination and the common donor dialogue with government.
Kenya	Not really relevant for the Kenyan situation.	Not really relevant for the Kenyan situation.	Not really relevant for the Kenyan situation.	Not really relevant for the Kenyan situation.
Malawi	It is too early to tell		The desire of the Government to meet the HIPC deadlines and the desire to convince funding agencies that the process is on track, has spurred the Gov. to move ahead on the PRSP process at a very quick pace. This has negatively impacted on the quality of the process and	To date, an appropriate balance has been upheld.

<p>Mozambique</p>	<p>Neither of the two factors seems to have affected the implementation of the PRSP up to date, nor is it at this stage expected to do so over the foreseeable future.</p>	<p>N/A</p>	<p>N/A</p>
<p>Nicaragua</p>	<p>No experience so far. However, as a general note, Nicaragua is extremely vulnerable to external shocks. Decreasing coffee prices combined with increasing prices of main imports has a direct impact on international reserves and the country is frequently hit by natural disasters to mention some of the most obvious risks. Thus, the proposed goals in the PRSP remain to a high degree subject to external factors totally beyond the control of Nicaraguan authorities.</p>	<p>The government has seen the timing of the PRSP process in light of the requirements to reach completion point under the HIPC-initiative. However, the fact that negotiations with the IMF regarding PRGF collapsed during the PRSP process, gave the latter a useful breathing space. Overall, the PRSP process, at least in its final stage, was not rushed through.</p>	<p>The high level of corruption and the general poor performance in the area of democracy and good governance is of great concern to the donor community. The requirements and strategies in the PRSP is assessed to be insufficient to guarantee accountability of resources in the current situation.</p>
<p>Uganda</p>	<p>The implementation of PEAP/PRSP is very much facilitated by a major influx of donor funding, which constitutes more than 50 pct of the national budget. Development in the country is, however, hampered by lack of access to external trade markets, lack of direct foreign investments and potential conflict with some of the neighbouring countries (Sudan, Rwanda). Drought is another factor affecting agricultural production in some regions of the country.</p>	<p>Uganda being one of the first countries to formulate a full PRSP and to subsequently get HIPC-debt relief has not been affected by an external timing aspect as many other countries have.</p>	<p>From the Ugandan side there does not seem to be a "balance to be struck" between country ownership and donor accountability, since the government is well aware of the need to implement strong transparency and accountability mechanisms in order to ensure service delivery. Donors are on their side either giving budget support or moving towards budget support, thereby accepting Uganda's financial management and expenditure tracking system. It is noted that 5 pct of PAF-funding is allocated towards improving</p>

<p>Vietnam</p>	<p>Vietnam has had a constant flow of aid during preparation of the I-PRSP. It is unknown whether this trend will continue with the preparation of PRSP, but the level of aid will most likely be sufficient to exclude that it is a factor determining the success of the PRSP.</p>	<p>N/A</p>	<p>accountability and transparency. N/A</p>
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EUROPEAN COMMISSION

PRSP REVIEW: KEY ISSUES

The European Commission has given the PRSP concept strong support since its very launch. Where PRSPs are planned, the new Commission guidelines on Country Strategy Papers have set them at the centre of country strategies, and, in these cases, where budgetary support is provided it will be explicitly linked to progress with results targeted in the PRSP. The Commission therefore has high expectations of the PRSP concept, and is pleased by a large number of highly positive aspects in all regions of the developing world, though experiences of course vary within as well as between countries. This note, therefore, emphasises the further areas on which the Commission hopes that efforts will focus: key proposals are in italics, with the lead agency¹ in bold.

1. **Consultative Process:** I-PRSPs were in general not – were not expected to be – highly participative documents. Full PRSPs have been more ambitious in this respect. The closer involvement of civil society is welcome. However, there remains a challenge to ensure that these plans for consultation are both feasible and meaningful. This will also be important for the continued updating and monitoring of PRSPs, which needs to be institutionalised within the normal governance framework of each country. All donors must be able to play a role without any of them eroding national ownership.

*Government: Involve Parliaments more centrally in the PRSP process;
continue to enhance participation during the monitoring and implementation phase;
ensure donors have a voice, without undermining national ownership.*

2. **Explicit Prioritisation:** I-PRSPs were often weak on prioritisation (“shopping list” of policy measures) and inevitably lacked concrete costings and analysis of the differential impact on poverty of strategies identified. They were weak on explicit strategic choice of priorities. This will be vital for full PRSPs, which in due course must be integrated into medium-term resource allocation and annual budgets. Donors’ efforts can thereby be better directed; it does however mean that donors too need to be realistic about what progress they can expect. Realistic timeframes for the implementation of PRSP policy measures need to be included in full PRSPs. They need to move forward from existing approaches.

*Government: PRSPs should summarise key strategic decisions on priorities;
PRSPs should contain a summary of what has changed as a result of the process.*

¹ Though other agencies, usually several and in several cases all stakeholders, will also need to be involved.

3. **Indicators:** Interim PRSPs rarely identified outcome indicators useful for current management, being limited at best to, on the one hand, long-term high-level goals linked to the IDGs², and on the other hand immediate (mainly policy) actions. It will be vital, if they are to be an effective agency of accountability, for full PRSPs to contain interim measures of progress in outcomes by which the Government's development partners – internal voices, including civil society, and external donors alike – can assess progress, and by which Government can judge the validity of the strategy and the need for refinement.

Government: Define few, measurable, timely results indicators to manage by.

4. **Management of Public Finances:** central to the impact of Government activities on poverty is sound management of public funds. Getting allocations right is a vital first stage. I-PRSPs gave public expenditure management more attention than before, and it will be important that full PRSPs identify explicitly the necessary reforms, and the ways in which their impacts can be measured. Tackling corruption will be an important element in this effort.

Donors: Intensify joint support for sound public expenditure management; include "reality checks" of current systems and proposed changes

5. **Implementation:** perhaps most important of all. Much of the focus to date has been on developing the full PRSP: we urgently need to move on to the next stage, that of implementing it. This implies a consultative PRSP cycle, involving civil society, linking the strategy with: an annual policy matrix; resource allocation and effective deployment; and transparent monitoring. Timing will need to respect national budget cycles. It will be important that initial judgements on impact (used in prioritisation) are validated through continued monitoring – ideally involving the views of poor people themselves.

Government: Agree on common approach to PRSP cycle based on annual policy matrix, regular monitoring of agreed indicators, and annual review

6. **Donor Support:** if PRSPs are to be effective, they should ideally mark a new way of working, not a new way of presenting old approaches. There has been progress among bilaterals with joint reviews and support mechanisms, though some multilateral processes have yet to catch up. Modalities for support need to evolve to lower transaction costs for Governments, including closer integration of support with countries' own planning mechanisms, ideally progressing from projects through sector-wide approaches to budgetary support; harmonisation of procedures; measuring progress by results, as evidenced on the ground and ideally as judged by the primary beneficiaries (poor people themselves); closer collaboration among donors on policy linkages and scrutiny of progress; and conditionality that accurately reflects PRSP goals. Equity is an important issue.

Donors: Subordinate individual conditions and reviews to common process around PRSP cycle; negotiate a few key indicators for use in each region

² The International Development Goals were established in a series of UN summits during the 1990s.

PREAMBLE

(i) Overall, the balance sheet for PRSPs is, in the Commission's judgement, thoroughly positive. Wherever it applies, the process has brought a clear central focus to development policy, providing a single strategy around which development partners can be organised, and affording an opportunity for greatly enhanced participation in public decision-making. The product has in some cases significantly improved the analysis of poverty in each country. In a review of the PRSP, it is inevitable that comments will focus on what needs to be improved. This note is a contribution to that debate. It must therefore begin by clearly asserting the value of the PRSP, its central place in Commission development policy and in the programming of the resources for which the Commission is responsible, and the highly positive assessment which the Commission therefore makes of the concept.

Commission support for the PRSP

Internally, the Commission has refocused its programming processes to give PRSPs the central role, wherever they are being developed. The *Overall Policy Statement by the EU Council of Ministers for Development* in November 2000 stated that "PRSPs form an integral part ... of the Union's support ... in improving the macro-economic framework of partner countries" and its Conclusions on Country Strategy Papers required that these "should be placed wherever possible in a wider framework, in particular that provided by the PRSP...". The Commission staff Working Paper on *Measures Taken and To Be Taken to Address the Poverty Reduction Objective of EC Development Policy* says that "Country Strategy Papers must be anchored on national development strategies and, where relevant, on PRSPs". The Programming Guidelines for the 9th EDF state that "for countries which are involved in the design and development of poverty reduction strategies in the context of the World Bank initiative, it is automatically assumed that the point of departure for EDF programming will be the PRSP preparations".

In **preparation**, the EC has through its Delegations played a close role in in-country dialogue wherever possible – experience has however been patchy, with Asia, for example, less satisfactory in general than some parts of Africa. It has supported joint dialogue processes wherever possible, and has also contributed actively to cross-country learning events such as the regional fora on Poverty Reduction Strategies. It has also provided technical assistance for statistical aspects of developing PRSP monitoring plans, improvement of macroeconomic forecasting, prioritisation of policies and participation in the PRSP process (for example in the Caucasus).

EC support for the **implementation** of PRSPs is expected to focus increasingly wherever possible on sector-wide approaches, moving to budgetary support where appropriate. The Commission led a pilot exercise in Burkina Faso on the reform of indicators for macro-economic support, and aims to implement the lessons of that experience in designing the next generation of budget support. Guidelines for this are being developed, and are expected to emphasise results-based indicators and enhanced public expenditure management. The Commission also hopes to ensure that wherever possible its own support is, as in the pilot cases in several African countries (e.g. Mozambique), designed and monitored in joint processes with other donors.

The rest of this note, which sets out the concerns that remain, should be read in this context. It identifies areas where work is needed, and therefore is inevitably focused on areas of relative weakness rather than of strength. This should not lead to negative overall conclusions, but rather to identification of ways of strengthening yet further the positive core message in future reviews.

I: OWNERSHIP: PRSPs AS CONSULTATIVE/PARTICIPATIVE PROCESSES

1.1. I-PRSPs were in many cases produced under the pressure of HIPC timetables. In order to secure access to the Initiative, countries aiming to reach Decision Point needed to have produced at least an Interim PRSP. In line with global guidelines, **many I-PRSPs were produced within Government** without (certainly without extensive) consultation more widely in society; the process of production was in some cases insufficiently inclusive even within Government. In political cultures in which participation has not traditionally been accorded great importance, Governments have often been unsure of how to handle consultation. The exceptions were those countries with long-standing poverty reduction strategy processes. Sufficient time must be allowed for the development of full PRSPs; the quality of the process and its conclusions are more important than speed. Knowledge gaps – in some cases identified in the I-PRSP – need to be filled, in order to ensure that the full PRSP is well grounded.

1.2. **Full PRSPs** have been developed through wider processes of consultation. These have varied, mostly involving **Working Groups** in one format or another, defined around sectoral or thematic remits. In most cases the composition of these groups has been negotiated with internal and external development partners, and non-governmental national voices (usually organised through civil society organisations, including development NGOs, economic interest groups, and advocacy groups) have usually found places. This participative process has sometimes also been linked with normal democratic governance processes such as Parliamentary Committees.

1.3. The **consolidation** of disparate sectoral or thematic papers into a single strategy paper has been less participative a process. It has typically been done by a group of officials, sometimes with the participation of representatives of civil society and sometimes not. In Zambia non-governmental groups have produced consolidated papers of their own as an input to the central process. There may be a significant distinction between those processes that have been entirely conducted by the Government (and perhaps civil society) and those that have been substantially executed by technical assistance, with a concern that these latter cases may run a higher risk of reduced ownership. At the same time, where government capacity is weak in the area of strategy development, sensitive assistance can play a helpful, even a vital role.

1.4. The **validation** of the drafts thus produced remains, for many countries, a challenge. Processes of direct consultation of poor people are difficult, requiring careful prior dissemination of information and technically skilled facilitation. Problems of language can be formidable. “Participative” processes that reduce this to a tokenistic exercise would be a disservice to the aim of a strategy that is genuinely **nationally owned**. National Assemblies or Parliaments have a key role in legitimising the full PRSP and in watching over its implementation, and arguably in other stages of the PRSP process. Uganda, where the PRSP forms an integral part of the budget process, offers one interesting example: in such a case much depends on the participative nature of that process, including its openness to inputs from outside Parliament.

Government: Involve Parliaments more centrally in the PRSP process

1.5. The **content** of PRSPs also needs to reflect this concern with participation and empowerment. Common themes running through most areas of policy should include how to include poor people more fully in the working of markets, and how to make institutions more responsive to poor people. I-PRSPs gave this aspect less attention than it deserves, and it will be important that full PRSPs, as they develop, remedy this omission. Similarly it will be important to ensure that issues of trade policy – not well covered to date – and opportunities arising from the scope for regional integration are given more careful consideration.

1.6. The challenge of participation will be equally acute for the vital next phase of PRSPs, that of **monitoring** their implementation. It is expected that PRSPs will be reviewed annually, but the processes by which this should be done have yet to be developed in most countries (see Section 5 below). Civil society should have an important role. Burkina Faso's experience was disappointing, with little action for 18 months, while in Uganda an established process of review of PEAPs gave a helpful foundation: initial conclusions might include the importance of integrating this review process into the normal process of government of a country; the imperative thus to minimise the burden on government; and the complementary challenge of testing the validity of the strategy with the poor people who are the intended beneficiaries (which will need fewer, more comprehensible indicators, see Section 3 below).

***Government:** Continue to enhance participation during the monitoring and implementation process*

1.7. The **role of donors** in the PRSP process needs to be carefully judged. On the one hand, it is vital that the final document is fully owned by the Government and people of the country if it is to be effective as a guide to action. On the other hand donors, who are significant sources of funds for development programmes, need confidence in the quality of the process and of the final product, and it is important to be realistic about how swiftly they will be able to adapt their ways of working and existing priorities. While donors' own approaches need to develop (see Section 6 below), it will be important to ensure that from the start of the PRSP process there is an appropriate forum for donors' voices to be heard. The process of PRSP development should be transparent to those outside Government, including donors. In some cases the World Bank (and more rarely the IMF) have taken a role in the actual drafting, or in internal review of drafts, which is incompatible with the roles set out in central guidance. There have also been cases where they have excluded other significant donors, creating unnecessary discord and weakening collaborative working.

***Government:** Ensure donors have a voice, without undermining national ownership*

II: PRIORITISATION IN PRSPs

2.1. Both as a result of their rapid development and as a consequence of their largely internal drafting, **I-PRSPs** rarely had the opportunity for radical review of Government spending plans. However, full PRSPs have been much more wide-ranging, seeking to reflect afresh on all aspects of development.

2.2. There is inevitably a risk that early stages of a PRSP process will be guided by a particular model of poverty. Many “first generation” PRSPs and I-PRSPs gave heavy emphasis to the **traditional social sectors** (health, education, perhaps water supply) at the expense of a broader analysis of poverty and ways to reduce it. While these sectors are indeed vital, and the emphasis may well be sound, it is important that the participative process be strong enough, and the analysis of poverty deep enough, to allow conclusions to be securely grounded in an adequate consideration of all aspects of poverty (including, say, security issues, or access, or economic growth), rather than responding to a narrow current agenda. This may also help to remedy the weak analysis of regional aspects, where significant opportunities for poverty reduction may otherwise be missed.

2.3. This sort of process has led, in many cases, to extensive lists of goals, and often even longer lists of actions to be taken towards those goals. These form a natural first stage in the development of a strategy. However, the need for a radical review of the scope and focus of development activity implies rigorous analysis of what is possible towards these ends. This means a **careful analysis of each proposal**, costing it realistically and estimating its impact on poverty. This process is an enormous challenge, both technically and practically. Technically, the exercise can be difficult because of the recursive nature of the process, with unit costs and poverty impact depending on scale, which depends on the resources allocated, which depend on the policy decisions based on the cost and impact estimates. Practically, the challenge of costing such a wide range of possible and desirable investments places a severe strain on the capacity of administrations that have to continue the usual business of Government while the PRSP process is under way. Donor policy dialogue may help to draw attention to this need, and external support may have a role in helping build relevant capacity.

2.4. Once the costs and benefits are estimated, **explicit trade-offs** have to be made. This is a difficult challenge for Governments, and few PRSPs have yet made explicit statements of the type “because we want to make these investments now, we cannot yet make those ones”. Trade-offs are clearly needed if the strategy is to be realistic. However, unless such judgements are made explicit, it will be difficult for readers to judge the policy choices, or to monitor their validity.

Government: PRSPs should summarise key strategic decisions on priorities.

2.5. Explicit prioritisation will also help to ensure that **donors’ support** for PRSPs can be **properly co-ordinated**, with activities chosen in accordance with PRSP priorities and labour divided among donors on the basis of the prioritisation defined in the PRSP. Donors’ own ambitions, of course also need to be prioritised (see Section 5 below), but we might hope to see progressive movement from stand-alone projects to sector-wide approaches and eventually towards budgetary support. Better public financial management (see Section 4) is needed to support this process, and should also make it possible for PRSPs to support greater streamlining of how donors support development

(procurement, reporting, accounting *etc.*) as well as what they fund. Meanwhile, the harmonisation of procedures proposed in the DAC³ needs to be urgently pursued.

2.6. For such choices to be feasible, they need to be made with a **longer time perspective**. This is particularly true for poverty reduction, which is a long-term effort where many investments take longer than a year to implement, let alone to bear fruit. Some PRSPs helpfully set out their intentions for the short and medium term (*e.g.* 3 years) in the context of aspirations for a longer time-frame (from 5 to 15 years). Ideally this would lead to integration of PRSP planning into an existing medium-term resource allocation mechanism such as a MTEF. Where such mechanisms do not exist, it may be unrealistic to expect them to become effective instantly, but it will be important to plan for their evolution alongside the PRSP and for them to be developed as quickly as institutional capacity permits.

2.7. The processes of participation and prioritisation should result in some significant changes from past policies. In order for readers to appreciate the redirection of policy, it would be helpful for PRSPs to contain a short summary of **what has changed** as a result of the PRSP process. This might be linked to implementation plans (see Section 5 below).

Government: PRSPs should contain a summary of what has changed as a result of the process.

³ The Development Assistance Committee of the Organisation for Economic Co-operation and Development

III: MANAGEMENT INDICATORS; FOCUS ON RESULTS

3.1. Interim PRSPs generally remained at a fairly high level of abstraction, apart from the specific matrix of policy actions that sometimes accompanied them. There was a natural tendency to a “**missing middle**” both in analysis (where description of poverty might be detailed, and long-term visions clear, but the process connecting them ill-defined) and in action, where long-term goals (usually linked to the International Development Goals) were frequently identified and immediate policy actions committed to, without often being linked by intermediate indicators of desired outcomes.

3.2. PRSPs are meant to be, among other roles, an **agency for accountability** of Government for the resources entrusted to it. This needs to be first and foremost to Government’s internal development partners, both in structures for democratic governance (e.g. Parliaments) and in civil society as a whole. However, it also includes accountability for external resources (*q.v. sub*, Section 6), including the sometimes substantial additional external resources expected as a result of the HIPC process, for example.

3.3. In addition, PRSPs contain a range of judgements by Government, and a range of expectations of it. For it to **monitor** these effectively, and to update its assessment of the judgements reached and the resources required to meet expectations, Government too needs appropriate indicators of the results obtained under the PRSP.

3.4. This will not be achieved by the kinds of policy matrix and conditionality to which we have become accustomed, which focuses on **actions** to be completed. While these are important, they are at **too low a level** to direct accountability, and while they are a necessary tool for monitoring implementation they are inadequate for reviewing judgements about priorities or about the success of policies⁴. Hence we need to move forward to a higher level of targets.

3.5. The long-term visions in I-PRSPs were usually related to the **IDGs**, and in time terms to at least 10 and often 15-20 years ahead. These form an important framework for assessing the coherence of policies and strategies, and for ensuring consistency with the agreed global imperatives. Once again however these are at the wrong level for effective monitoring of PRSPs, whether for accountability or for course corrections, this time because they are at **too high a level**⁵. Once again something else is needed.

3.6. Full PRSPs therefore need to contain **indicators of results**, at interim levels and in interim timeframes between the immediate (policy actions completed) and the long-term (2015 targets). Developing these is a significant challenge, both conceptually (where donors have important work to do in support) and in the negotiations that will go into the development and updating of PRSPs. However, while difficult, it is an absolutely necessary task, and one to which we should attach high priority. Governments will need to define these targets, and be willing to be accountable in such terms.

⁴ In terms of the Logical Framework, these have been focused at Activity level, which is inappropriate for review or evaluation. These should take place at the Output and Purpose levels, respectively, with a reference to Goal level at evaluation stage.

⁵ In Logical Framework terms these are at Goal level.

3.7. For such indicators to be effective, both as accountability mechanisms and as course correction markers for Government, they need ideally to be assessed in ways that give adequate **weight to the voices of poor people**. They therefore need to be comprehensible. Without this, the indicators of results risk being detached from the reality of poverty. Success would represent a further stage of the embedding of PRSPs within Government, as it would carry the key PRSP principles of participation, national ownership, and priority to poverty reduction into the mechanisms by which progress is judged.

3.8. For indicators to be useful, they need also to be **manageable**. Long lists of conditions, or of objectives, are ineffective as management tools. The PRGF aims for more selective conditionality (see §6.2 below), but this goal needs to be taken seriously by all development partners. Fewer, more results-oriented, more comprehensible and meaningful indicators: this is a significant change for Government, donors and public alike, but without it PRSPs will not be the transformational tool to which we all aspire.

Government: Define few, measurable, timely results indicators to manage by.

3.9. **Experience to date** has not been as strong as we might have hoped. As noted below (§6.6), HIPC conditions were a poor reflection of PRSPs; they were also poorly focused on results. Conditions in the PRGFs to countries with full PRSPs were also very weakly related to the PRSP. PRSC conditions for Uganda were similarly poorly linked to the PRSP.

IV: MANAGEMENT OF PUBLIC FUNDS

4.1. The implementation of poverty reduction strategies starts with the **way Government uses its resources**. Central to this is the management of public funds, as it is through this process that priorities are made concrete and impact is generated.

4.2. The emphasis in the first round of thinking was on **getting allocations right**. This is undoubtedly necessary, and corresponds significantly to the prioritisation process considered above. There have been questions over the structure of budgets, which may make it difficult to allocate and track expenditure in the kind of detail, or according to the kind of categories, desirable for PRSP prioritisation (e.g. regional allocations for health expenditure in Chad). The requirements for HIPC expenditure tracking have increased attention to these questions of budget nomenclature in relevant countries (but see §4.8 below). Ideally, allocations should increasingly be based on well-justified resource requirements derived from action plans: this would allow meaningful financing gaps to be identified, but will only be feasible when the costing and prioritisation issues of Section 2 have been transparently and credibly addressed.

4.3. However, getting allocations right is only the first stage. Few I-PRSPs gave enough attention to the **subsequent stages** of public financial management: controlling the use of funds, including procurement processes, commitment, release and accounting for monies, reporting on uses made, monitoring of progress, both physical and financial, and financial and outcome reporting and audit. These are vital if public funds are to have the desired impact on poverty.

4.4. If PRSPs are to be effective, they need to contain explicit strategies for better management of Government resources. High among these must be strategies for better public financial management. This features in most full PRSPs. **Explicit strategies for improving public financial management** will be important if PRSPs are to carry conviction, and also if resources to support them are to be justified from external donors. They will need high-level ownership, and should ideally draw on a range of common tools being developed jointly by several partners⁶ (but on which considerable further work remains necessary). This should be a key area for capacity building in support of PRSPs (see §5.9 below).

Donors: Intensify joint support for sound public expenditure management

4.5. One key aspect of improved public resource management is the fight against **corruption**. This has emerged as a theme in some PRSPs and in progress reports, but remains one of the greatest challenges for development. While transactional changes like accounting systems can help, effective anti-corruption work requires a far broader approach, drawing support from high-level political commitment and a wide coalition of forces, and the participative nature of PRSP development and monitoring should help to facilitate this. Participatory public expenditure management is emerging as a tool in the armoury of those seriously committed to fighting poverty (e.g. community involvement in local government expenditure monitoring in Rajasthan, India), and PRSPs will need to develop stronger monitoring of corruption as part of the participatory monitoring referred to in §6.6, but this effort will also demand a high priority from development partners.

⁶ For example, the EU-World Bank Joint Public Expenditure and Financial Accountability Programme.

4.6. In addition to dealing with corruption, recent audit experience confirms the importance of preventing **misuse of funds** by improving control mechanisms and updating the rules and regulations governing the use of public resources. In many cases these have fallen out of date, and as mechanisms for enforcement also atrophy there seem to be many cases of misuse of funds that do not involve private advantage from public office. Tackling these may also be a relatively easy entry point for more challenging reforms.

4.7. With reforms to public expenditure management, as with any other policies, it will be important to identify concretely the **results expected**. Unless there are effective measurements for better systems, management of the process will be unlikely to work. Conversely, unless the public can be shown that reforms are working, it will be difficult to create the confidence in better management which is an important ingredient in success, as well as an element in the broader public accountability discussed above. One aspect of support for public expenditure management, therefore, needs to be “reality checks” on the ground to confirm how systems (and changes being introduced) are actually working. These need, of course, to be smartly enough designed to meet the usual criteria of enhancing national ownership, fitting within national timetables and not overloading systems undergoing major change.

Donors: Include “reality checks” of current systems and proposed changes

4.8. One consequence of the emphasis on **accounting for HIPC** (donor) resources in support of PRSPs has been the development of separate mechanisms to report on these funds. Sometimes this has almost amounted to a separate budget mechanism. This is fraught with danger: such funds risk being poorly managed if few staff are available to manage them and monitor their use; while excessive focus on them risks diverting attention from the far larger sums still flowing through normal budgetary channels. This is in direct contradiction with the approach being taken on budgetary support, which emphasises the importance of seeing donor funds as part of overall Government revenue, and improving accountability for donor funds by improving public financial management as a whole.

V: IMPLEMENTATION; “WHAT AFTER THE PRS PAPER”

5.1. For many countries, developing a full PRSP has been a substantial exercise which has brought **considerable benefits**. The creation of a wider space for public engagement in policy debate, the new centrality of poverty to Government policy and planning, and the creation of a single framework for all stakeholders, including external development partners, for example, are all major gains in themselves.

5.2. However, unless the strategy moves forward from the PRS Paper to **implementation**, the impact on poverty will be small. The challenges this presents for all development partners are manifold, and several of them have been noted above. They include the definition of useful indicators for monitoring; the creation of suitable action plans, e.g. in the context of MTEFs or sector programmes; the identification and mobilisation of capacity to put these into practice; the development of transparent monitoring mechanisms to follow up on progress; and suitable processes for integration into annual reports and refinements of the strategy based on the lessons from experience. All of these involve Government, civil society, and donors alike, and wherever possible they need to be taken forward in joint processes.

5.3. Much of this is in theory in place, while most of the rest is implicit in the PRSP concept. However, apart from annual reviews for the IFI Boards, there is no well-developed guidance on the PRSP cycle: what is expected once a PRSP has been written. Nor is best practice drawn together anywhere. While some aspects will be country specific, it is possible to discern at least some common outlines. It has become urgently necessary to develop – through a collective process - suitable **guidelines for the phase after a PRSP** has been finalised, so that Government and all its development partners, internal and external, can ensure that key aspects are not forgotten.

5.4. Experience has been patchy. As noted earlier, most PRSPs contained too many indicators of outcome to be useful management tools, and only in a few cases have monitoring systems been in place to track progress. For PRSPs with a longer time horizon it would be useful to have an annual **policy matrix** defining the next steps: this needs to be developed quickly but in a transparent process and to cover all development partners’ roles (including civil society, and also donors). Such a policy matrix should render obsolete many existing bilateral tools (such as the policy matrix in the Letter of Development Policy to the World Bank, which itself ought probably to become little more than a note covering the PRSP), and ought to help with the process of donor co-ordination (noted above as an urgent need), though the basis for donors’ judgements should not be the actions in the matrix but the results shown in the agreed set of indicators. Elucidation of the policy matrix in a transparent process should reduce the tensions that have sometimes accompanied an implicit “special relationship” between the IFIs and Governments – which has sometimes led to poor information flows and an absence of collaboration with other development partners despite strong central guidance to the contrary.

5.5. Once choices have been made explicit in the PRSP and judgements reached, it will be important that they are **validated** through continued monitoring. The indicators chosen need to make this possible. It needs to be able to test both the extent to which intended actions have been taken (including the extent to which resources have in fact been allocated as planned) and the accuracy of initial estimates of the impact on poverty of the actions selected. Both of these should therefore be explicit enough to allow evidence to update the judgements reached, and corrective action to be taken if either

implementation proves problematic or experience calls into question the priorities initially selected.

5.6. Monitoring should ideally be conducted in a way that gives genuine weight to the **voices of poor** people. Participative monitoring of PRSPs – both their implementation and the validity of the judgements they embody – has so far been attempted in few cases, for example where surveys of field experience are combined with integration into a participative process of budget formulation as part of PRSP updating. As noted in §1.6 above, this has implications for indicators (see Section 3 above).

5.7. The essence of the **PRSP cycle** seems, therefore, to be:

- an annual policy matrix derived from the PRSP, setting out immediate actions and annual targets, developed in a swifter and less elaborate but transparent way;
- a medium-term expenditure framework and annual budget that reflect the policy matrix and PRSP, developed and updated in a transparent and ideally participatory way;
- a monitoring mechanism (again ideally participatory) that regularly tracks the agreed indicators and provides feedback on progress with PRSP goals;
- a transparent and accountable process for updating the policy matrix, and if need be the PRSP;
- an annual review of progress, which should logically make up the substance of the annual report to the Boards of the IMF and World Bank.

5.8. Such a process should also help to clarify the **roles** of each development partner. There needs to be a forum, for example, in which PRSP general directions about macro-economic stability are translated into concrete fiscal and monetary targets. The IMF clearly enjoys special expertise in this field, and takes a leading role. However, some aspects (e.g. the size of the primary fiscal deficit) have a strong political element and impact on many other elements. There is scope for these debates to be widened to draw in enough informed participants, both external and internal, to reach the best possible balance. Once targets were agreed through such a process, it would become both easier and even more important for all concerned – including donors – to hold Government to them: helping them to resist the temptation, for example, to buy short-term success on particular outcomes by breaking fiscal or monetary discipline.

Government: Agree on common approach to PRSP cycle based on annual policy matrix, regular monitoring of agreed indicators, and annual review

5.9. The need for **capacity building** emerges as a key issue. Donors need it as much as any, since they need to change the way they work as radically as any. On the other hand, developing implementation capacity represents an even greater challenge than developing the analytical capacity to draw up a strong PRSP, and the approaches required to transform government resource management and service delivery will need to evolve. It is clear that this challenge demands closer collaboration and joint working, and any policy matrix will need to outline a way forward: Government ownership will be central to effectiveness. This can no longer be simply along the old lines of packages of equipment and training, so – as with many aspects of support for the PRSP - Government and donors will need to innovate on the basis of the lessons (positive as well as negative) of the past.

VI: CHANGING THE WAY WE WORK

6.1. It will not be enough simply to go on doing things as before: the **step change** represented by PRSPs reflects the recognition that, while the opportunity exists to transform poverty, new approaches are necessary if poverty is actually to be reduced. Internally, this includes making the PRSP central to the way Government works, and therefore institutionalising it thoroughly. It also means preventing the perception that poverty can be dealt with as a sideline to the main issues of Government, as some form of welfare activity. Instead, Zambia's civil society paper recommended that all policies should be evaluated for their impact on poverty. The PRSP takes a holistic view of poverty, as a multi-dimensional phenomenon that needs to be tackled through a range of vehicles. This will only be feasible if the PRSP is integrated into the ways in which Government does its usual business.

6.2. It is worth asking **what is new** so far. For countries that have developed full PRSPs, a preliminary view might be that there have been significant gains in process (varying from the mainstreaming of poverty in central decision-making to opening new space for fundamental policy debate) and in analysis, but not yet major shifts either in the actions to be taken as a result or in the way these actions are to be supported and monitored. However, it is a vital question, and one that deserves detailed cross-country (and cross-institutional) study.

6.3. What then of donors? The **PRGF** was established as a successor to the ESAF to reflect a new way of working, with seven key features:

- Broad participation and greater ownership
- Embedding the PRGF in the overall strategy for growth and poverty reduction
- Budgets that are more pro-poor and pro-growth
- Ensuring appropriate flexibility in fiscal targets
- More selective conditionality
- Emphasis on measures to improve public resource management and accountability
- Social impact analysis of major macroeconomic adjustments and structural reforms

6.4. Many of these have already been discussed. It is worth noting that **performance** against these criteria has roused concerns: non-BWI participation in PRGF missions has been at best patchy; conditions are only slowly becoming more selective, and then are poorly related to PRSPs; the emphasis on accountability has generally not yet been given concrete form; and prior social impact analysis has not yet been widely evident.

6.5. The **PRSC**, the World Bank instrument most closely linked to PRSPs, has not yet been defined in detail in the same global fashion as the PRGF, although interim guidelines require that it "draws from and elaborates on" the PRSP. However, though the credits all aim to support PRSPs, specific conditions are a poor representation of PRSP contents and there is a persistent tendency for the Bank to see itself, and write of itself, as the lead agency ("the Bank has ... elaborated a ... framework" *etc.*). The former fact is bad for the professed intention to make PRSPs central to all partners' support; the latter is bad both for Government ownership and for the confidence which other development partners have in the process.

6.6. It may be worth drawing together here some of the further lessons for donors in particular. First, transparency of the PRSP process from the start is crucial from a donor perspective. Where key donors are not (yet) represented in country, creative ways have to

be found to engage with the PRSP process. Secondly, it is perhaps worth noting the danger that (at least in the early stages) PRSPs may reflect more what Governments and civil society perceive as **donors' wishes** than what they really see as priorities for poverty reduction: it is up to donors to manage their part in the dialogue so that they make clear their own perceptions (and any non-negotiable requirements) with sufficient sensitivity **not to distort** the real national voices (particularly the voices of poor people). Donors need also to weigh the balance they strike between quality and ownership, at least in the early stages of the PRSP process.

6.7. The first round of PRSPs gave little attention to **equity**. In view of the importance of this issue – extreme inequality both handicaps growth and reduces the impact of growth on poverty – it will be important for development partners to bring the issue back onto the agenda as dialogue continues on refining PRSPs and updating them. This is a proper concern for donors, but will also be important to many advocacy groups in civil society in most countries.

6.8. Since there can only be one poverty reduction strategy in a country, we need **closer collaboration** among donors. We should be aiming at joint mechanisms wherever possible, both in policy dialogue and in developing and delivering support for agreements reached. This should include joint scrutiny of progress with PRSPs and supporting sectoral strategies as well as joint agreements on policy linkages for support (see §6.10), joint assessments of public expenditure management, and joint capacity building needs assessment, design, appraisal and ideally delivery.

6.9. Embedding donor support as whole more closely within a country's overall poverty reductions strategy should include accepting revisions to the **timing and modalities of support**, so that donor funding fits in with local budget cycles and is provided, as far as possible, in consistent ways. Making it easier for officials to forecast the value and timing of disbursements, for example, could greatly improve treasury management in highly aid-dependent economies. Other changes to donor modalities, including progress in the type of support provided and streamlining of administrative procedures, are discussed in §2.5. It is important to recognise that policy dialogue will not stop once a PRSP is written, but that its context and content should alter radically and that it should be conducted differently: jointly, transparently, and under Government leadership to Government calendars.

6.10. For joint actions to be effective, there need to be **common conditions that reflect PRSP goals**. Section 4 highlighted the importance of results indicators in the PRSP that are at the right level and that effectively reflect the perceptions of poor people. It will then be important that donors adopt these for their conditions, so that the linkage between performance and resources is strengthened and not undermined. Having conditions for donor programmes that fail to reflect faithfully the PRSP – even worse, conditions that cut across it or are at variance with it – is deeply unhelpful: a review of the comparison between HIPC and I-PRSP conditions suggests that the linkage has so far been weak, and this is an area where, particularly as PRSP results indicators strengthen, we would expect to see major progress being made. Such indicators will then clearly need to be integrated into monitoring plans in which all stakeholders can have confidence.

6.11. These come together in a central theme: that donors need to **subordinate their processes around the PRSP**. It will still be necessary to reach appropriate judgements on the poverty impact of supporting the PRSP, since donors are accountable to their

domestic governance systems. But in their ways of working – timing of missions and disbursements, policy dialogue, disbursement conditions and modalities, process and outcome monitoring – we need to adjust our ways of working to minimise the transaction costs to Government and maximise the gains from joint working.

Donors: Subordinate individual conditions and reviews to common processes around PRSP cycle

6.12. Finally, just as with Governments, donors need to **prioritise**, both between countries and in actions in each country programme. It is not realistic to expect to see everything, from the processes of planning, to the mechanisms of public financial management, to the ways of working in rural clinics, to reducing financial barriers to school enrolment, to enhancing physical access to markets, transformed immediately. We need to reach delicate judgements about reform capacity and priorities, making the same kind of tough choice as PRSPs force partner Governments to make, and accept that many desirable changes will therefore take longer. This will involve making explicit assessments of where slowness to change is a result of weak capacity, where of inappropriate incentives, and where of lack of will; and responding accordingly. Use in all countries of a region of a small number of key indicators including, but not limited to, the social sectors (e.g. net primary enrolment, clinic outpatient attendance, vaccination coverage, share of births attended by trained personnel) would not only ensure that key issues were being covered but also allow cross-country judgements to be made and resources allocated on the basis of comparable evidence.

Donors: Negotiate a few key indicators for use in each region

French Memorandum on PRSPs

The French delegation intends to show how much it values the concept of a North-South partnership, developed through the impetus given by the World Bank (WB) and the International Monetary Fund (IMF) in the form of the thoroughly innovative, modern Poverty Reduction Strategy Papers (PRSPs). Without a doubt, our country supports these mechanisms, which are to become reference tri-annual strategic papers, not only for implementing resources from the HIPC initiative, but, more broadly, for all development policies. Moreover, for France, the results produced by the initial design and operational implementation of the PRSPs are more than encouraging for all parties involved (I, below), although certain aspects call for further clarification (II).

I: A development instrument that can benefit all parties

A) An instrument whose aim is the appropriation of development policies

Once developed, the PRSP is used by the developing country concerned to set up a bona fide national medium- to long-term development programme, accounting for all the country's political, economic and social characteristics. This document should integrate macroeconomic policy, thus giving the country the opportunity to conduct an exhaustive analysis of the poverty in its territory (household survey, census of at-risk population, weaknesses in infrastructures, health, and education); to define the overall needs and strategies that will help to make up for deficiencies, fight poverty effectively and promote growth; and, lastly, to organize the nation's priorities, taking the country's administrative capability and available resources into account.

And so, for poor countries, this system has the advantage of promoting the appropriation of development strategies and policies, which means that they can improve their economic programmes themselves. This appropriation is achieved with the actual participation of all of the nation's dynamic forces: the State, legislative bodies, local authorities and civil society (including Non-Governmental Organizations [NGOs] and the competitive sector), materializing in the field by the setup of preparatory committees or a national PRSP validation seminar, as was the case, for instance, in Senegal in mid-December 2001. In addition, this participatory process, one of the main lines of the system, gives the opportunity to open up a national dialogue among all components of society, conducive to the introduction of good governance (one of the first Objectives of the Millennium brought forward by the OECD's Development Assistance Committee [DAC] in 2000 and a condition for sustainable development) and the rule of law. This process is undeniably an update of the old Structural Adjustment Programmes imposed on developing countries in the 1980s and 1990s by the WB and the IMF.

Furthermore, even if a PRSP foresees direct discussions with civil society independent of the governmental structures, the role of the government within the beneficiary country is restored and enhanced when the PRSP's provisions are implemented because the government must strengthen its "steering" and "project management" abilities in the achievement of the objectives imparted in this strategic document. The government, with the support of central and local administrations, must drive the necessary reforms to achieve the objectives set, even if it means strengthening its capabilities by reorganizing itself to adapt its administration to these new needs (especially in budgetary matters). Likewise, this strengthening of the government's role throughout the process allows it both to regain its status as protector of the country's interests and to make it more accountable.

B) Better coordination of lenders

When they are designed, PRSPs offer bilateral or multilateral donors a complete overview of the country's situation, helping them to accurately understand the real needs of the beneficiary government and, as a result, to better target their assistance, in line with the major guidelines of development assistance allocation issued by the OECD's DAC in particular. Furthermore, this mechanism offers improved

coordination which may reduce the cost of implementation of assistance by donors; it is also more flexible in budget management for the beneficiary countries.

As the PRSP becomes the central instrument of relations between the recipient country and the lender community, it should also allow better coordination between bilateral and multilateral lenders and avoid redundant, inefficient procedures. Indeed, this new North-South partnership instrument provides the donors with greater possibilities for helping the beneficiary governments reach their objectives by instilling greater transparency and legibility in the Official Development Assistance (ODA) operating procedures. In practice, this can be accomplished by the governing dialogue within the OECD's CAD in terms of global and policy coordination, and, in operations, by each beneficiary government in terms of the cohesion of the various assistance programmes. The Mozambique PRSP which led donors to settle a multidonor trust fund is to be mentioned in that regard.

Therefore, in its implementation, the PRSP facilitates the link between the various bilateral assistance instruments and the objectives that the authorities have undertaken in the fight against poverty. For instance, for 19 of the countries benefiting from the HIPC initiative, France will offer the "debt reduction and development contract" (DRDC) to implement grant refinancing of their ODA debts in compliance with the PRSP objectives. The French government also has country assistance strategy papers (in French, DSPs – *Documents Stratégiques Pays*) to establish this cohesion for all its bilateral contributions.

Finally, one of the advantages of the PRSP (for lenders) is the document's flexibility, which is adapted over time and regularly updated every three months (the WB's strategic papers are also adapted in correlation). This means that changes in the international context and outside events, upheavals that may affect the country and any progress made or weakness observed in the implementation of the strategy of the fight against poverty can be taken into account.

II: An innovative concept that deserves attention

At this meeting, France wishes to bring its partners' attention to bear on several points.

A) An instrument that could be improved in many ways

- Since one of the guiding principles of the PRSP is the principle of "appropriation" of the development project, we invite our partners to attach particular importance to the application of this concept, because it can and should constitute the basis of the introduction of a national dialogue, acting as a starting point for the inception of a democratic society. However, this should not be done to the detriment of national legislative bodies possessing institutional and popular legitimacy. We believe it is crucial that the national legislative bodies approve the PRSPs (as we indicated in the case of Mauritania). It should be noted that most interim documents have been criticized for inadequate consensus-building with all components of the society (for example, the lack of involvement of local governments in Ethiopia). Therefore, it is advisable that these documents not actually be drafted by the WB (as was the case with Bolivia and Nicaragua), a point that is obviously contrary to the appropriation principle, even though these countries do not have sufficient administrative capability.
- The need to quickly implement the HIPC initiative and bring as many countries as possible to the decision point has caused the international community to be less demanding as to the quality of these papers and to accept – at the time the decision point is reached – that a mere interim PRSP be presented by the countries. We want to warn our partners against any rush that would compromise the quality of the PRSPs and, as a result, their credibility. In concrete terms, quality should be improved on two fronts: a more extensive structuring of government priorities, which would be broken down into budgetary priorities, and greater detail (findings, objectives, measures). We encourage countries to focus on their highest priority stakes, much as we encourage the Bretton Woods institutions to attune their programmes and set objectives for the countries that are clear, limited in number, and focused on the foremost sensitive areas. We are therefore attentive, when the countries are being reviewed at the completion point, to the quality of the participatory process used to produce documents of adequate quality. In addition, the papers must more expediently integrate those of the countries' sector priorities that may have existed

previously (in the case of Mali, the health and education sector priorities were already sufficiently developed).

- We believe it is appropriate to be more demanding as to the quality of the final papers, while remaining aware of the countries' administrative constraints. It is also appropriate to ensure that this quality requirement not be used to postpone the date of the countries' HIPC completion points. Almost all the interim PRSPs produced today are of mediocre quality (the NGOs themselves acknowledge it), and more and better efforts must be made to help the countries during the drafting process.
- By their very nature, the PRSPs reflect the difficulties of all institutional mechanisms in developing countries. The number-one priority is to strengthen their institutional capabilities. These weaknesses were emphasized in the cases of Bolivia, Honduras, Mauritania and Mozambique. Therefore, we propose to the other lenders that they join with us in the setting up of appropriate technical assistance and in the training – particularly adapted to the PRSPs – of civil servants, mainly within these countries' ministries of finance, which are often responsible for this essential work. In view of its institutional capabilities, the internal organization of the country also plays a major role, and it is crucial that the departments responsible for the drafting of these documents be the same as the departments responsible for implementing them (Cote d'Ivoire's planning organization, which is recognized for its effectiveness, drafted an interim PRSP with little input from the other departments, however). It is important that the countries set up a mechanism for tracking the progress made (in most countries, the initial papers have been drafted without taking into account the inability to measure the impact of the recommended policies).
- We think it is particularly crucial that the PRSPs integrate a diagnosis and a strategy for significantly improving the transparency and efficacy of public expenditures and, more generally, that of the financial system in the country concerned. This will better ensure the impact in terms of additional resource development coming from HIPC debt relief. The WB Development Committee meeting of April 2001 was an opportunity to evaluate the impact of this initiative on social expenditures. It is important to set aside the specific procedures that are used to track only the expenditures coming out of HIPC resources (e.g. the override procedures for HIPC funds in Burkina Faso, reported by all the other lenders to the WB and the IMF). An overall budget analysis is crucial to ascertain the actual impact on poverty reduction. The setting up of ad hoc funds by the WB and the IMF in many countries in fact poses the risk that override procedures (less proven than the budget) be set up, and that duplicate expenditures might appear.

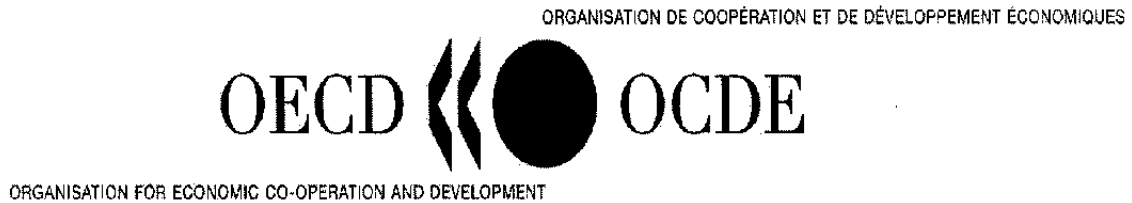
B) An instrument that should be put to better use by lenders

- The hierarchy of procedures in the PRSPs should be better accounted for in the definition of lenders' "country assistance strategies": The IMF, multilateral development banks (WB, ADB, IDB, AsDB etc.), the European Union, and bilateral lenders. France has decided to develop country strategy papers which are consistent with the PRSPs¹. In consideration of the central role played by these documents, the lenders have two requirements: first, they should be a part of the design process (making sure not to act in opposition to the appropriation principle) and, second, the documents should be of adequate quality, which is not completely the case at this point. Because they are integrated in its operating procedures, the WB grants budgetary loans (the PRSC - Poverty Reduction Support Credit) aligned with the priorities identified by the same PRSPs. Likewise, the IMF is integrating its supports under the Poverty Reduction and Growth Facility (PRGF) into the PRSP arrangement. We strongly support such a principle, which causes the Bretton Woods institutions to factor in the social sectors more fully while still attending to growth issues (financing "traditional" infrastructures). Nevertheless, we think that some pre-conditions are necessary to guarantee the quality of the assistance: adequate transparency of financial and budgetary channels in the countries, adequate institutional performance, and so on. France performs an active role with the technical support it provides.

¹ Country strategies cannot be entirely subsumed within PRSPs, since the latter remain focused on issues related to development and poverty reduction. Bilateral donors also have links of other kinds with the countries involved : cultural and linguistic links, trade policy, and so on.

- We are in favour of the introduction of indicators for measuring the non-financial dimensions of poverty, as was recommended by the European Commission to the OECD's CAD at an informal meeting on the subject in December 2001. However, if the assistance is accompanied by additional conditions (such as for the PRSC, of which the first has been awarded to Uganda), it is important that the criteria be developed in concert with all the other lenders (a fault in the WB's drafting of conditions for its PRSCs, but also in other HIPC procedures).
- The concrete implementation of PRSPs should promote the use of programmatic sector and budget assistance systems, to the extent that this type of assistance seems better adapted to the general philosophy of these strategy papers, to which the beneficiaries have adhered. However, this should not be done to the detriment of investment lending. France would like to support sector based approaches. We indeed consider that such mechanisms (both programmatic and investment oriented) are positive both in terms of visibility and efficiency.
- We consider that PRSPs should take into account, every time it makes sense, the regional dimension of economic development.
- Lastly, France insists on the need to strengthen the monitoring-evaluation systems stipulated in the PRSP processes. To grant their assistance, the lenders should definitely ensure that the countries have the means to implement this monitoring. In this context, they must direct country monitoring system evaluations while refraining from taking over this monitoring (or doing it only temporarily if the country lacks the capabilities). Here, too, it is crucial to set up technical support to supplement the beneficiary governments in this supervisory task, and to do so far enough upstream. At the same time we consider it is central that donors come to an agreement with recipient Governments on common framework to assess the results of the policies implemented under PRSPs. This includes common evaluation mechanisms in order to avoid overlapping evaluation processes and delaying disbursements. It is indeed key that commitments to beneficiary countries are fulfilled.

DCD(2001)10



**LETTER FROM THE
CHAIRMAN OF THE
DEVELOPMENT ASSISTANCE COMMITTEE
TO MESSRS. WOLFENSOHN AND KOHLER
REGARDING THE PRSP REVIEW**

28 NOVEMBER 2001



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

COMITÉ D'AIDE AU DÉVELOPPEMENT
DEVELOPMENT ASSISTANCE COMMITTEELe Président
The Chairman

JCF(01)119

28 November 2001

Dear Jim, Dear Horst:

On behalf of the OECD's Development Assistance Committee (DAC), I would like to express our appreciation for the opportunity to provide input to the ongoing PRSP review process.

DAC Members are committed to working in partnership to reduce poverty and to support local ownership and leadership of the development process. We welcome the PRSP as a powerful mechanism for rallying the international community behind the Millennium Development Goals (MDGs) and for galvanising efforts and resources to that end. We have developed DAC guidelines, entirely consistent with the principles of the PRSP and CDF, that are designed to help our Members engage more effectively in poverty reduction support. Adherence to the principles and recommendations in these guidelines will be monitored, in particular, through the DAC peer review process.

I would like to present here some widely shared views among DAC Members on challenges to be addressed in the review process. These have been identified on the basis of feedback from headquarters and field offices. Many of them were raised orally during a meeting your two institutions and the OECD jointly organised in Paris in mid-September. The salient points of each issue and relevant questions are briefly outlined in the attached Appendix, which I hope will be helpful for a review process that involves all partners.

Most of these issues and challenges will come as no surprise: the Bank and the Fund have alerted the international community to a number of them and have been actively tackling them with partners. They are by no means easy to address. One recurrent issue, for example, is striking the right balance between the core objective of promoting a country-owned PRSP process and the need to take account of sensitive but key issues, like governance or gender. We look forward to collaborating further with your colleagues on these issues and on your joint study as a whole. In this connection, we are arranging a joint meeting on the PRSP Review (including issues raised in the Appendix), the PRGF and the PRSC, which is scheduled to take place just before the start of the DAC Senior Level Meeting on 12 December 2001. Masood Ahmed and John Page will join me in chairing the meeting.

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We all strongly endorse the PRSP process: we have a common interest and commitment to improving its development effectiveness. I think we agree that all development partners need to work more diligently to shift and re-gear the international system towards implementing full partnership and achieving the MDGs. In that spirit, the issues in the Appendix, including those relating to the role of bilateral donors at the country level, are expressed in straightforward terms. I look forward to close and continuing exchanges as we work to improve our joint and individual efforts to reduce poverty, benefiting from the active participation of all partners in the current review process.

Kind regards,

A handwritten signature in black ink, appearing to be 'J.C. Faure', written over a horizontal line.

Jean-Claude Faure

APPENDIX

I. Partner country ownership and leadership of PRSP processes

Partner countries need time and space to truly own their development visions and strategies. It is important for PRSP processes to reflect the “country” view, making space for the leadership and contributions of the private sector and civil society in planning and implementing strategic approaches for reducing poverty. With the press for rapid action to obtain HIPC debt relief, ownership, cultivated through participatory processes, has unfortunately been seriously absent in some PRSP countries. A home-grown, locally owned PRSP may in some ways be of lower technical quality, but it has a higher likelihood of being implemented and sustainable -- thus increasing the probabilities of successful poverty reduction and of avoiding further debt crises. This reinforces the importance of allowing time for appropriate exchange of ideas and dialogue within the country, as well as with external partners.

Country ownership and leadership are affected by capacity and power imbalances among PRSP process stakeholders, including local actors. Multilateral and bilateral donors tend to dominate the conceptual and analytical framework relative to national governments and, in particular, civil society. Government accountability is often, accordingly, directed more to donors than to its constituents. This is a conundrum for which there is no clear solution. Nevertheless, we must all work to address it. It may be helpful in this regard to clearly establish at the outset the roles and responsibilities of different development partners in the PRSP process.

Questions to consider

- *Are the roles and responsibilities of the different partners in poverty reduction strategies (e.g. partner governments, civil society, World Bank/IMF, UNDP and the UN system, bilateral agencies) discussed and agreed at an early stage in the PRSP process? What has been the experience in terms of follow-up, in this regard?*
- *How does country ownership (e.g. progress in developing a country-driven and participatory PRSP) enter as a factor in evaluating the “quality” of a PRSP? To what extent can we accept more readily PRSPs that fall short in a technical sense -- but are genuinely owned?*
- *How can the donor community facilitate co-ordination without taking over the partner country's responsibility for leading and organising development strategies and implementation?*

II. Building capacity

Current constraints on capacity are often underplayed in PRSPs, and the capacity implications of policy choices are not made clear. It is important to identify capacity constraints early on in the PRSP process and develop strategies to address them. Greater realism in the setting of goals and more forthright recognition of implementation difficulties could be encouraged.

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At the same time, **the PRSP process itself builds capacity** through participation of groups and people who were formerly left outside the policy process. The work involved in developing PRSPs -- including through political processes -- can be an intrinsic part of national capacity building. This raises timing and sequencing issues at a more strategic level. For example, should PRSP diagnostic work be done before --or simultaneously -- with efforts to establish participatory processes? The diagnostic stage is where ownership and participation begins, even as regards deciding how the budget for the study should be allocated and who should be consulted. Promoting participation throughout PRSP processes takes time, but it means people are already being brought together and capacity created.

Providing **targeted assistance** for the tasks at hand and maintaining **sustained, phased support over an extended timeframe** is important. Careful use of extra-governmental technical capacity and well-managed external assistance is essential, as is close co-ordination among external partners to identify gaps, provide resources in ways that increase capacity rather than destroy capacity, and reduce duplication.

Questions to consider

- *How can the donor community reinforce capacity development in PRSP efforts, support, and resources?*
- *How can the donor community help improve the quality of local capacity and use it effectively?*

III. Encouraging political processes

Many PRSP countries have fragile political party systems and weak civil societies. Policy processes are often flawed, with little co-ordination between different decision-making centres and faulty follow-through on implementation. **An excessive focus by external assistance agencies on the technocratic aspects of PRSP to the detriment of political determinants may erode, and perhaps ultimately compromise, development effectiveness.**

Parliaments and elected officials have not yet been actively involved in PRSP processes. There is a need and an opportunity to use PRSP processes to engage political leaders and, in so doing, strengthen democratic institutions and technical capacity in PRSP countries. At the same time, there has been scant meaningful participation by the **private sector** in strategy formulation processes. Where there is not such participation, the enabling environment for business and trade and the vigour and efficiency of market forces may be neglected.

Poor people themselves need to be drawn effectively into the consultation process. As the "Voices of the Poor" study and evaluation results demonstrate, their views-- and those of society at large -- are an important input for improving policy focus and impact. Involving poor people either directly or through institutions that genuinely represent their interests (e.g. NGOs, church groups) is a key challenge.

Finally, there is scope for more enlightened attention to **the "political" dynamics of the consultation process** itself. The PRSP consultation process is an important mechanism for marshalling and channelling country ownership of development policies and actions and, in particular, social solidarity for the fight against poverty. There are risks implicit in this process -- not only those posed by inherent challenges to

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vested interests, but also those giving rise to **unrealistic expectations** that might eventually sour essential public support for PRSPs. Better-prepared and managed consultation processes can play a key role in preventing such an outcome. The development community can provide technical support that will enable governments to provide costed policy options, information about trade-offs and capacity constraints, and explicit budget parameters. Participants could be encouraged to discuss and evaluate policy costs, benefits and trade-offs and then rank their priorities. Subsequently, government needs to be accountable to the consultation process -- by clearly explaining after the fact what policy and budget decisions were ultimately taken and why.

Questions to consider

- *Political issues are central to successful PRSP processes. How can the development community increase its understanding of these issues?*
- *Is adequate support being provided to government and civil society to strengthen their capacity to dialogue with one another? Are civil society concerns reflected in final policy choices and priorities?*
- *To what extent are democratic institutions (in particular, Parliaments) and the private sector in partner countries involved in PRSP consultation processes? How can their role be strengthened?*
- *Are the voices of the poor "heard" in PRSP consultation processes? Are they being heeded? How can poor people be more closely involved in PRSP dialogue?*
- *How can the donor community more effectively encourage and assist partner countries to inform and manage the stakeholder consultation process by providing information on different policy options/scenarios, their associated costs and tradeoffs, and priorities within likely budget envelopes?*

IV. Multilateral and bilateral donor co-ordination

There is a particular need for donors to work with greater initiative and commitment on co-ordinating with one another. Strategic areas for action include:

- joint research and analysis (assessments, evaluations),
- joint operations (missions, country dialogue),
- joint support (pooled funds at the sectoral or global level combined with closely co-ordinated project assistance within a sectoral framework, co-ordinated and complementary technical co-operation), and
- joint approaches (common "conditionalities" and/or disbursement indicators)

Close co-ordination among external donors is often *ad hoc*, dependent on personalities and country circumstances. Despite recent efforts by both multilaterals and bilaterals, **donor agency institutional practices, procedures, and "cultures" often discourage collaboration.** Despite Bank and Fund staff resources based in PRSP countries, a "mission mentality" still exists: in some PRSP countries interaction with the local donor community comes in the form of a briefing at the end of a Bank or Fund mission. At

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times bilateral agencies, regional development banks and UN development agencies feel they have been sidelined in the policy dialogue process, and that their views have not been taken into account. These external donors have valuable and often under-emphasised contributions to make in terms of knowledge sharing and management as well as country dialogue.

Questions to consider

- *How can better use be made of the support and resources bilateral agencies could contribute to PRSP processes? What does this call for in terms of interaction, exchange and timing?*
- *Do bilateral donors, regional development banks and UN agencies have adequate opportunities to interact with government and the Bank and Fund in the policy dialogue process? Are their views taken into account?*
- *Do the Bank and Fund share information with other partners in order to catalyse genuine co-ordination and enable other partners to use the PRSP framework to fullest advantage?*
- *The quality of PRSP partnerships depends on the quality and in-country presence of staff from multilateral and bilateral donors. What steps are being taken to ensure that decentralisation of staff, decision-making and expertise (especially task management of PRSP, PRSC and PRGF) is moving in this direction?*
- *Field staff from the Bank, the Fund and bilateral agencies sometimes have different views, perceptions and/or concerns than those expressed by their respective headquarters staff. For example, views expressed by a DAC Member Bank/Fund board representative on PRSP progress in a given country may be quite different from the views expressed by the same DAC Member local representative in that country. How can the Joint Staff Assessment play a stronger role in reflecting local bilateral agency assessments, upon which support from bilateral agency headquarters could build?*
- *How could donors move more quickly towards frameworks and disbursement indicators that are outcome-based, more focused in scope, and shared by all donors operating in the partner country?*
- *What can be done to promote shared information and diagnostic/assessment work, joint missions, pooled resources and synchronised planning cycles among the donor community?*

V. A partner country PRSP process “map”

In order to contribute to broad consultation and encourage efficiency, it would be useful if an **initial sketch or PRSP process “map”** were set out to inform stakeholders, partners and civil servants of the PRSP trajectory and end point.

Organising planning and budgeting exercises across government and the donor community and sharing this information is **complex, resource intensive, and potentially sub-optimal**. Efforts by the Bank and Fund to help partner countries establish and work with Medium Term Expenditure Frameworks have contributed in developing capacity to organise and synchronise such processes, including taking account of

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the roles of civil society and NGOs. But this approach has not been consistently followed. In many PRSP countries, governments and development actors first assessed needs and constraints at sector level and then had to consolidate this at the centre -- where a new set of tougher parameters and constraints had to be dealt with.

Questions to consider

- *Could the PRSP process benefit from efforts by government to define a simple, clear “process map” at a very early stage that is broadly communicated throughout government, thereby focusing efforts and conserving resources? While this would vary country by country, might this include an initial sketch of policy options, a few key proposed targets, possible steps for establishing data baselines and clear, cost-effective proposals for tracking progress?*

VI. PRSP Content

Many PRSPs lack a **comprehensive, long-term strategic orientation**. The links between phased integration of the different elements of PRSPs and follow-on, more detailed, **implementation** plans are rarely spelled out, especially as regards public investments and actions in key poverty reduction sectors such as health, education, sanitation and rural development. **Alternative policy choices and trade-offs** could be made more explicit, and greater effort could be expended to ensure that a chosen poverty reduction strategy is grounded in a long-term perspective.

Are we sure that PRSPs adequately address cross-cutting issues such as **gender equality, sustainable development** (going well beyond just environment), **conflict prevention and rehabilitation** and **good governance** (including corruption and civil service reform)? Research and evaluation results from decades of development experience -- much of it done by your institutions -- underscore the centrality of these factors to sustainably and effectively reducing poverty in all of its dimensions.

At the same time, greater attention needs to be given to assessing **the nature and policy requirements of pro-poor growth, including private sector-led employment generation**. Contrary to original intentions, PRSPs have tended to focus on direct public expenditures, neglecting critical aspects of broader economic or employment policy. In a related way, trade issues need to be integrated into the PRSP process, especially the importance of addressing supply-side obstacles to trade.

Questions to consider

- *What more can be done to ensure that PRSPs are grounded in a long-term strategic perspective addressing growth and structural reform while consistently taking a pro-poor perspective and assessing ex ante the impact of policy prescriptions on the welfare of the poor?*
- *How to highlight the importance of crosscutting development issues and cross-sectoral integration in country dialogue? How to facilitate access by partner country civil societies to relevant research and best practice?*

VII. Accountability: data, statistics and indicators

Building sustainable capacity for partner governments to assess their own policy and programme effectiveness and to allocate resources optimally is key to good governance, as is providing the results to civil society. There is a special need for prompt feedback of data into PRSP policy and implementation processes. **Monitoring and evaluation** of partner country policies and programmes should be integrated into national strategies -- not added as an afterthought. PARIS21, by promoting dialogue between users and producers of data, is a vehicle through which partner countries and donors can work to make this happen. **It is important that statistical capacity-building be accorded a step increase in funding** and directed at developing sustainable statistical systems attuned to the needs of policy makers for reliable and timely statistics to assess progress in reducing poverty.

Poverty monitoring -- and the key role to be played by civil society -- has yet to be integrated as a cornerstone of PRSPs. Measurable **poverty indicators** linked to the Millennium Development Goals (MDGs), intermediate measures for assessing institutional progress, and PRSP "process" benchmarks should be specified in PRSPs. The emphasis should be on developing and agreeing on a limited set of country-relevant, measurable indicators appropriate to short, intermediate and long-term timeframes, adequate to the task without overburdening national statistical capacity.

Questions to consider

- *How can we improve the extent to which underlying poverty assessments (including qualitative and participatory aspects), poverty monitoring and statistical capacity building are being jointly developed and widely shared by donors, partner governments and other stakeholders?*
- *What more is required in order to develop -- in parallel with the PRSP -- a strategy for developing suitable, measurable indicators and for monitoring progress towards them? How can government statistical services and poverty monitoring units be more directly involved in this effort, including in national and regional PRSP events?*
- *What needs to be done in order to agree on interim performance measures for monitoring institutional progress in addressing poverty targets -- measures which are more appropriate for near-term timeframes and less resource-intensive than systems monitoring poverty trends at aggregate levels?*

VIII. Harmonising strategic frameworks

Partner countries must contend with multiple (and sometimes competing) strategic development planning frameworks (e.g. PRSP, CDF, NSSD, UNDAF/CCA). While they serve different purposes, they overlap with one another and it is thus important to intensify and better communicate efforts to increase coherence among these frameworks and reduce burdens for partner countries.

Questions to consider

- *What is the scope for further reducing and streamlining requirements associated with different international strategic planning frameworks -- or for better implementing ongoing agreements to do so? How can the development community better ensure that PRSPs build*

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on strategic visions that already exist (e.g. pre-existing poverty reduction and sustainable development strategies)?

IX. Mobilising resources

Soundings with our partners suggest there is some confusion as to **how the different funding sources will come together to finance poverty reduction efforts**. To what extent will PRSP programmes be financed from debt relief? To what extent will they be funded from additional aid flows? What is the scenario for domestic resource mobilisation -- particularly public revenues -- vital for long-run sustainability?

It is important for domestic resources -- both public and private -- and private external investment flows to play a key role in financing poverty reduction programmes. The revenue side of PRSP country budgets is vital for poverty reduction, not just the expenditure side. This key budget concern, despite long-standing efforts by the Bank and Fund, has in some cases been overlooked in PRSP dialogue and planning. Indeed, in some countries it is not clear to what extent additional domestic resources will be used to fund PRSPs.

Meeting the MDG of halving the proportion of people living in absolute poverty by 2015 will call for substantial resources invested wisely and effectively. The Bank MDG costing exercise indicates a need for ODA levels to double, although the approach used in this exercise is still being debated and is evolving. Aid effectiveness, dependent on many factors including good governance, will have a key impact on achieving the MDGs in the timeframe established and with the resources that will be available.

Questions to consider

- *How can financing scenarios for PRSPs be developed, taking into account both domestic and external resource mobilisation? How can the Fund and the Bank work with the donor community to clarify the likely external contribution to medium-term budget envelopes?*
- *Sectoral funds (e.g. HIV/AIDs) are proliferating in some partner countries. To what extent can these funding sources be used for PRSPs and poverty reduction efforts?*

X. Mobilising and extending the reach of the PRSP approach

There is a clear -- and worrying -- prospect that PRSP goals and issues will lose momentum **once HIPC completion points are met**. At the same time, there are concerns about the large numbers of very poor people living in middle-income countries where inadequate efforts are being undertaken to reduce poverty.

Questions to consider

- *What needs to be done to ensure that PRSPs are established as an ongoing process for planning and organising development and external support?*
- *How can PRSP-type processes enable Bank and Fund expertise and funding resources be brought to bear more consistently on the need to reduce poverty in non-IDA countries?*

ANNEX II

SUMMARY OF THE JOINT IMF/WORLD BANK/OECD INFORMATION EXCHANGE ON THE PRSP REVIEW

SEPTEMBER 18, 2001

1. As part of the joint Bank/Fund PRSP review, the IMF and the World Bank invited OECD DAC members to participate in an exchange of views on the PRSP approach at a joint meeting at the IMF Office in Europe on September 18, 2001. The meeting was jointly chaired by the OECD DAC, World Bank and IMF. Presentations on the review process were made by Masood Ahmed (Deputy Director of the IMF Policy Review Department) and John Page (Director of World Bank Poverty Reduction Strategy Group), participating by video conference from Washington. Brian Ames (IMF) and Jeni Klugman (World Bank) also participated in the meeting in Paris, and briefed the participants on the main focus points of the review that were emerging following a recent meeting with 32 partner countries in Dakar.

BACKGROUND

2. At the launch of the PRSP approach in December 1999, Executive Directors of the Bank and the Fund called for a joint staff review after two years of operation, with external contributions from international organisations, bilateral donor agencies, civil society organisations, and partner country governments. The review was launched in July 2001, and is to be completed in March 2002, with a joint report prepared for the International Monetary and Finance Committee and Development Committee during the 2002 Bank/Fund Spring Meetings. An international conference on the PRSP review is to be held in Washington in January 2002. At the same time, a review of the IMF Poverty Reduction and Growth facility (PRGF) is to be carried out in co-ordination with the PRSP review.

3. The focus of the review will be to assess achievements to date, identify obstacles and constraints, and propose modifications to the guidelines, modalities, and architecture of the PRSP approach. The review will consist of four regional events: Africa (Dakar, early September 2001), Central Asia (Budapest, November 2001), East Asia (Hanoi, December 2001), and Latin America (to be determined). Contributions from other multilateral and bilateral donor agencies are actively sought with a request for submissions on the IMF and World Bank external websites. With a view to transparency and completeness, the review would include supplements on external contributions (in their entirety) with the consent of the parties concerned.

ROLE OF THE DAC

4. The IFIs were actively seeking the input of the DAC and DAC membership, and believed they could play a valuable role in (a) helping to facilitate the flow of information regarding the review between Bank/Fund staff and the donor community, and (b) facilitating an exchange of information between and amongst donor agencies with regard to their individual contributions to the review. They greatly

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appreciated the opportunity to meet with the DAC, and were particularly interested, at this stage, in the members' views on the main focal points of the review. The joint meeting thus provided DAC members with a useful and timely opportunity to help shape the review process, ensuring that bilateral donor concerns are adequately reflected. This will hopefully strengthen the relevance and focus of the review.

SHAPING THE REVIEW PROCESS

5. Masood Ahmed noted that a wide range of studies and analysis of the PRSPs was underway in different quarters. The aim of the review process was to bring all these perspectives together and confront different visions. There was much scepticism on whether international agencies and bilateral donors would really change their behaviour. Will they take a sufficiently broad view of policy options? Will they be flexible enough on process, procedures and harmonisation? Will they be ready to provide budget support and co-ordinate their efforts in PRSP frameworks? We need to ask ourselves: how do we organise work and analysis on these issues? how do we assess the extent of behaviour change at country level? and how do we assess participatory processes?

6. John Page summarised the main messages that were emerging following the Dakar meeting: (a) the PRSP was beginning to become owned by the countries concerned, and was not just seen as an externally imposed requirement for debt relief, (b) the participatory process was taking hold, (c) on a less positive note, there was more to be done to make growth more pro-poor and link poverty strategies with domestic processes, and (d) international and bilateral donors needed to "walk the talk" and do more to adapt their development co-operation policies to the requirements of nationally-owned PRSPs.

7. The main thematic messages that emerged from the discussion are summarised below, organised around (a) the approach, (b) key issues related to the PRSP process, including multilateral/bilateral interaction, (c) the content of the PRSP strategies, and (d) longer-term challenges.

A. Approach

8. *Multiple frameworks and multiple objectives* Several participants questioned whether we were asking countries to do too much, and whether more needed to be done to "prioritise" and adopt a unified approach to strategic development planning. Many of the interim PRSP strategy papers were looking like "wish lists", and turning them into reality was going to be a difficult process. There was also a need to examine the relationship with other frameworks, such as the NSSD. One suggestion for streamlining the approach was to have a stronger link between the PRSPs and the Millennium Development Goals. Other delegates questioned whether there was too much focus on social issues, to the detriment of governance and other concerns.

B. Process

9. *Country ownership and leadership of the PRSP process* Participants emphasised the need for the review to examine the question of ownership carefully. While they appreciated that the consultations in Dakar appeared to suggest that PRSPs were strongly integrated into country processes, there was a need for a clear basis for making this determination. In particular, to what extent have governments been preparing PRSPs in an open and participatory way? For example, has there been a meaningful participation of the private sector? Some PRSPs appeared to be in danger of becoming an all-embracing government planning exercise, reminiscent of state-run development planning of the 1950s, rather than a genuine participatory process. This could create a tension with the open, transparent enabling environment needed to encourage private sector growth.

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10. Many participants pointed to a need for a better balance between “speed, quality and ownership”. If ownership and “learning by doing” was the real key to development progress, IFIs should be more patient and respect ownership -- even if this meant accepting poorer quality documentation. In some of those countries regarded as good performers (such as Uganda, Bolivia and Ghana), there had been widespread use of consultants to draft documents to meet the expectations of the IFIs.

11. Ownership also implies the ability to “learn from your mistakes”, which in turn requires accountability. The review should therefore focus on what mechanisms there are in place to ensure accountability. For example, key focal points could be the extent of the support provided to strengthen the capacity of civil society, the extent to which democratic institutions are involved in the PRSP consultation process, and the effectiveness of consultations and feedback.

12. Others questioned whether it was feasible to expect “full” ownership at this stage. On the other hand, a key question for the review is how the development community could collaborate with partners in ways that do not undermine country capacity and that build the necessary foundations to strengthen ownership. This implies giving partner countries sufficient “space” to develop their own capacity and a greater willingness of donors to take risks.

13. ***Bilateral/multilateral interaction*** Many of the participants indicated that they were restructuring their development co-operation policies to address the PRSP. However, there was a feeling that the IFIs could do more to change their own “work habits” to accommodate the new approach. This does not just mean adapting the lending instruments used (e.g. PRGF). In particular, the Fund and the Bank continue to have a “mission” mentality, with interaction with other donors often limited to debriefings at the end of missions. The Fund also suffers from a lack of “in-country” presence.

14. ***Consultation with partners*** The concentration of IFIs on mission work has often provided insufficient opportunity for consultations with other donors, particularly those that are not providing direct budgetary support. For example, this could lead to serious co-ordination problems in countries such as Mozambique, where the level of assistance outside the budget is greater than direct budgetary support.

15. In the initial development of the PRSP approach, the IMF and the Bank had a clear lead role. However, the review now provides an opportunity for the IFIs to pause and give more consideration to how their operational procedures could be adapted to allow for better interaction with the donor community in what will, inevitably, be a long-term fight against poverty. For example, pre-consultation, more joint missions and decentralisation of staff, decision-making and expertise might be possible avenues for adapting Bank and Fund operations to the challenges of working in partnership.

16. So far, most co-ordination efforts had appropriately taken place at the local level. However, there was also a need to consider how co-ordination could be better carried out at the level of development co-operation institutions/ministries. In particular, if local co-ordination doesn't go well there could be a role for the DAC (which has the advantage of distance). The DAC peer review process was also an important vehicle for determining whether donors were adapting their strategies to fit within the PRSP framework.

C. Content

17. ***Focus on poverty reduction*** Several participants stressed the need for the review to focus on the lessons learnt on how to link poverty reduction strategies, the selection and monitoring of targets, and budget and expenditure planning. PRSPs contained too many indicators, and there was a need for more selectivity in targets. It was thought that the work of the OECD Task Force on Donor Practices on unifying indicators/benchmarks (to meet donor reporting requirements under the PRSP framework) could be useful in this regard.

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18. The review needed to look at the realism of the poverty strategies and whether they could be financed. For example, it was not clear how the Ghana strategy was going to fit in with the country's budget plans. PRSPs should also not just be seen as a vehicle for use of HIPC or a wish list for donor resources, but should be integrated into the countries' own resource mobilisation efforts.

19. Some participants considered that there was a need to look at how structural policies were being adjusted to take account of the impact on the poor. It was questioned whether it was not too early for the review to begin to look at results, given the tight deadline to meet the IDGs.

20. ***The role of budgetary support*** There was an extensive discussion of the need for donors to adapt their lending structures from project aid towards sector and budget support. Participants suggested that the review could examine the obstacles to moving to budgetary support, such as capacity constraints, fungibility of resources, fiduciary requirements, poor public expenditure management systems, and differing reporting requirements. The example of problems the banking sector in Mozambique had posed to donors was cited. Many donors had initially focused on budget support in the 1950s, and we had now come full-circle. What was different today and what was going to ensure its success this time around?

21. ***Sectoral issues*** The review should examine the extent to which external assistance in support of PRSPs is being provided through sector programs, and the extent to which this is creating absorptive capacity constraints. It was noted that a move to sector support was not necessarily complementary to the PRSP process. In particular, if a sector approach entailed additional monitoring and reporting requirements, this could place an extra burden on country governments already strained from preparing the PRSPs. Sector support also did not automatically imply greater ownership, but could be seen as "ganging-up" by donors against the government.

22. ***Capacity building and ownership*** Participants stressed that capacity building was central to the development and implementation of PRSPs. Capacity building for financial management systems and accountability in partner countries was seen as crucial. Many speakers emphasised that the review needed to examine whether technical assistance was being provided in a way that enhanced local capacity building and ownership. For example, in the new trade capacity building approach under the Integrated Framework, it was important for partner countries to be involved from the beginning of the process, including the initial diagnostic studies and budget. The key is to build ownership and not provide "technical assistance in a capacity destroying way".

D. Longer-term challenges

23. Participants stressed the danger that once HIPC completion points have been reached, the momentum for implementing the PRSPs may slow. The review could look at what is needed to ensure that PRSPs are established as an ongoing process, and what is likely to prevent the successive failures that we have seen with previous programs being repeated this time around. For example, how is the early experience with ownership and participation being absorbed?

World Bank and IMF Review of PRSPs—an input from the Co-Chairs of the SPA's Technical Group

Introduction

The SPA has been monitoring the implementation of the PRSP approach almost since its inception. A number of task teams have developed work programmes to track how aspects of the new approach are being formulated and implemented within partner countries. A substantial amount of output has been produced over the last eighteen months, including:

- Reviews of conditionality in HIPC and PRSP documents;
- Donor attitudes and engagement with PRSPs;
- The institutionalisation of PRSPs in eight African countries;
- Problems and prospects in developing sound poverty monitoring systems;
- Sector programmes and their relation to PRSPs.

This paper focuses on overarching concerns raised within the SPA regarding PRSPs. These arise out of the Technical Group's general work; but especially from discussions held at the last Technical Group meeting in Addis Ababa, 7-9 November 2001, which included a joint meeting with members of the UNECA's PRSP Learning Group. (A report of this one-day meeting with African partners is in Appendix 2.)

This note does not summarise comprehensively the results of all outputs produced by the SPA. A selection of studies have been submitted to the PRSP review team under separate cover. Appendix 1 presents principal findings from recent studies, including: the review of conditionality in HIPC and PRSP documents (to be forwarded separately), the PRSP institutionalisation study, the survey of donor attitudes and approaches, and the review of poverty monitoring systems.

SPA members endorse fully the approach recently adopted by the international community for tackling development problems in HIPCs. For the SPA, this is ably captured by the PRSP principles, namely: country-owned; comprehensive in scope; participatory decision making; in partnership; long-term; results-oriented, monitored progress; and accountability to citizens. The SPA has been campaigning for the adoption of these principles for some time.

The new approach will not succeed if the international community does not make a determined effort to help partner countries implement these principles. In our view fundamental changes are needed in the way aid is delivered, and results reviewed and monitored. There are a number of dangers to guard against.

Given our preoccupation with donor-related problems, we dwell on improving external financing relationships. These observations draw on the experiences of SPA members. Our challenge is to help partner countries implement ambitious strategies.

Ownership

To succeed, more than lip service needs to be given to help realise this objective. Given high levels of aid dependency in most of Africa, this is not a straight-forward matter. Active steps need to be taken by the donor community (including the IFIs) to allow partner governments the space to develop home-grown solutions. SPA studies show that there is some movement on this. Donors and IFIs are starting to hold back.

But we need to keep in mind that PRS-processes are intensely political, which raises various kinds of risks that donors and IFIs need to take into account. Two are important to underscore. First, PRS-formulation and implementation that by-passes domestic political structures, issues, and practices are unlikely to produce lasting results. Second, policy reversals are possible, and indeed likely to arise. Donors need to recognise that programmatic support to PRSs cannot be based on traditional stop-go mechanisms. Methods need to be found to provide predictable support over the medium-term so that external responses help to stabilise economies rather than exacerbate domestic crises.

The biggest difficulty, however, is in the design of aid systems. Over-elaborate assistance packages designed either to by-pass government systems or to create cumbersome resource-demanding monitoring and reporting procedures do not help to build ownership. Indicators of progress need to be jointly agreed with national authorities, but above all, these must be derived out of the PRSP. Setting up parallel mechanisms only serve to usurp ownership.

Despite the fact that in some countries donors are coming together to solve aid co-ordination problems, much needs to be done to reduce the burden of transactions costs on partners. Reporting and monitoring systems are still being shaped by donors. The PRSP process ought to be helping countries to change reporting systems so that these account to citizens and subjects rather than to donors only.

Governments, donors and IFIs need to ensure that the broad structure and content of aid agreements are made available to the public. Progress reports should be disseminated widely and be subjected to public scrutiny. Civil society consultations show that there is a growing appetite for greater transparency.

As more and more countries reach HIPC Completion Points, thereby improving the prospects for changing aid relationships, the total burden of conditionality needs to be reconsidered. There is a serious risk that once full PRSPs are produced, aid relationships will revert back to 'business as usual'. We should seek to ensure that this does not happen.

Participation

Our studies show that the PRSP-approach is helping to strengthen participatory processes. But there is a danger that as the imperatives of the HIPC initiative start to diminish in significance, the current emphasis given to participatory decision making may weaken.

A clear message of the PRSP Institutionalisation study is that, if anything, governments and donors need to widen the scope for participatory processes. There is a firm belief that the quality of PRSPs will improve as much from better participation than they will from receiving good technical inputs. IFIs in some cases are being short term and instrumentalist about the role and significance of participatory processes.

Donors need to understand and work through national policy systems as PRSPs are necessarily articulated through local political structures. There has been some by-passing of parliamentary systems and procedures in PRSP discussion and formulation. Attempts to circumvent political processes are unhelpful and unlikely to succeed. Development partners, therefore, need to set realistic expectations and timescales, if only to avoid disillusionment.

Build capable states

At the SPA's recent meeting with African partners an important principle of partnership was established. This states that all:

donor assistance should be delivered through government systems unless there are compelling reasons to the contrary; where this is not possible, any alternative mechanisms or safeguards must be time-limited, and develop and build, rather than undermine or bypass, government systems. This applies to budget processes and procurement systems among others.

This principle recognises that all donors and IFIs are unlikely to channel assistance through government budgets immediately. Transitional measures will be required. Our hope is that these should seek to build government capacity.

Serious attention to PRSP-related capacity building programmes is required, with donor TA implemented in response to clear demands articulated for capacity development by partner governments. Ideally, governments should have the option to finance capacity building efforts through the budget.

Predictable finance

High levels of aid dependency characterise most SPA partner countries. Without predictable flows of external finance over the medium-to-long term, governments are unlikely to have the flexibility to make adequate budget allocations for poverty reduction. Donors need to improve their financial reporting systems, and to provide partners with good information about future commitments. This is required regardless of how donors intend financing PRSs. It is particularly important to ensure that off-budget project and sector finance is consistent with PRS priorities; that such finance is taken into account by national budget authorities, and that provision is made for meeting recurrent costs associated with donor development projects.

PRS implementation will be difficult if key cross cutting reforms are delayed by government. In the absence of high sustained growth rates and effective revenue collection institutions, guarantees regarding future financing are more likely to come from donors and the IFIs. This implies that in order to assist partner countries implement their PRSs, the international community needs to switch quickly to providing predictable, and more, medium-term on-budget finance.

Donor support

Aid modalities are evolving to support in-country PRS processes, with an aim towards making these the centre of donor support to countries. A national PRS process increasingly should become the basis for improving donor co-ordination, rationalisation and PRS-monitoring.

The IFIs need to provide solid leadership to the international community. Our surveys indicate that donors are eager to support national PRS-processes, but some consider that switching proportionately more finance into programmatic channels would bring additional risks. Appropriate action by the IFIs to reduce perceptions of risk linked to programmatic lending would be most welcome.

We welcome the development of special instruments by the World Bank and the IMF to assist developing countries implement PRSPs. However, a common perception is that conditionalities in HIPC, PRSC and PRGF agreements are not adequately governed by PRSPs. Separate agreements reached between governments and the IFIs are not helping to build trust, nor to establish the centrality of the PRSP in the policy-making process.

Streamlining conditionality around the PRSP should be the basis for building stronger longer-lasting partnerships in support of a nationally-defined agenda. Performance measurement should be based on national PRS reporting systems. Reporting and monitoring systems need to become more aligned with national processes and not be set up in parallel.

It is necessary for PRSs to include a relevant set of indicators, ranging from inputs to outcomes, to show how poverty is being reduced. This set of indicators should serve the monitoring needs of both governments and donors. For donors, information generated by the indicators would allow assessment of a country's relative performance in reducing poverty, and would be useful for informing follow-up actions. The success of a results-oriented performance management system, however, will depend on countries instituting good information-collection systems.

Public financial management and accountability

SPA members believe that in order to encourage more external finance to be channelled through national budgetary systems, rapid, and substantial, progress needs to be made in improving the standard of public financial management in partner countries. This issue seems to be attracting the attention of many international bodies, including within the MDB-group. Indeed, there is a real danger of initiatives overlapping, potentially leading to conflicting recommendations.

The SPA has a task team working on public financial management issues. Soon, work will be conducted in partnership with African colleagues. We hope to develop ideas for a common procedure for assessing financial management. Our hope is that we can jointly agree on assessment mechanisms and come up with a common action plan to improve financial management practices, and avoid duplication of work.

We believe that more bilateral donors will be confident in committing resources to the budget if an action plan is agreed with recipient country authorities. However, we should stress that while a willingness to address financial management practices will enable more donors to switch away from project-based financing, by

providing greater fiduciary assurances, the real motive for systems-upgrading should be the long-term development benefits that better financial management will bring.

The international community should not be responding to this agenda primarily to provide donors with additional safeguards. For example, separate accounting for HIPC debt relief runs the risk of distorting good budget management practices. It is essential to ensure that HIPC-related expenditure be planned, and accounted for, as integral components of the overall budget. Likewise, donors should not press for introducing separate accounting systems. Supporting interventions to fix financial management should aim to address problems of planning, execution, and reporting for the whole budget.

Costing PRSPs

The limited evidence available regarding costings suggests that partner countries need to improve substantially the analytical basis of cost estimates for PRSPs. This is a relatively new, but immensely important, area of work. Unlike the development plans of the 1950s and 1960s, the value of PRSPs is that they aim to link intentions with budgets.

Without adequate attention being given to cost estimates for PRSPs, and without the preparation of a realistic medium-to-long-term public expenditure programme, the chances of the new PRS-approach succeeding are slim. In order for donors to be more persuaded to increase programmatic support for PRSPs, governments should move rapidly towards providing credible cost estimates, and present realistic public expenditure projections (in the form of MTEFs).

Given capacity constraints within partner countries, and the technical difficulty associated with estimating costs and expenditures, it would be useful if the World Bank were to increase their support to countries in this area. But considerable care is needed. External technical support for estimating the cost of financing PRSPs should not stifle and/or replace local efforts.

Ultimately national authorities have to assume the responsibility for producing robust estimates. Attention to support MTEF-processes is also urgently required. Credible public financial management systems linked to poverty reduction will not arise until countries institutionalise MTEFs. But this is more of a political economy issue rather than a narrow technical capacity-building matter.

Sector programmes and PRSPs

In many countries, national poverty strategies are being built around existing sector programmes. A recent study commissioned by a SPA task team shows that the relationship between sector programmes and PRSPs is not unambiguous. Many donors are committed to the sector approach, and this form of support is likely to continue.

It is essential to ensure that sector initiatives become subordinate to PRSPs. The process of moving from already existing sector programmes to supporting PRSPs through central budget systems is unlikely to be smooth. Apart from involving weighty institutional issues, e.g. changing relations of authority between sector and finance ministries, there are issues about how donors interact with government.

In order to ensure that the PRS-approach helps to build national ownership it will be important to ensure that donors' sector interventions work through, and/or buttress, government systems.

From PRS papers to PRS process

We now have to move urgently to the next steps: implementing PRSPs and adopting a common review process that is acceptable to donors, but based around the recipient government's review cycle and procedures.

The SPA has agreed to work with African colleagues to determine more precisely the elements of a common annual PRS review process. This will include elaborating how the PRS review process could serve as a unique reference point for judging the success of a country's development policy.

Ideally, the common review cycle should consider the government's policy matrix, the resource allocation framework, and the performance monitoring and review mechanisms.

The selection and adoption of indicators of progress should, as much as possible, be arrived at through a transparent and participatory process.

SPA Technical Group Co-Chairs
27 December 2001

Appendix 1

Survey of SPA Donors' Support for PRSPs, 2001

- 1 A questionnaire was circulated to all SPA donors in June 2001. This covered the following issues relating to support for PRSPs: policy shifts, changing areas of involvement, aid modalities, donor coordination, and perceptions regarding changing behaviour by the IFIs.
- 2 A draft report summarising how SPA donors were engaging with PRSP processes was presented to the SPA in November 2001. The paper considered the extent to which donors were aligning their policies and procedures to fit with the PRSP-approach.
- 3 The study was put together on the basis of donor representatives submitting information on their changing practices. A considerable amount of sample bias was evident, and care should be taken in interpreting the findings.
- 4 **The following caveats** should be kept in mind in interpreting the results of the donors' survey, which are summarised below:
 - There was no attempt made to verify independently the claims made by the donor agencies. Agencies reported on their own activities in varying degrees of detail. There are clearly varying understandings about what it means for an agency to support PRSPs. The responses contained in the paper are a mixture of actual efforts to engage with PRSPs, and donors' aspirations to embrace PRSPs. In being faithful to actual statements made by respondents, the report risks overstating the actual amount of adjustment donors are making to fit with the PRSP agenda.
 - In some cases, the lack of detail is misleading. There is little evidence, for instance, as to how much budget support agencies provide, or on how strong the *formal* policy guidance is around PRSPs.
 - There is a danger of complacency on the part of donor agencies in that they may believe they have made more progress in complying with the PRSP-agenda than may actually be the case. Nonetheless, it should be stressed that donors are more clearly on board with the PRSP initiative than previous reports have shown (see below).
- 5 **The synthesis of donor engagement** with national PRSP processes, based on 15 responses, **concludes**:
 - 5.1 Donors are more firmly engaged with the PRSP process than the SPA found was the case in a similar survey in 2000. 80% now state they have some form of 'formal' policy guidance relating to PRSPs.
 - 5.2 Four of the 15 donors gave examples of country strategies firmly linked to local PRSPs, and four others plan to introduce more specific links when strategies are renewed.

- 5.3 Half of the responding donors directly support civil society participation and wider governmental participation in PRSs, while the remaining provide indirect support.
 - 5.4 Nearly all donors provide capacity-building support for PRSs; more significantly than was the case in the 2000 survey.
 - 5.5 Almost all donors participate in SWAps and two-thirds provide general budget support to at least one country (although this is not always in support of the PRS).
 - 5.6 There is some harmonisation of in-country reporting and review procedures, primarily at sector level, but also at higher levels (and some around the PRS).
 - 5.7 Most agencies are willing to take steps for overcoming problems associated with synchronising the timing of disbursements with national budget cycles.
 - 5.8 The role of the IFIs remains a cause for concern, as donors fear the fragile moves towards greater national ownership will be lost through domination of the process by IFIs.
 - 5.9 The key messages to IFIs are: respect local planning rhythms and formats; avoid parallel procedures; support civil society participation; and improve the transparency of relations with bilaterals.
- 6 An important next step will be to establish a more solid common understanding among donors on how best to support the PRS principles.

Appendix 2

CONCLUSIONS OF THE JOINT MEETING OF THE ECA PRSP LEARNING GROUP AND THE SPA TECHNICAL GROUP WEDNESDAY 7 NOVEMBER 2001

Growth Strategies

Growth is a necessary but not sufficient condition for poverty reduction. The key challenge is to put in place an enabling environment.

Focus on agriculture because majority of the poor live in rural areas and accelerating agricultural production would have the biggest impact on poverty.

Raising the growth rate in the long term requires structural transformation of the economy, diversification, and technology development.

PRSPs have created more space for increased ownership, broader participation by key stakeholders, Bretton Woods Institutions stepping back to foster country-led growth strategies.

Donors should support social impact analysis, by means of which the poverty and social impacts of PRSPs can be better understood.

Donors should be more receptive to alternatives to conventional growth paradigms.

Public Financial Management and Accountability

PERs, MTEFs and budget processes should be integrated with the PRSP framework.

PRSP has increased attention to PFMA issues, but actual institutionalisation is weak.

Governments must be accountable to their citizens for their use of public monies: accountable in terms of results and broadened participation in budgetary processes, and improved service delivery.

Improved financial management systems will also help to reverse the decline to overseas development assistance (ODA) flowing to Africa and enable donors to provide direct budget support.

Donor requirements for separate financial reporting and monitoring impose significant costs on limited national capacity. It is essential that donor actions should not undermine national systems.

A joint experts group will be established under the aegis of the SPA Technical Group and the ECA, bringing together experts from Africa and partners to develop proposals for a common framework of assessment and capacity building of public financial management systems.

PRSP Processes, including Participation

Participation in the poverty reduction strategy process may be appropriately differentiated by the nature of the policy issue and the interests and capacity of the stakeholders.

There are capacity constraints in civil society organisations, the media, parliaments, think tanks, universities, and research institutions.

Ownership requires transparency on the part of governments and external supporters.

Donor Modalities and Conditionality

All donor activities in-country in support of government should be delivered through government systems unless there are compelling reasons to the contrary; where it is not possible to do this, alternative mechanisms or additional safeguards must be designed in ways which support and develop rather than undermine or bypass those systems. This includes the budget and procurements systems.

Country ownership should be strengthened; all activities should be governed by national priorities and policies, local capacity building in policy formulation and implementation, and national stakeholder consultation.

Donors should ensure that aid supports nationally owned strategies to reduce poverty; where possible, they should shift from a project approach toward programmatic aid.

HIPC-related expenditure should be planned and accounted for as an integral part of the budget process.

Donors should simplify and harmonise their reporting and monitoring requirements around the national poverty reduction strategy process, including the development and monitoring of targets and the timing and format of reporting requirements.

A joint team of the SPA Technical Group and the ECAP/PRSP Learning Group will be established to make recommendations on the modalities for supporting and monitoring the implementation of poverty reduction strategies to their joint meeting.

Meeting Partnership Arrangements

Participants found the meeting productive and welcomed the candid exchanges and information sharing and opportunity for joint work.

The SPA Technical Group and the ECA PRSP Learning Group will meet together annually to share experiences and assess progress.

Two specific areas for joint work have been identified: the development of a common framework for public financial management assessment; and the modalities for supporting and monitoring the implementation of PRSPs.

The meeting recognised and endorsed and impetus expressed in the New Partnership for African Development (NEPAD) for a new relationship between donors and African partners based on mutual obligations, mutual accountability and mutual benefits.

Appendix 3

PRSPs in Africa: Results of a Study inquiring into the Institutionalisation of PRSPs in Eight Countries

The findings of a study of the implementation of PRSPs in Africa show PRSP processes have increased participation in policy-making. Donor practices are slow to change, and may be an obstacle to the full benefits of the PRSP approach.

1. The PRSP institutionalisation study considered the extent to which the PRSP-approach is being embedded in eight African countries¹. The study was done by a team of international experts, including Africans, and led by consultants based at the ODI. The results include a detailed commentary on each of the eight countries, together with an overview.
2. The study focuses on four critical areas for assessing how well the PRSP framework is being incorporated into national systems:
 - 2.1. the attitudes, commitments and capacities of government and civil society stakeholders in responding to the PRSP process;
 - 2.2. key institutional changes, especially to public financial management and the broader governance framework
 - 2.3. the development of national poverty monitoring and information systems
 - 2.4. the attitudes and involvement of donors in supporting the development and implementation of PRSPs.
3. **The general findings and policy implications** of the study are:
 - 3.1. Acceptance of the PRSP approach by African governments has been swift; partly due to the pressures created by HIPC. Generally, countries have responded positively and suggests that gains made, though simple, may be irreversible. Although PRSPs bring additional conditionality, the new approach is not strongly opposed.
 - 3.2. At a relatively early stage of implementing the PRSP approach, responsibility for overseeing PRSPs shifted to Ministries of Finance, indicating the seriousness with which governments were taking the PRSP-process in most countries. This change signals a move away from the traditional focus on social sectors towards mainstreaming poverty into general policy processes. A closer link between poverty and budgets is gradually being established, but progress is slow.
 - 3.3. The success of the PRSP approach appears to be predicated on countries making progress with longer term complementary reforms, including public expenditure management and progress made towards adopting MTEFs. Implementation of PRSPs is stronger where reforms were already underway (Tanzania, Rwanda, Mali) and is weaker where not (Benin, Kenya).

¹ Benin, Kenya, Mali, Rwanda, Tanzania, Malawi, Mozambique, Ghana

- 3.4. There is some evidence to suggest that the incentive to change aid relationships towards programmatic forms of support for PRSPs are greatest when countries implement a budget reform process, including establishing MTEFs, simultaneously with PRSPs.
- 3.5. Civil society engagement on poverty has been much greater than before. New voices are being heard, but these tend to generate 'shopping lists' rather than influence policy processes and outcomes. IFIs in some cases are being short term and instrumentalist about the role and significance of participatory processes.
- 3.6. Despite a rushed and unsatisfactory consultation process in most cases, important outcomes have been produced: the political profile of poverty issues in-country has been raised; NGOs and CSOs have mobilised to engage with national policy processes in a more strategic manner; working relations between government and civil society representatives have started to improve.
- 4.1. Country studies reveal the need to understand national social and policy systems as PRSPs necessarily have to work through political structures. There has been some by-passing of parliamentary structures and procedures in PRSP discussion and formulation. Attempts to circumvent political processes are unhelpful and unlikely to succeed. This brings risks and will test commitments. Temporary policy reversals can be expected. Development partners need to set realistic expectations and timescales, if only to avoid disillusionment.
- 4.2. There is some evidence showing that the way donors behave in-country can support or frustrate national PRSP efforts. Project-oriented approaches foster patron-client relationships and influence the pattern of domestic politics, resulting in rent-seeking behaviour, low accountability, and poor capacity in government. Common basket funding for participation would help avoid situations in which NGOs and other 'donor friendly' groups are strengthened at the expense of other parts of civil society (trade unions, professional associations, parliamentary groups).
- 4.3. Programme assistance and the adoption of common approaches and procedures help governments to build capacity and accelerate the implementation of PRSPs. Donors, however, need to make stronger moves to change aid modalities and buttress government systems. Necessarily, this will involve some risk.
- 4.4. There are perceptions within countries that PRSPs have not fundamentally changed relations between government and the IFIs. While some changes for the better are noted (eg IFIs standing back in PRSP preparations and making space for national consultations), there are a number of worrying developments. A common perception is that conditionalities in HIPC and PRGF agreements are not adequately governed by PRSPs. Separate agreements reached between governments and the IFIs, the contents of

which tend not to be made public, are not helping to build trust, nor to establish the centrality of the PRSP in the policy-making process. The IFI processes need to be more transparent.

- 4.5. External financing relationships need to change substantially for the better. After countries reach their full PRSPs, considerable international effort will be needed to ensure that financing arrangements agreed with external partners are designed to work with, and in support of, national systems. Streamlining conditionality around the PRSP would be the basis for building stronger, longer-lasting, partnerships in support of a nationally defined agenda.
- 4.6. Donor support for participatory policy making needs to break from clientelism; it should take a longer-term view, it should recognise 'civil society' as differentiated, and it should seek to encourage wider and deeper participation. The quality of the PRS process crucially will depend of sustaining a credible participatory approach to PRSP formulation, implementation and monitoring.
- 4.7. In many countries the content of PRSPs remains weak. A good start has been made, but improving their quality is a core priority and challenge. This is not just a technical matter, although undoubtedly many issues deserve closer attention, not least the problem of costing a realistic PRS over the medium term. A culture and practice of participatory policy-making needs to develop. Development partners need to take stronger measures to bolster national processes.
- 4.8. Poverty monitoring systems are being established in countries, and considerably more time and effort is being invested in developing credible measures to track improvement. Progress is patchy. In some countries a lot of work is needed. A crucial distinction needs to be made between indicators that measure progress against poverty benchmarks and others that show PRSP-processes are developing in the right direction.

Next steps

5. Discussion at the SPA technical meeting stressed the importance of communicating key findings to all development partners.
6. Early in the new year, a two-page policy briefing note and a 20-25 page summary will be produced for the SPA Plenary meeting in Paris (29-31 January).
7. After the Plenary, a decision will be taken on whether to publish the main report, probably under the SPA banner as work commissioned by the SPA. The study team will also hold seminars in the countries where empirical work was conducted.

DFID Views on the PRSP Process

DFID places great strategic importance on the Poverty Reduction Strategy process. We believe that PRSPs are a chance to develop a genuinely different kind of development co-operation, one that will lead to more success in poverty reduction than has been achieved in the past in many countries. We are taking steps to change our procedures and practices in response to the PRS process. We remain very impressed with the energy and commitment which developing countries have shown in taking forward this new process. Our country programmes have been actively engaged in supporting our partner nations develop their PRSPs and we have been keen to learn lessons at the earliest opportunity. We have commissioned, sometimes together with other development assistance agencies, independent reviews of the PRS process and PRSP content and made these reviews available to the World Bank PRSP Review (see Annex 1).

Our contribution to the World Bank's PRSP Review.

2. Much work is needed to consolidate and build on the positive changes that have occurred to date, particularly as partner governments move from writing the Strategy to implementing it. Here we identify a number of strategic areas that we think require substantial work from the international community over the year ahead. In particular, we have tried to identify specific areas where we feel the Bank and the Fund could strengthen their leadership while striking a judicious balance between fostering country ownership and meeting the responsibility of the international community to support poverty reduction.

3. The issues are:
- Deepening and extending the PRS partnership
 - Co-ordinated donor responses
 - Macro strategies
 - Capacity
 - Poverty and Social Impact Analysis
 - Reducing transactions costs
 - Financing the PRS

Deepening and Extending the PRS Partnership

4. **Changing aid relationships.** DFID's engagement with the PRS process over the past year leads us to believe that several significant changes are occurring in the right direction. For example, evidence from seven sub-Saharan African (SSA) countries suggests that the PRS process has the potential to strengthen the poverty reducing impact of aid through providing a new set of incentives that will enable partner governments to develop stronger institutions and prevent the aid relationship from eroding the capacity of partner governments and other national institutions to act for themselves. In

the year ahead we need to look at the implications of our learning under the PRS process for Bank and Fund programmes in Middle Income Countries.

5. In many countries outside SSA PRS processes have not been so centre stage and our impression is that, to date, they have not significantly challenged the dynamics of the aid relationship. Our country programmes show, for example, that:

- In Asia generally, the uptake of PRSPs has been slower than in SSA, where the dynamic imparted by HIPC provided considerable momentum to the process. Our experience suggest that slower uptake in Asia stems in part too from the fact that some countries already have poverty reduction strategies, many of which were supported by the AsDB, which represent considerable pre-existing capacity and activity. There is also less aid dependence in Asia. The Bank could do more to fit the PRSP into existing government and donor strategies in Asia.
- In the Balkans more work is needed to consider how PRSPs should fit along side the framework of the EU's Stability and Association Agreements

6. **Aligning World Bank activities behind PRSPs.** Our experience is that while more World Bank Country Offices are working to PRS principles now than they were in the early stages of the process, practice is still highly variable. While some World Bank country offices are active advocates of the PRS process, for others the work of centralised Bank functions, such as PREM, is little known; more importantly, policy commitments are sometimes ignored. For example, we found that in Macedonia, giving the lead on PRSPs to PREM and Human Development Division led to incoherence and, as a result, little buy-in from the Bank's own country team. We urge the Bank to make more effort to align the work of **all** their low-income country offices behind the PRS process. We have found some cases, where multi-lateral financing continues with no reference to the PRSP (e.g. World Bank education sector loan in Tanzania). There are similar examples from bi-lateral and other donor financing. It is important that the Bank takes a stronger role in monitoring these issues and raising them within the donor community.

7. **Promoting the Centrality of PRSPs .** DFID believes that, in order to tackle poverty more effectively, it is critical for all development agencies, multi-lateral and bi-lateral, to align their programmes and activities behind the PRS approach. We urge the World Bank to actively develop open collaboration with the UN and the EU on PRSPs.

8. Experience from our own country programmes shows that, in many instances, the Regional Development Banks are lagging behind the rest of the donor community in bringing their operations in line with the PRS approach. In too many instances we see a "business as usual" approach in the RDB sector programmes, which creates a parallel and competing incentive framework. DFID and others are making strenuous efforts to encourage the RDBs to align their efforts accordingly. In parallel, we urge the World Bank and the IMF to ensure that they are also encouraging this change. We

welcome the Bank's leadership role on the MDB Harmonisation Task Force, and believe it is important that the wider issues of RDB involvement in PRS development and implementation are addressed within this forum.

A Platform for Co-ordinated Donor Response.

9. Improving PRS Assessments and Annual Reviews. One measure of the success of the PRS process rests on all development partners buying into the policy and aligning their country strategies with it. It is therefore important that the terms and mechanisms for PRS assessments and annual reviews should be inclusive of a broad range of concerns, co-operating partners, and other stakeholders, including civil society. For example, the constraints of the Bank's mandate should not limit the assessment of political governance issues where these are relevant to the success of the PRS. Bringing development partners into the assessment process would enhance the quality of the assessment, and encourage greater buy-in on the part of other donors. In Bolivia, efforts to support the JSA with a joint bilateral input added value to the assessment of the PRSP and encouraged greater co-ordination of donor efforts in support of the PRSP. We found however that bi-lateral co-ordination efforts required significant resources (for example in Moldova, Albania and Bolivia) and recognise that we must be willing to accommodate these costs.

- Our country managers in Bolivia and Nepal estimated that 50% of their time was dedicated to PRS donor co-ordination efforts.

10. Providing clear PRS Guidance. We have found some national governments unsure about the requirements and details of the PRS process. While we accept that there is a fine line between donors driving the process and donors providing clarification of expectations we think that sometimes, in the name of promoting national ownership, the international community has not made relevant information clear to government. For example our office in Tanzania reports that the absence of clear guidance on how to proceed with the PRS Review has been problematic.

Macro Framework and Growth Strategy.

11. The weakness of the macro framework and growth strategy contained in poverty reduction strategies to date is worrying. DFID is concerned that the World Bank and the IMF, as sites of considerable resources and expertise, are not developing effective ways to support partner countries develop strategies that encompass their longer-term development needs. We are very willing to work closely with you in this area in the year ahead. We have four main areas of concern:

- Insufficient attention to macro-micro linkages
- Insufficient growth orientation (including attention to shocks and neglect of the environment)
- Failure to embed the PRGF in the long-term growth strategy
- Lack of innovation

12. Insufficient attention to macro-micro linkages. In the full PRSPs that exist, the linkages between sectoral sources of growth and raising

household income of the poor are weakly elaborated, if they are elaborated at all. For example:

- Mozambique's PARPA identifies a significant source of growth from mega projects – highly capital intensive, enclave type developments
- Tanzania's PRSP identifies the mining sector as a significant source of growth.

However, analysis of transmission mechanisms from these growth sectors to incomes of the poor is absent. There are straightforward ways to do this and we remain concerned about the lack of Bank and Fund effective engagement. Similarly, we have yet to see fiscal and monetary targets that are derived from model-based estimation of the positive contribution that improved levels of health (including lower HIV/AIDS incidence) and education can make to economic growth. Disbursing the new Global Health Fund will raise the importance of embedding human capital development strategies in the macro framework.

13. Insufficient growth orientation. Macro stability, greater export orientation and withdrawal of government from productive sectors tend to dominate the strategies. Less attention is given to other aspects of the supply side response including those of particular relevance to increasing the contribution of poor people to growth; for example private sector development, interest rates, credit availability, labour markets, and, more generally, how to reform and create the institutions needed for sustainable growth. We also remain concerned that the international community is still not supporting countries in thinking effectively, and in advance, about the impact of shocks on growth and poverty strategies.

14. Gender blind approaches. DFID believes that to be effective, poverty reduction strategies policies need to be based on an analysis of poverty and its causes that takes into account the roles and responsibilities of men and women in the productive and reproductive economic spheres at macro, meso and micro levels. The World Bank has developed considerable capacity in gender analysis, yet our experience in-country is that these resources and expertise is not systematically made available to the PRS process. We urge the Bank to provide the framework and incentives to their country programme offices to utilise the Banks gender analytic capacity to assist the PRS process.

15. Neglect of the environment. For lasting growth and poverty reduction it is critical that relevant poverty-environment issues are given priority in PRSPs, and that those dealing with the environment in-country are actively engaged in the PRS process. Reviews by DFID and the World Bank have revealed a mixed picture. Some countries' PRSPs (e.g. Bolivia, Honduras, Mozambique and Uganda) have given priority to relevant poverty-environment issues, but even these countries have been less successful in identifying how they should be addressed. Very few PRSPs have costed interventions in the policy matrix, especially where action is needed across sectors. Only a few PRSPs (e.g. Bolivia, Uganda) include poverty-environment indicators. Crucially, even when the environment is covered in the PRSP, environment agencies and civil society groups are rarely actively engaged in the process. We welcome our involvement with the World Bank on developing regional

poverty-environment training. However, our experience is that the commitment of Bank country staff to poverty-environment issues varies greatly, and even among environment staff there is a need to shift from the environmental “safeguards” mentality to poverty-environment opportunities. We therefore urge the Bank to focus on mainstreaming the poverty-environment agenda among staff working on PRS issues.

16. Failure to embed the PRGF in the long-term growth strategy. We are concerned that full PRSPs have been written taking the PRGF as given. In some cases, where stabilisation has not been achieved or is fragile, this is appropriate, while in others it is not, as trade-offs between long- and short-run development objectives need to be made explicit. DFID has found that there is still reluctance from the Bank and Fund to address what the nature of these trade-offs may be through producing alternative economic scenarios associated with alternative policy choices.

- In Uganda both government and the donors (including the Bank and the Fund) have argued that any additional funds for health will jeopardise inflation targets (and hence growth) by increasing government spending beyond agreed limits with the IMF.
- In Mozambique it seems clear that the Fund and Ministry of Finance did consider different programme scenarios during negotiations, but none of the alternatives are reported. In these situations we believe it is important to report discussions of alternatives in public documents.

In this context, we strongly welcome, the very recent agreement by the Fund board for Staff to work with countries to generate options for programme design, and we urge close collaboration between the Bank and the Fund as this is taken forward.

17. Lack of innovation. More innovative and rigorous thinking is needed on conceptualising alternative more flexible, post stabilisation macro frameworks, based on normative assessments of social need and growth. We expect that, as national ownership of PRSs develops, they will include policy elements that depart from past consensus about the appropriate policies for poverty reduction and growth. In this light we welcome the IFIs acceptance of continued protection for cashew nuts in Mozambique, and the abolition of school and health fees in Tanzania and Uganda respectively.

18. Using participatory processes to inform policy making. Our country programme experience and studies carried out for DFID lead us to believe that, in a number of countries PRS consultative processes, have produced changes in the policy-making environment. They have, for example, raised the political profile of poverty issues in the public debate in countries developing PRS, and served to mobilise NGOs and CSOs to be more policy focused. In addition, some voices have been heard in the last two years that would have otherwise been ignored by government. We need to build on what has been achieved to ensure that the capacity to hear the voices of the poor is broadened and deepened, while reinforcing the evolution of democratic processes and institutions. In this regard, we are concerned that participation processes should not over-privilege NGOs at the expense of

local political institutions. At the same time, the quality of the outputs produced through consultation processes, and their consequent impact on policy-making, is a real concern.

19. Our country programmes report that initially, the Bank seemed to view participation as something that could be achieved technically, through the application of a set of tools and methods, rather than a lengthy process with its own, sometimes unpredictable, dynamics. The result is that the Bank has not always made a positive contribution to maximising the impact of consultation and participation on PRS policy. DFID believes that as lead implementor, the World Bank needs to ensure that an appropriate amount of attention is given to understanding the kind of strategic processes that are required in each country to enable a wide range of stakeholders to contribute quality outputs to national poverty reduction strategies.

20. Our experience suggests that this is an area of concern with regard to both the Bank and the IMF, but the IMF has been generally less involved in participation and consultation in-country. DFID believes that the IMF cannot remain aloof from these processes. For the PRS to be genuinely nationally owned, IMF supported programmes and instruments must be accessible to, and understood by, all national stakeholders. This would also enhance the accountability of the Bank and Fund's role in the process. We see improving the quality of PRS consultation and participation as a key area for future attention by the World Bank and the IMF in collaboration with other development partners. We hope to work closely with you on this in the year ahead.

Underestimating the capacity needed to develop strong PRSPs.

21. As more first, full PRSPs are completed, it is becoming obvious that the capacity needed to develop PRS that are sufficiently rigorous to offer a real and improved alternative to the economic reform and adjustment policies of the past has been severely underestimated. A greater, more focused effort on developing capacity for economic, environmental and social analysis that is embedded in our partner countries' national institutions is needed.

Poverty and Social Impact Analysis (PSIA).

22. Slow progress on PSIA to date is a cause of great concern. PSIA offers the opportunity to open up the dialogue between developing countries and the international community on the macro strategy for poverty reduction. The Fund has begun to discuss PSIA in PRGFs, but as yet there is no timetable for PSIA in all PRGFs. Progress in this area relies on Bank support, and we believe that the Bank and Fund should set a clear timetable for producing the analysis that Fund staff can use on the PRGF. We are also keen to engage with the development of PSIA in PRSCs and in the revision of the OD on adjustment lending and the conversion into OP/Bank Procedures.

23. We are working closely with you on operationalising ex-ante PSIA of macro and structural policies by funding pilot studies in six countries (Uganda,

Rwanda, Mozambique, Honduras, Armenia and possibly Pakistan). Our country programmes found that government and other stakeholders in these countries exercised strong demand for PSIA to be undertaken in their countries, indicating a desire for increased ownership of macro-strategies and appetite for opportunities to develop more country specific policy frameworks. Our experience in Uganda underlines the importance of learning from the mistakes of the past as considerable poverty analysis has been done by the World Bank but its results remain weakly owned or used by national institutions. We look forward to the conference planned for autumn 2002 where we can bring together the results of the Bank's and DFIDs pilots and from them develop guidelines for conducting PSIA within PRS frameworks.

24. Our work suggests that the commitment to PSIA is now well understood in the Fund. But in the Bank understanding is still patchy. We have found examples of Bank staff in-country who are not aware of the new commitment, including their expected role in supporting the Fund.

25. **Reducing transactions costs.** DFIDs experience is that in the short term the PRS process has increased the transactions costs of doing business with donors for partner governments. There are clear capacity and resource implications of this trend. Further, governments are distracted from other core functions and domestic accountability can be undermined.

26. In Tanzania, Malawi and Uganda our offices report that the review processes for the PRS, PRSC (Uganda) combine with other pre-existing donor review procedures (PEM, SWAPs, country programme review etc) to increase the number of donor-generated demands on government capacity. In a similar vein, we welcome the recent increased attention by the Bank and the Fund to public financial management issues, but urge that we should think carefully about co-ordination and synergy between the various diagnostic and surveillance tools (the CFAA, PER, ROSC, HIPC Tracking work etc). We welcome new work in the Bank to improve co-ordination around these different instruments and stress the need to go beyond assessment tools to co-ordinated action to address fiduciary weaknesses. We think that there are opportunities to reduce to the burden on our PRS partner governments by developing a more co-ordinated Bank/Fund approach.

27. **Streamlining Conditionality.** We welcome recent moves by the Fund and the Bank to streamline conditionality. As recognised by Staff, this is a broader issue than limiting the number of conditions. We urge the Fund and Bank to examine the implications of PRS assessment and review procedures with a view to achieving internal rationalisation, and streamlining them with the partner government's own domestic schedules and processes. We note that other donors will have to address this issue in their own procedures too. We think it would be useful for the Fund and Bank to monitor the entire conditionality framework that countries face, with the particular aim of moving towards greater clarity in the medium term conditionality and performance framework under the poverty strategy.

28. **Financing the PRSP.** DFID views the PRSP as work in progress – a strategy that will evolve and improve as learning, capacity, and experience accumulate. Where shared commitment with our developing country partners to poverty reduction is strong enough, we are switching to **programmatic lending** to support the PRS. We have found that there is a positive dynamic between the switch to more flexible forms of funding and strengthening Public Expenditure Management. Readiness to finance budget support adds to the incentives for our partner governments to move forward with and implement fiduciary reforms. We have agreed a new fiduciary framework and approach to risk assessment with our National Audit Office to support this work.

- We have found it possible to move forward with budget support in Uganda, Malawi, Tanzania, Mozambique, Rwanda and Vietnam - in most instances together with other donors and with performance frameworks taken from the poverty strategy.

29. For the PRS process to mark a significant change from the past and move towards new, more effective aid delivery modalities, the donor community needs to make a more decisive shift towards financing poverty strategies with more predictable and longer term financing, linked clearly to performance frameworks taken from the PRSP. We welcome the Bank's commitment to prepare new CASs for all countries with PRSPs by mid 2002. There are some excellent examples of CASs which show how the Bank has thought carefully about appropriate financing for poverty strategies (e.g. Benin). Poverty Reduction and Support Credits (PRSCs) have a strong role to play, not least in allowing the Bank to provide a lead and framework for other donors to follow in financing poverty strategies. We also welcome recent work in the Bank to revisit its approach to SWAPs and pooling finance with other donors.

30. Ultimately we should be moving forward to an approach for international support to PRSPs, whereby those countries with serious plans, and where serious commitments and efforts are being made, should not be denied the resources they need to implement their plans and achieve the Millennium Development Goals.

Priority Action Points

31. Deepening and extending the PRS partnership

- As lead implementing agency the World Bank must ensure that actions continue to be taken, both inside the Bank itself and in its approaches to other co-operating partners to widen and deepen the PRS partnership. This should include active efforts by the Bank to promote a shared dialogue between government and all other donor partners in country.
- We urge the Bank to make more effort to align the work of **all** their country offices behind the PRSP.

32. Macro strategies

- The Fund must act as an "intelligent customer" of poverty reduction analysis and make an active effort to engage with the Bank and national

governments to identify ways in which its policies can help to deliver improved poverty reduction and growth.

- The World Bank and IMF should work together to ensure that strategies encompass longer-term development needs. DFID is willing to explore how we might assist in this regard.
- We urge the Bank to focus on mainstreaming the poverty-environment agenda among staff working on PRS issues and to take steps to ensure that its expertise on gender is available to national PRS processes.
- Greater openness and transparency in Bank and Fund operations should be maintained and extended by the discussion of alternative policy scenarios and elaboration of choices made about them. We expect documents going to the Boards to contain such discussions in future.

33. **Capacity**

- We urge the World Bank to ensure that questions of capacity building are adequately addressed in the PRS at the country level. It is important the Bank works in concert with government and other stakeholders to ensure that a clear, long-term strategy that identifies and addresses past failures in donor sponsored attempts to build capacity in government, national institutions and civil society, is developed.

34. **Poverty and Social Impact Analysis**

- In the interim period where capacity is being built to incorporate PSIA into PRS development, we urge the World Bank and Fund to ensure that the poverty impact of key macro and structural reforms contained in the PRGF is adequately analysed and documented.
- We urge the Bank and the Fund to set a clear timetable for producing the analysis that Fund staff can use on the PRGFs coming to the Board in 2002/3.

35. **Co-ordinated donor response**

- The Bank should issue guidance on how JSA missions should engage with PRS stakeholders. Staffs should be asked to work with others on the assessment of the political risks to the PRS. JSA reports should reflect the assessments of different stakeholders of the PRS process. Where significant differences in views exist between stakeholders and the Joint Staffs, the alternative views should be included in the JSA document as annexes.

36. **Reducing transactions costs**

- The World Bank and IMF should examine the transactions costs of the PRS process, and its associated consultation, assessment, and review procedures, with a view to streamlining them.

37. **Financing the PRS**

- The World Bank should move forward quickly with the PRSC in 2002 and use CASs to explain carefully how it will finance poverty strategies.

Annex 1*The Potential of Using Sustainable Livelihoods: Approaches in Poverty Reduction Strategy Papers*

Andy Norton and Mick Foster July 2001
Overseas Development Institute

Poverty Reduction Strategies and the Macroeconomic Policy Framework

David L Bevan and Christopher S Adam January 2001
Department of Economics, University of Oxford

Food Security and PRSPs

Gareth Williams and Alex Duncan April 2001

Sub-Saharan Africa's Poverty Reduction Strategy Papers: Social Policy and Sustainable Livelihoods Perspectives

Neil Thin, Mary Underwood, Jim Gilling March 2001
Oxford Policy Management

Desk Study of Good Practice in the Development of PRSP Indicators and Monitoring Systems

David Booth, Henry Lucas May 2001
Overseas Development Institute, Institute of Development Studies

PRSP Institutionalisation Study: Third Progress Report

David Booth May 2001
Overseas Development Institute

Governance and the PRSP Process: A Review of 23 IPRSPs/PRSPs

Kathryn Casson June 2001
Governance Department, DFID

Spatial Considerations in National Poverty Reduction Strategy Processes – A Working Paper

Alison Evans
DFID

*Review of the Integration of Environmental Issues into Selected PRSPs:**Integration of Environment into Kenya's Poverty Reduction Strategy*

John Mugabe May 2001

Integration of Environment into Poverty Reduction Strategy Papers First Report

Annie Kairaba National Consultant Rwanda May 2001

Poverty Reduction Strategy Programme in Nigeria

A.M.A Imevbore May 2001

Environmental Resources Managers Limited, Nigeria

Strengthening Civil Society Participation in Poverty Reduction Strategy Papers

SGTS and Associates June 2001

Becoming Poverty-Focused: Implications for Health Workers

Jeremy Holland, Ele Fisher, Sarah James, Veronica Walford August 2000

Centre for Development Studies Swansea

From HIPC Debt Relief to Poverty Reduction – Getting the PRSP Process to Work – Background Paper

Marcus Manuel April 2001

IMF PRGF Review

Submission from HM Treasury/DFID, UK

The UK Government has strongly supported the introduction of the PRSP approach in low-income countries, and the development of the PRGF. We see the PRGF as one of the key Fund vehicles for providing support to the achievement of the Millennium Development Goals, ensuring that Fund policy measures and support are focused not just on stabilisation and growth but also on poverty reduction.

The Fund's elaboration of the 'Key Features' was a very positive step, welcomed by the UK, demonstrating the priority that the Fund was giving to the creation of the PRGF and further definition of its role. The 'Key Features' note has helped to set out how the PRGF will differ from the previous ESAF, and how it will ensure that poverty reduction and growth be addressed as fundamental aims, namely through:

- Broad Participation and Greater Ownership
- Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction
- Budgets that are more Pro-poor and Pro-growth
- Ensuring Appropriate Flexibility in Fiscal Targets
- More Selective Structural Conditionality
- Emphasis on Measures to Improve Public Resource Management/Accountability
- Social Impact Analysis of Major Macro-adjustments and Structural Reforms

The PRGF Review, and the parallel PRSP Review, provide a timely opportunity to assess progress and to develop appropriate improvements to the PRSP process, and PRGF design and use. Early findings from these Reviews could also provide a useful contribution to the UN Conference on Financing for Development.

This submission provides comments on each of the individual key features. A submission has been sent on the PRSP Review, and would be useful for cross referral.

1. Broad Participation and Greater Ownership

1.1 We welcome recent efforts by the Fund to strengthen country ownership of Fund supported programmes. We strongly believe that the Fund should continue to work to strengthen country ownership of its programmes. Experience across a broad section of Fund members shows a strong correlation between country ownership and success of Fund programmes. It is important, however, that we strike the right balance. We believe that as we take steps to strengthen country ownership, we must also ensure that the quality and objectivity of Fund surveillance and policy advice is maintained. Fund objectivity and credibility are clearly also key factors in determining a programme's success.

1.2 Ownership increased through Poverty and Social Impact Assessments:

We believe that ownership will be substantially increased through support to Poverty and Social Impact Assessments. The process of describing policy options and trade-offs, and discussing these with country stakeholders through a transparent and participatory process, is a key part of building ownership for the reform programme, and will contribute to ensuring that the programme represents the broad interests of society, e.g. alternative fiscal and monetary scenarios for arriving at low inflation and meeting balance of payments gaps. In the absence of government capacity to undertake these assessments, the Bank and Fund should play the lead role on this, while in the longer-term, as capacity develops, governments can begin to manage the process.

1.3 Communication and Resident Representatives: The Fund has made important progress in recent years to improve the way it communicates with governments and other stakeholders. Within the process of developing the PRGF, we believe that challenges still remain in improving Fund communication and participatory processes, particularly with regards to the macroeconomic framework. The Fund could do more in PRGF countries to explain the Fund programme to stakeholders, and to communicate how the programme supports poverty reduction and growth. This could potentially include an expanded role for Resident Fund Representatives. Such Representatives could take on an increased role in evaluating reforms proposed by authorities, and discussing and negotiating these on a more continuous basis with governments and other stakeholders.

1.4 At the same time, Fund efforts to support ownership need to be communicated better to PRGF countries – the process of Fund dialogue with countries should aim, as a by product, to build capacity and enhance ownership - our country programme offices report that many in government, and outside of government are unaware of changes. The Fund has a responsibility to actively promote transparency in its programme design process and accessibility to their content and details, and has made considerable progress over the past years in improving transparency and developing more open dialogue. However, the feedback from our country programmes, with notable exceptions such as Kenya, observe that more could be done in this area at the country programme level.

1.5 Macroeconomic capacity: Many PRGF countries need to develop improved capacity to develop a macroeconomic programmes themselves. Capacity building in the area of macroeconomics and fiscal issues is an extremely important part of effective programming, increased ownership and participation. Technical assistance which is properly targeted and designed to ensure an effective transfer of capacity, is also an important part of this process. Technical assistance could build capacity amongst authorities, parliament, and civil society (including universities and policy/research institutes). If countries are to develop their programme and own it, they need to be able to design the programme, look at options and debate them. We welcome Fund efforts to support capacity building. However, more needs to be done in this area in cooperation with the Bank and bilateral donors.

1.6 Missions: Ownership requires clarity – some of our country programme offices are increasingly concerned about the level of transparency and timetabling around the monitoring process for PRSPs, PRGF and Bank lending. Wherever possible missions and tranche releases need to be timed to fit with national budget cycles.

1.7 Annual review of the PRSP: In low-income countries, we support the view that the Annual Review of the PRSP must take increased prominence for performance assessment and hence for judging ownership of the programme, coupled with objective Fund assessment of performance through the PRGF review. We are concerned that recent guidance from the Fund and the Bank has put more emphasis on the review of the PRSC as the main way to check whether progress on social and structural issues is on track, we believe that the primary place for this should be routine reviews of the PRSP, supported by reviews of PRGF and PRSC. Improved coordination between reviews of the PRSP and reviews of the PRGF would improve the effectiveness of this process.

2. Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction

2.1 Supporting long-term development needs: We have strongly welcomed the Fund's commitment to embed the PRGF in a country's poverty strategy. However, the weakness of macro frameworks and growth strategies contained in poverty reduction strategies to date is worrying. We are concerned that the Bank and the Fund, as sites of considerable resources and expertise, are not developing effective ways to support partner countries develop strategies that encompass their longer-term development needs. We have provided more detail on this in our input to the PRSP Review. For the Fund, it is important that staff have a good understanding of the links between stabilisation, structural and social policies and longer term growth paths. Our experience on the ground shows some Fund staff are clearly willing to engage in these issues and work with the Bank and others to deepen understanding of supply side reforms and their impact on stabilisation and growth. But in other cases, there is still a sense in which the PRGF framework is taken as a starting point for the PRSP and limited efforts are made to unpack or challenge the implications. We have been concerned that in some cases the streamlining agenda may be being used as a reason to withdraw from these wider issues. Not least, there is uncertainty among those involved in the PRSP process about whether they are "allowed" to challenge existing PRGF performance criteria and benchmarks during the PRSP process. For example in Malawi stakeholders found that PRGF conditions pre-empted national discussion of, and so the exercise of choice between, alternative long-run poverty reduction strategies.

2.2 Showing how the PRGF supports the poverty reduction strategy: A core part of this feature is that Fund programmes are to be derived from the overall growth and poverty reduction strategy – which should be the national poverty reduction strategy, summarised in the PRSP. It is hard to measure progress on this feature at this time, since there are so few full PRSPs (8 full, 36 interim). However, we believe staff reports could do more to show how specific measures supported by the PRGF are embedded in the PRSP, or are

broadly supporting priority areas identified in the IPRSP/existing national development plans. The recent Mali PRGF contains useful discussion on poverty in various parts of the document, including a box. This is a good model to build on. For PRSPs to become effective it is critical that they are translated into medium term budget plans; the PRGF has a key role to play in assisting in this process.

2.3 Macro-micro linkages: Greater Bank and Fund co-operation will be key to many areas of PRGF reform. One will be to address the linkages between the broader structural and social reforms contained in PRSPs and the macroeconomic reforms detailed in the PRGF. At the moment PRSPs are generally very weak on the macroeconomic side. Reviewing the linkages between macro and micro is an important agenda. The Bank could do more to assist with growth projections based on microeconomic foundations.

2.4 Macro impacts of ill-health: The Fund produced a useful report on the impact of HIV/AIDS in Zambia and has addressed this issue in other PRGFs. In addition, the Bank and WHO have been undertaking a range of work to review the economic and other impacts of HIV/AIDS, malaria and other aspects of ill-health on developing countries. *We believe that it would be appropriate for all PRGFs to assess the impact of ill-health on economies that are severely affected and alter growth forecasts accordingly.*

3. Budgets that are more Pro-poor and Pro-growth

3.1 Need to show basic spending: We welcome the Fund's role in monitoring the performance of countries in fulfilling their expenditure commitments in poverty strategies. Many PRGFs are reviewing the level, composition and efficiency of spending in social sector areas; most provide details of health and education spending, for instance. The HIPC tracking process is helping to improve current reporting, and in HICPs more detail is often provided. This is a very welcome development and is making an important contribution to national debates around spending priorities and poverty reduction efforts. However, the majority of PRGFs do not provide sufficient detail on basic expenditures, for example, primary education or primary health spending – key areas of relevance to the poor. A primary, secondary and tertiary breakdown would be more useful. We recognise that budget coding problems in many countries are a constraint, and that the Fund is addressing this, however, the Fund could do more to prioritise efforts in this area. The Fund should seek support from the Bank where appropriate, and provide more consistency in reporting on these areas across all staff reports. *It would be helpful if the Fund could provide an update on progress in this area, and provide a timetable for when all PRGFs will contain more detailed pro-poor budget analysis. We would suggest that possibly half of the PRGFs reviewed in 2002 could contain this analysis, and all PRGFs by 2003.*

3.2 Pro-poor and pro-growth spending: Social spending is not the only spending area of relevance to the poor, rural roads, for instance, are vital for providing the poor access to markets and thus potentially improved incomes. Recent work on gender budgeting, or children's budgets, could contribute to improved pro-poor choices in spending. PRGFs should detail all key areas of pro-poor spending, and the Fund could do more to encourage shifts in pro-

poor spending through discussion in the PRGF of overall pro-poor composition, options and trade-offs, possibly by undertaking PSIA in this area. Details of pro-growth spending on infrastructure or agriculture would be useful. Improvements in composition is one thing, outcomes are another. More discussion of this aspect, including mechanisms for monitoring links between spending and outcomes, are an important part of supporting PRSPs.

3.3 Tax: A number of PRGFs have helpfully discussed tax reforms and potential impacts on the poor. Other aspects of tax reform address revenue collection/growth trade-offs. A more consistent approach to tax reform across all staff reports would be helpful in reviewing poverty impacts and necessary measures, and pro-growth issues.

3.4 Fiscal Decentralisation: see section 6.

4. Ensuring Appropriate Flexibility in Fiscal Targets

4.1 Three general points should be noted before addressing this issue in detail. First, in most poor countries the capacity to undertake rigorous macro-economic analysis of alternative fiscal scenarios is weak. Second, this area lies at the heart of IMF competence and expertise. Third, we know that the analytical work to explore fiscal flexibility is perhaps not as well developed as it might be.

4.2 Need for Fund to be more proactive: There is considerable demand for the IMF to become more proactive in working with borrowing countries on setting flexible fiscal targets. Many donors and national authorities are eager to finance ambitious, but credible, strategies, and wish to know what space is available for additional expenditure that would reduce poverty and enhance growth, but without damaging the economy in the long term. *We would suggest that the Fund proactively set out in the PRGF the range of options for fiscal flexibility that were discussed in agreeing the programme, and discuss the trade-offs between choices, while safeguarding medium and longer term sustainability.* Our staff report that some staff are willing to engage in debates around these issues (e.g. in Rwanda) but there is not a consistent approach between all country staff.

4.3 More open assessment of alternatives: There is a general perception that IMF fiscal ceilings are set too tight in those countries that no longer have serious macro-economic instability problems. Our country teams believe Fund missions could help countries much more actively to explore key fiscal flexibility issues, and to present these in the PRGF. In particular, to assess the implications for fiscal deficits and sustainability of:

- (a) the predictable level of grant financing and of the grant element of concessional borrowing;
- (b) the shift from project to programmatic aid;
- (c) the options for different types of domestic financing.

4.4 Reaction to offers of increased aid: The Fund should be working with governments to assess the impact of offers of increased levels of aid, for instance the Global Health Fund is likely to be contributing substantial and welcome amounts of additional finance, e.g. in Uganda. In some countries

there are reports that tight fiscal restrictions are leading partners to explore off-budget ways of raising social-sector expenditures. The poverty reduction strategy approach underlines the importance of using the central budget to allocate resources for achieving the Millennium Development Goals. It also emphasises the need to ensure that efforts to address structural or institutional shortcomings through existing and new initiatives do not bypass and/or undermine national budgetary processes. Our staff at country level report some inconsistencies in Fund treatment of unexpected aid flows. In some cases such flows can be spent, in others they are required to be "saved". We understand that different countries may warrant different approaches but it is important that these issues are tackled transparently and the implications fully understood by all financiers of Poverty Strategies. Treatment of sector aid is also unclear in some cases.

4.5 Record projected donor flows in the PRGF: A supporting area of work would also be to record predicted medium-term donor flows from individual donors. This would help to set out levels of individual donor financing, while at the same time promote more predictable donor commitments, providing increased stability to medium-term financial projections and support to the MTEF. We recognise that flows may be conditional on performance of the PRSP and PRGF, however we believe that all PRGFs should include individual medium-term donor flows, in the greatest possible detail.

5. More Selective Structural Conditionality

5.1 Streamlining conditionality is an important element in the Fund's approach to strengthening country ownership of its programmes. Appropriate streamlining of conditionality should increase the likelihood of real ownership; focussing on those elements critical to the success of the programme leaves room for national decision-making on the broader policy agenda and on the specific ways to achieve national objectives.

5.2 Fund/Bank coordination: It is important that the Fund works closely with the World Bank in this area. PRGFs are providing a very useful box on conditionality, and it is clear that the Fund is making a strong effort to streamline conditionality in PRGF programmes, particularly in structural areas. However we have two key concerns. Firstly that while the Fund may be streamlining conditionality, it is unclear how areas of conditionality that are more appropriate for the Bank are being addressed by the Bank. Sometimes such conditions await design and implementation of future Bank programmes. This potentially could lead to serious gaps in overall programme monitoring.

5.3 Overall streamlining: Secondly, it is unclear whether overall conditionality is being streamlined, and whether there is a net overall reduction in conditionality. Clearly, what matters is focused and effective conditionality. The Fund should work more closely with the Bank to address these concerns, and also to ensure that approaches to conditionality are properly communicated to national stakeholders.

5.4 While the Fund and Bank are allocating lead roles between each other on conditions, this should not preclude the Fund commenting on areas the

Bank is leading on, where this is relevant to Fund concerns, for example on public expenditure management.

5.5 The lead role of the PRSP in defining conditions: Ultimately the PRSP should play a greater role in identifying appropriate conditionality in the PRGF, in support of the principle of national ownership and leadership. The recent Board paper on Streamlining Conditionality discussed some interesting proposals, which we support, for instance, the approach whereby authorities are given the initial responsibility for proposing a reform programme, or where this is not feasible for Fund staff to present the authorities with a genuine menu of options. We also support proposals for providing more flexibility to members in the timing of structural reforms.

6. Emphasis on Measures to Improve Public Resource Management/ Accountability

6.1 We have been pleased with the strong attention paid by the Fund to Public Expenditure Management (PEM); in numerous PRGFs there is a useful discussion of the current status of overall PEM, and future steps mapped out in order to achieve appropriate standards of PEM. We welcome the Fund's commitment, made at the February 2001 Child Poverty Conference, that regular assessment of PEM become a routine part of all PRGFs. More generally, we support the Fund in increasing its surveillance role in the areas of public expenditure management, and we believe that all PRGFs should provide substantial reporting on PEM. The recent Zambia, Mali and Benin PRGFs provide a good basis from which to build on.

6.2 Too many PEM initiatives: We are concerned however, with the range of PEM initiatives supported by the Fund and Bank. The Fund/Bank are supporting HIPC tracking/PEM review work in 25 HIPCs; the Fund supports ROSCs on Fiscal Transparency, is piloting a new tool called the Fiscal Management Review, and is seeking to provide capacity building support through PACT. The Bank is supporting CFAAs, Public Expenditure Reviews, Public Expenditure Institutional Reviews, MTEF and capacity building work.

6.3 For example, reports from our country programme offices suggest that the Fund/Bank's work on HIPC tracking appears to have a very low profile amongst government officials and donors working on public expenditure management reform programmes in HIPCs, and there are strong fears that the proposals will overlap with outputs from other work, both in terms of the diagnostics and in terms of the plans for future action. In Tanzania the donor community urged the Fund to link the HIPC Tracking work into the joint CFAA process and, at a minimum, asked to be consulted on a draft workplan, but little progress was made on these suggestions. In Malawi a Public Expenditure Review, an IMF ROSC assessment, a HIPC tracking study and a CFAA have all been taking place in 2001 and there is clearly scope for greater streamlining.

6.4 Harmonisation of PEM – reduce transaction costs: It is important that the Fund, as well as the Bank and other donors, use the opportunity of the PRSP to reduce, and not increase transactions costs on governments. It is important that the Fund seeks to clarify further its specific role vis-à-vis the

Bank and other donors, and to explain this more carefully to all those involved in these issues. We have noted the Board paper on division of work with the Bank but these issues are not well understood outside the IFIs, including in the wider donor community. Clearly there is room for harmonisation in PEM areas, overlap and duplication is likely to undermine progress, and provides an excessive burden on governments, who already have limited capacity. *The Fund should work closely with the Bank to address these concerns.* We would suggest that the Fund and Bank jointly produce a report that covers: PEM requirements, maps existing initiatives, and provides proposals for a more harmonised approach.

6.5 Fiscal Decentralisation: This issue cross cuts pro-poor budgets and also public expenditure management. With regards to pro-poor budgets, geographical equity is an issue for many countries, where the poor are often located in specific regions. Capitation grants can have a major impact on the poor. Fiscal decentralisation, revenue raising, and expenditure control are another group of important issues for PRGF countries. The PRGF should be discussing decentralisation with regards to pro-poor budgets and PEM; it should also discuss how Bank/Fund cooperation is working in this area and how progress is being made.

7. Poverty and Social Impact Analysis of Major Macro-adjustments and Structural Reforms

7.1 We believe that Poverty and Social Impact Assessments (PSIA) are fundamental in supporting ownership of the reform process, and ensuring that reforms support, not undermine, poverty reduction. The discussion of the potential impacts of proposed reforms, trade-offs between policy choices, discussion of final decisions of reform design, counter-vailing measures - where appropriate, and ex-post assessment, are key building blocks for improved reform design and enhanced ownership. We have welcomed Fund and Bank efforts, and that of the JIC task force, to take forward PSIA.

7.2 Fund PSIA: While the Bank plays a key role in PSIA work, the Fund also has a role to play. The Fund clearly has a role, for instance, in assessing the impact of interest rate changes on the poor, and developing pro-poor policy options. PSIA of key monetary and fiscal policy reforms should not be left to the Bank, the Fund should be directing PSIA, utilising Bank capacity to provide necessary analysis.

7.3 Timetables for PSIA: However, there is considerable scope for more progress here, at this time only a number of PRGFs have discussed PSIA, and to varying levels. We are keen to maintain the momentum created early in 2001 by the JIC. Firstly, the Fund should set a clear timetable for PSIA in all PRGFs planned for 2002-03, working with governments to highlight, in advance, key reforms requiring PSIA. A number of PRGFs have provided a helpful box to discuss PSIA, we feel that this approach could be usefully extended to all PRGFs. At the same time, PSIA should run through the staff report where appropriate. Secondly, progress on PSIA relies on Bank support, and we believe that *the Bank and Fund should set a clear timetable for producing the analysis that Fund staff can use in the PRGFs for 2002-03.*

7.4 Pragmatic approach to PSIA while methodologies develop: While work by the Bank in pilot countries, and pilots supported by DFID¹, will provide PSIA analysis in those countries, and will support the development of appropriate methodologies, we are concerned that PSIA analysis and discussion, across all PRGFs, may be lost in the interim. Evidence on the impact of reforms supported by the ESAF (*External Evaluation of the ESAF, 1998*) shows that there are cases of particular sub-groups of the poor suffering temporary and long-term losses. The Fund should guarantee that the design of reform programmes under the PRGF learn from these kinds of examples and demonstrate that they have taken adequate measures to avoid them. Early PSIA discussion can build on existing economic rationale and existing poverty analysis in a pragmatic fashion. As methodologies develop, analysis and discussion can improve.

7.5 Country leadership and capacity on PSIA: The ultimate intention is that countries will lead this analysis; however at this time the majority of PRGF countries require substantial support to undertake PSIA, as such the Fund and Bank should play the lead role. At the same time, the Fund and Bank also have a responsibility to assess the impact of their policy advice. We note that there is a strong demand for PSIA work in PRGF countries where we may support pilot work, indicating a desire for increased ownership of macro-strategies and appetite for opportunities to develop more country specific policy framework that the PRS process offers.

7.6 We are tentatively planning a meeting for autumn 2002, where the results from Bank and DFID pilots could be discussed, and where guidelines for conducting PSIA within PRS frameworks can be developed. We will be engaging with the Fund in the year ahead on plans for this.

¹ DFID is working closely with the Bank to operationalise ex-ante PSIA of macro and structural policies by funding pilot studies in six countries (Uganda, Rwanda, Mozambique, Honduras, Armenia and possibly Pakistan).

SUMMARY OF KEY UK RECOMMENDATIONS

The UK Government has strongly supported the introduction of the PRSP approach in low-income countries, and the development of the PRGF. We see the PRGF as one of the key Fund vehicles for providing support to the achievement of the Millennium Development Goals, ensuring that Fund policy measures and support are focused on poverty reduction.

The Fund's elaboration of the 'Key Features' was a very positive step, welcomed by the UK, demonstrating the priority that the Fund was giving to the creation of the PRGF and further definition of its role. The 'Key Features' note has helped to set out how the PRGF will differ from the previous ESAF, and how it will ensure that poverty reduction and growth be addressed as fundamental aims.

Key recommendations

1. Broad Participation and Greater Ownership

- Ownership should be increased through Fund/Bank work on Poverty and Social Impact Assessments
- The Fund could improve communication in PRGF countries and enhance the role of Resident Representatives
- The capacity of PRGF countries to undertake macroeconomic analysis needs to be further enhanced, building on existing efforts by the Fund and Bank
- The Annual Review of the PRSP should be the primary assessment processes, supported by reviews of the PRGF and the PRSC

2. Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction

- The Fund should, in some countries, make more effort to work with country authorities and other stakeholders, to develop strategies that address long-term development needs.
- More could be done to describe how the PRGF supports the poverty reduction strategy - the recent review of the Mali PRGF provides a good example
- The macroeconomic impacts of ill-health (HIV/AIDS, malaria etc.) should be factored into growth forecasts for countries that are significantly affected.

3. Budgets that are more Pro-poor and Pro-growth

- More information is urgently needed on primary education and primary health care spending; the Fund should work with the Bank and PRGF countries to ensure that such data is available in half of all PRGFs in 2002 and in all by 2003
- The Fund should work with the Bank and PRGF countries to ensure PRGFs include detail on pro-poor spending going beyond that of the social sector
- A more consistent approach to pro-poor, pro-growth tax reform would be useful across all PRGFs

4. Ensuring Appropriate Flexibility in Fiscal Targets

- The Fund should be more proactive in providing options for fiscal flexibility, and each PRGF should record discussion of alternatives considered in agreeing the programme
- The Fund should assess the potential for utilising offers of increased aid, e.g. from the Global Health Fund
- The Fund should record individual projected donor flows in the PRGF

5. More Selective Structural Conditionality

- Greater Fund/Bank coordination is needed, in particular to ensure that as the Fund is streamlining conditionality, conditions more appropriate to the Bank are being addressed
- An assessment of net change in Fund/Bank conditionality should be made, and overall conditionality reviewed as to its effectiveness and focus
- PRSP should be the source of structural conditions

6. Emphasis on Measures to Improve Public Expenditure Management (PEM)/ Accountability

- The Fund and Bank should produce a joint report on PEM harmonisation to deal with the multiplicity of current initiatives
- Every PRGF should include a report on progress being made on improving PEM
- Given the importance of fiscal decentralisation with regards to pro-poor budgets and PEM, every PRGF should discuss Fund/Bank cooperation in this area.

7. Poverty and Social Impact Analysis (PSIA) of Major Macro-economics adjustments and Structural Reforms

- The Fund should contribute on its own areas of expertise in PSIA as well as supporting the Bank's work in this area
- The Fund should provide a timetable for PSIAs in all PRGFs for 2002-03, working with governments to identify, in advance, key reforms
- As progress on PSIA relies on Bank support, the Fund and Bank should agree a timetable for 2002-03 for necessary Bank analysis
- Discussion of PSIA should be placed in a PSIA 'box' and run throughout the document, where appropriate
- The Fund and Bank need to take a pragmatic approach to ensure past lessons are acted upon while more sophisticated methodologies are developed

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

International Conference on Poverty
Reduction Strategies
Theme III. Parallel Group Discussion B: Bilateral Support for
National Poverty Reduction Strategies
Wednesday, January 16, 2002
IMF, 700 19th Street, N.W. - Rm. R-710

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Introduction

- I would like to offer my thanks to the Bank and the Fund for inviting USAID to share its views on this topic.
- The comments that I would like to offer on behalf of USAID come largely from the experience of our resident field missions, which have been most closely engaging with and following the PRSP process.
- I would like to discuss three key points today. The first is the importance of country ownership and leadership on PRSPs in enhancing effective donor coordination within recipient countries. The second is how we are able to support design and implementation within the PRSP framework, and the third is our views on areas for improvement in PRSPs substance and process.

Country Leadership

- The majority of the feedback from the field is very positive. The emphasis on country leadership is welcome and important to the field. We believe that the term "country leadership," goes beyond country government leadership and includes civil society and private enterprise, and that the success of the PRSP as a donor coordinating mechanism is dependent on the plan's inclusiveness and its quality. When the PRSP process has

been successful, USAID field missions are generally very enthusiastic. For example, our mission in Vietnam reported that the PRSP is a quite useful exercise, with good commitment from all parties and a strong consultative process that is "a stepping stone for civil society development and participation."

- USAID missions have provided support for some of the analytical work, for the participation of civil society, the private sector and some units of government in the planning process and in results monitoring.

Government Strategy or Country Strategy?

- USAID agrees that if a country-led, participatory, well-crafted PRSP; donors should conform their support to poverty reduction to this plan.
- Overwhelmingly, however, USAID field missions, and headquarters, are emphatic that it is entirely possible to support the PRSP without moving to budget support.
- We fully appreciate the difficulty that host countries confront in trying to construct a coherent program from a patchwork of donor assistance modalities. We support, and actively participate in country efforts as well as the international effort to harmonize procedures and lighten the burden.
- At the same time, there are accountability requirements imposed on USAID itself that make it difficult to move quickly toward a budget support approach. The combination of our own requirements and the notable weakness of budgeting and tracking systems in the countries in which we work suggest that while budget support may be the vision, there are many intermediate steps to be taken in order to reach the vision.
- If PRSPs are a country document, representing a consensus of all segments of society, but directs all resource flows to government and holds government accountable for all progress, then the underlying ideology is that the state is the major actor in poverty reduction.
- USAID's experience suggests that strong civil society and private sectors can assure efficient and effective delivery of goods and services in a manner that complements the roles of the state.
- In the case of civil society, USAID provides about one-third of its annual resources directly to civil society.

If a budget support approach were used, this direct support would become indirect - it would be channeled through the state. In many instances, civil society organization will not accept resources from the state, because it jeopardizes their independence.

- We would like to encourage further discussion on the roles of the state and of the private for- and non-profit sectors before PRSPs are linked to budget support. This is in addition to concrete steps to improve monitoring and accountability for both results and funds linked to poverty reduction.

Challenges for the Next Phase of PRSPs

- Strengthening country leadership. Uncertainty has been expressed by some USAID missions as to whether the PRSP has serious country ownership, or is a document prepared in order to access debt relief and new lending. Numerous missions are concerned about the lack of interchange with Fund/Bank staff on mission for PRSP preparation.
- Progress measurement. Finding reasonable measures of progress toward poverty reduction, establishing targets and indicators and strengthening monitoring capacity are critical to moving away from separate donor programs with separate conditionalities and toward the vision of a national poverty reduction strategy in which all participate.
- Participation. For USAID, this goes beyond participation in the design of PRSPs. It includes participation in implementation and progress monitoring. As I have already noted, USAID has been a strong supporter of participation by non-state actors, as well as working with host governments.
- Content. Much of the first wave of I-PRSPs was associated with use of the "savings" from debt relief resulting from the enhanced HIPC initiative. These savings were often programmed toward the health and education sectors. USAID is concerned that a full PRSP show evidence of sound analysis of the economic growth potential of the country, and that measures to bring about poverty-reducing growth are reflected in the proposed strategy. As the 2000 World Development Report noted, there is little possibility of poverty reduction without growth.
- Accountability. USAID recognizes that there are a number of technical considerations that impede the ability to assess

national commitment by reviewing budget and expenditure patterns. Many of these are being addressed in the DAC Informal Network on Donor Harmonization. USAID's field missions note, however, that in addition to constraints posed by our own laws and regulations, governance and commitment to stay the course on structural reforms on the part of the host country remain major impediments.

Conclusion

- USAID is hopeful about the future of the PRSP as a genuine expression of country poverty reduction commitment and objectives. We continue to allow field missions autonomy and flexibility in participating in PRSPs, and find that most missions welcome the opportunity and are actively engaged.
- USAID is very concerned that the linkage of PRSP implementation with the use of budget support can only be deleterious to PRSP acceptance. We strongly urge a consideration of the ideological consequences of this linkage, and a separation of the two issues.
- USAID will participate in and support efforts to improve the PRSP process, particularly in areas such as performance measurement, participation, analysis of economic growth opportunities and streamlining accountability.

REVIEWING PRSPs : THE VIEWS OF HIPC MINISTERS AND PRSP COORDINATORS

This submission represents the views of Finance Ministers and coordinators of PRSPs from 32 HIPC countries, as expressed in 4 semiannual Ministerial Forum meetings, and at 6 regional and national technical seminars and workshops held during 2000-2001.¹ Our submission begins by summarising our responses to the key questions outlined in review documents, and then continues with more detailed discussion of achievements, challenges and proposed solutions.

1) *Main Achievements in Developing and Implementing Poverty Reduction Strategies*

Poverty Reduction Strategies have made some important achievements in a relatively short period:

- A major increase in some nations' ownership and leadership of their own development strategies;
- Much greater involvement of civil society in designing and implementing development strategies;
- An increased focus on poverty data collection, diagnostic analysis and monitoring
- Reallocation of public expenditure to focus on poverty reduction priorities, and a widening of the definition of poverty reduction expenditure beyond the "social sectors".
- Major efforts to improve public sector management and transparency of public spending
- A considerable increase in donor technical assistance efforts on poverty reduction
- Boosting analytical capacity in the BWIs and other multilateral and bilateral donor institutions on poverty reduction issues, with some feeding through to capacity in PRSP countries, and the most advanced donor institutions actually learning lessons from PRSP partner countries
- Increased alignment of donor funding behind national development priorities

2) *Outstanding Challenges and Proposals to Improve Developmental Impact of PRSPs*

However, many challenges remain if PRSPs are to fulfil the expectations created among the people of developing countries for halving poverty by the year 2015. These go beyond Guidelines and Modalities of PRSPs themselves, as they need to be surrounded by other global initiatives. Our suggestions are:

2.1. *Ownership and Participation*

- Integrating PRSP participatory processes into normal national development planning procedures, notably with greater involvement of parliaments and decentralised governance structures
- Accelerating changes in the attitudes of international financial institution and donor staff, to restrain and delay further their interventions and allow more space for national consensus, and to react to this consensus with greater changes in conditionalities and macro frameworks
- Increasing the capacity of government and civil society to discuss the effects of macroeconomic, sectoral and structural policies on poverty reduction, and external openness to their views
- Ensuring that PRSPs build more closely on existing poverty reduction strategies and MTEFs

2.2. *Content of Strategies*

- Switching efforts away from data collection and diagnosis of causes of poverty, to assessing the impact of past policies and ex ante analysis of poverty reduction impact of all proposed policies.
- Providing governments and civil societies with technical tools and capacity-building programmes to analyse these issues for themselves, preferably through exchange of best practice among countries, instead of relying on the BWIs or donor-funded consultants
- Making dramatic changes to existing macro, sectoral and structural policy frameworks where these are justified by such analysis

¹ These meetings have been organised by the HIPC Capacity-Building Programme, which is funded by the governments of Austria, Denmark, Sweden, Switzerland and the United Kingdom and coordinated by Debt Relief International and four regional partner institutions. For more details see www.dri.org.uk.

- Increasing the focus in PRSPs on pro-poor growth, by increasing the scale of growth, verifying that it appears likely to halve poverty by 2015, and demonstrating how measures in programmes will produce targeted growth rates and redistribute the benefits of growth in favour of the poor
- Deepening analysis of savings, investment, domestic resource mobilisation, employment and labour markets, social inclusion and equity.
- Continuing to expand the definition of anti-poverty spending beyond “social sectors”
- Dramatically accelerating the streamlining of structural and sectoral policy actions in PRSPs
- Increasing the flexibility of macro frameworks to allow greater scope to absorb grant and concessional loan resources into poverty reduction spending, and to analyse alternative macroeconomic paths which allow different paths to stabilisation and growth
- Dropping from BWI and donor programmes conditions which have not emerged as priorities from national consultative processes, and avoiding introducing new conditions in mid-programme

2.3. Donor Assistance and Partnerships

- Moving from ill-coordinated donor-driven technical assistance interventions to coordinated country-led capacity-building programmes.
- Channelling more aid through the government budget, untying aid, avoiding “unproductive” projects and maximising the concessionality of financing
- Coordinating and reducing multiple donor initiatives and review processes
- Avoiding conditionality “fungibility” among donors and reversing recent conditionality proliferation by monitoring all donor conditions and empowering countries to refuse conditions which do not spring from the PRSP national consultations.

2.4. Implementation

- Protecting against shocks, streamlining conditionality and providing more macro flexibility in order to prevent avoidable delays and slippages in programme implementation
- Clarifying guidelines for PRSP progress reports to focus on how to modify PRSP frameworks in order to ensure that lessons can be learned and poverty reduction goals attained.

2.5. Constraints

- Dramatically increasing capacity-building support to governments and civil societies
- Establishing multiple procedures to protect against external “shocks”
- Reforming donor procedures in order to avoid aid shortfalls
- Providing free trade access for least developed and PRSP countries to all developed countries, and bringing down structural trade barriers and removing agricultural subsidies
- Promoting private sector capital flows to PRSP countries in ways which promote poverty reduction
- Stressing intra-regional trade and financing initiatives and aid procurement from PRSP countries
- Streamlining donor interventions and calendars behind government budget and planning timetables, and guaranteeing continued interim debt relief, in order to provide more time for finalising PRSPs where necessary
- Acknowledging that, given our lack of success so far in reducing global poverty, PRSPs will probably require major adaptations in mid-course, and therefore making PRSPs more flexible.
- Maximising efforts to streamline procedures for accounting to donors on the use of their resources, by moving to budget support, capacity building and integrated budget accounting for all spending, including HIPC debt relief.

DETAILED COMMENTS (numbers refer to questions in the Key Questions paper)

Ownership and Participation

- 3) The PRSP process has generally marked a major change in country ownership and leadership of development strategies, but the degree of country-led preparation of PRSPs has varied widely:
- Many countries, especially for interim PRSPs, relied extensively on consultants or the BWIs to prepare large portions of documents, partly due to their own low initial capacity levels.
 - Interim PRSPs and some full PRSPs have been largely prepared by central economic ministries (Finance, Planning, Development), with sectoral ministry involvement limited to sectoral concerns, sometimes at the cost of cross-sectoral coherence.
 - Parliaments have often had virtually no involvement except to endorse and debate final versions of PRSPs: one major flaw of the PRSP process has been that it has often bypassed existing parliamentary structures in favour of new and different consultative structures designed largely by the international community.
 - Equally, participation structures have sometimes failed to take sufficient account of decentralised governance structures or to involve them enough in the design of PRSPs.
 - The attitudes of staff of the international financial institutions have varied widely. While many have made commendable efforts to pass leadership to countries and to change the content of PRSPs compared to PFPs, too many have intervened too deeply and too early in the process, and continued to act in the manner of former PFP negotiations, with only incremental changes to policy matrixes and minimal macroeconomic flexibility.
- 4) Governments have made major efforts (with considerable financial assistance from the international community) to prepare and implement PRSPs in an open and participatory way. However, it would be fair to say that:
- Civil society representation has often been excessively dominated by NGOs and private sector organisations rather than representing the voices of the poor
 - Inadequate attention has been paid to providing feedback to civil society in such a way as to demonstrate how their views have been taken into account
 - partly reflecting the focus of civil society interventions in the past, there has been much less discussion of macroeconomic issues and frameworks than of social sector spending areas.
- 5) Participatory processes have generally had a considerable impact on the content and implementation of poverty reduction strategies. However, this impact has been concentrated on social sector and rural development issues rather than macro or structural policies, and has been sometimes diluted by excessive interventionism by donors and international organisations.
- 6) Governments have made all possible efforts to integrate PRSPs into their core processes for policymaking, budget cycles and (where these exist) MTEFs, but this has frequently been impossible due to the urgency of PRSP processes and the failure of donors and international institutions to streamline their initiatives and missions. The PRSP process has therefore all too frequently become a parallel one, adding to the multiplicity of other donor-supported initiatives (PERs, MTEFs, LTPSs, 20/20, budget tracking studies, etc etc). Equally important, many of the first PRSPs in each country – whether interim or final – took insufficient account of existing development and poverty reduction strategies constructed by the country and insisted on designing a poverty reduction programme with almost the same content virtually from scratch.

Content of Strategies

- 7) Overall, poverty reduction strategies have marked a considerable improvement over previous development strategies in countries which did not have any prior coherent strategy. However, as previously discussed, for those countries which had pre-existing poverty reduction or long-term development strategies, they often marked more of a rebuilding of the existing strategy.
- 8) In many countries, initial poverty diagnostics were weak, with data poor or lacking on key variables in spite of earlier intensive efforts at collection by governments.
- Approximately one third of our countries had a good information base to analyse poverty reduction at the start of the PRSP process, with timely and comprehensive data to show trends. However, these statistics were often not fully used, with new sponsors of data collection exercises preferring to change methods, preventing statistical series to measure trends. However, at least three quarters of our countries had reasonable statistics on most aspects of

- poverty, and in some cases governments feel that the supposed lack or poor quality of statistics was wrongly used as a reason to delay timetables for preparing PRSPs.
- On the other hand, a major weakness of most PRSPs and PRGFs has been the virtual lack of assessments of the impact of past policies and programmes on poverty, with the exception of some discussion of the impact of social sector spending programmes and in some programmes limited analysis of the distributional incidence of tax and/or subsidy measures.
 - In addition, until 2001, there has been virtually no ex ante analysis of the social impact of key proposed reforms, beyond broad assumptions based on theory (or sometimes on experience in other countries as transmitted by external partners) which indicate an overall positive impact. In interim PRSPs in particular, where some governments indicated that evidence showed some reforms were exacerbating poverty, their concerns were often overruled on the grounds that short-term costs would give way to long-term benefits, or that the costs reflected failure to pursue policies tenaciously. As a result, there has been little evidence of important policy changes on macro or structural policies between PRSPs and PFPs. This has begun to change in recent PRSPs, but much more effort is needed, through capacity-building provided independently of the BWIs, to empower PRSP countries to make their own poverty and social impact assessments, which they can present to the international community. The main effort now needs to be on improving analytical rather than data collection capacity.
- 9) PRSP targets and indicators (especially for I-PRSPs) were initially often too wide-ranging and not limited to those elements easily under government control. In some cases, they also turned out to be based on faulty baseline data, making them automatically unattainable. However, most of these problems have been or are being overcome and indicators and targets are improving (but see comments on related donor conditionalities in 13 below)
- 10) Many PRSPs (and especially IPRSPs) are not giving sufficient attention to pro-poor growth:
- the scale of growth planned under the PRSP is frequently adequate to halve poverty by 2015 and there is no clear long-term path to the Millennium Development Goals in most PRSPs
 - there is no in depth analysis of how the sectoral and structural measures in the programme will produce the targeted growth rates;
 - nor have programmes examined sufficiently how macro, sectoral and structural measures will translate into changes in the distribution of the benefits of growth.
 - savings, investment, domestic resource mobilisation and employment remain underanalysed
 - insufficient attention is being given to social inclusion and equity in many PRSPs.
 - In contrast, a great deal of effort is being expended by governments and the international community to improve governance and public sector management, as well as comprehensiveness of expenditure allocation, presentation and tracking. There has been considerable progress in this area though much remains to be done, particularly in continuing to expand the definition of pro-poor spending beyond an excessive focus on the traditional “social sectors”, for example to rural and urban development and infrastructure, micro credit.
 - Structural and sectoral policies remain a major area for prioritising, with many PRSPs adding large numbers of sectoral actions to structural policies brought forward from PFPs.
 - On the macroeconomic side, our main concern is not “realism”, but that many programmes continue to be too restrictive and to allow insufficient scope to absorb grant and concessional loan resources on anti-poverty spending measures, especially where these will have a major positive effect on supply response in post-conflict countries. While a few programmes have shown more flexibility in this area, most remain excessively tight, especially for countries which have achieved sustained low inflation. Nor has there been much evidence of exploring possibilities for alternative macroeconomic paths, taking into account non-demand causes of inflation, recovery of demand for money, and private sector credit needs.

Donor Assistance and Partnerships

- 11) A huge amount of technical assistance is being provided – but much of it is replacing rather than building capacity within our administrations. Many donors still need to move away from donor-driven hiring of consultants to conduct tasks on behalf of government, to empowering government officials to make their own progress through comprehensive training and capacity-building programmes. There are also frequently duplications or conflicts of methodology among different donor interventions, largely because many PRSP governments are still not in the lead in designing their own capacity-building programmes.

- 12) BWI staff have often provided very useful inputs into programme preparation, especially on macroeconomic frameworks, sectoral and structural measures (though as discussed above these have sometimes been excessive and verged on BWI programme design). However, there are several areas where not enough progress has been made – notably on discussing with governments alternative macroeconomic paths, room for greater macroeconomic and fiscal flexibility, pro-poor growth measures, and long-term paths to the Millennium Development Goals.
- 13) There has been considerable progress in aligning donor support behind PRSPs, with many donors moving from project aid to budget support, providing multi-year pledges, untying aid from export promotion, focussing aid on productive projects, and simplifying or coordinating procurement procedures. However, much more remains to be done.
- Many donors continue to provide off-budget aid, or aid tied to projects which are not essential to the PRSP, and to “sell” projects to countries which do not have a long-term development or poverty reduction focus, or whose associated financing terms are not sufficiently concessional.
 - There is a need to ensure that other donor initiatives, such as sector programme aid and global aid funds (eg health) are fully coordinated with PRSP priorities rather than distorting them.
 - Donors also need to streamline their review processes behind the PRSP, to avoid overtaxing government officials with multiple review missions.
 - There have been considerable efforts to streamline IMF PRGF conditions, but countries are perceiving “conditionality fungibility” whereby some previous PRGF (notably structural) conditions are being enforced by other donors, therefore preventing overall streamlining of conditionality. There was also considerable “conditionality proliferation” in the early stages of PRGFs/PRSPs, which is only now being offset by streamlining. The BWIs need to monitor and report on all conditionalities used by donors in each country. Countries need to be empowered to verify that conditions spring from the PRSP and to refuse to accept those which do not, in the knowledge that alternative more flexible finance will be available.
 - Conditionality needs to be dramatically more streamlined, particularly on sectoral and structural issues, by dropping conditions left over from pre-PRSP programmes where these have not emerged as priorities from national participation, avoiding the introduction of new conditions in mid-programme which are not strongly demanded by civil society in the PRSP process, and providing maximum flexibility as credit for past track records
 - Most important, the donor community as a whole has failed to provide adequate guarantees of financing sufficient to reach the Millennium Development Goals for all countries, or sufficiently flexibly to protect against external shocks, thereby leaving many PRSPs with financing gaps in the early stages of implementation.
 - Countries need capacity-building assistance specifically to analyse in PRSPs donor policies and to maximise the value of all new financing provided for development.

Implementation of Strategies

- 14) The emergence of financing gaps, due largely to shocks and aid shortfalls, has been one key reason why budget allocations have not always been executed as planned. In addition, the failure to streamline conditionality sufficiently or to provide sufficient macroeconomic or fiscal “space” has led to delays in many countries in implementing structural conditions, or slippages on macro frameworks. Such delays and slippages have now become a major risk to the long-term goals of poverty reduction. A much more fundamental reconsideration of the content and scope of conditionality is needed if countries are to be able to focus on the key policy measures which will impact immediately on poverty reduction. In this context, the guidelines for preparation of PRSP progress reports should provide much more transparent scope for governments to request adaptation of PRSPs - reconsideration of macro frameworks, structural conditions, and financing needs in order to be sure that the long-term goals of poverty reduction can be attained.

Constraints

- 15) PRSPs have taken much more account than their predecessors of financial, institutional and political constraints faced by governments, but the degree remains inadequate.
- The space provided by the I-PRSP has allowed some of these constraints to be overcome, notably giving governments time to improve data availability and quality, and to establish more reliable systems for tracking anti-poverty expenditure allocations.
 - However, as already raised, much more fundamental constraints remain in terms of the abilities of governments and civil societies (and the international community) to analyse and design pro-poor growth paths with maximum fiscal flexibility for anti-poverty spending, the

space allowed for country-specific political discussions using nationally-designed mechanisms at early stages of designing PRSPs, and the provision of financing which supports government strategies and builds local capacity.

- 16) The implementation of almost all IPRSPs/PRSPs has been severely constrained by external factors. Indeed such factors are already threatening to derail progress to the MDGs in many countries.
- In the short-term the most important have been:
 - shocks beyond the control of government – particularly commodity price shocks, the recent global economic slowdown (exacerbated by the tragic events of September 11), climatic shocks and knock-on effects from conflicts in neighbouring countries. Urgent measures are needed to combat these. They could include advance contingency and rapid compensatory financing, accelerating the implementation of the World Bank report on Commodity Risk management, and reinforcing insurance mechanisms such as those of the Commonwealth Disaster Management Agency. In addition, all HIPC should have their debt sustainability reassessed each year in the light of such shocks, and debt relief provided under HIPC should revert to aiming to reduce debt burdens well below the HIPC thresholds, in order to provide a safety margin for genuine long-term sustainability.
 - aid shortfalls. These include insufficient pledges of funding to reach the MDGs, and delays in disbursement of pledged amounts. In this context, promises of additional aid flows to compensate other shocks (or aid shortfalls from other sources) are likely to be insufficient and delayed by 6-12 months after the shock, by which time the negative effects of the shock on prospects for poverty reduction will already have been felt.
 - In spite of recent positive moves to free market access for least developed countries, some PRSP countries are still suffering from lack of market access, or dumping of poor quality goods or subsidised agricultural produce. This will become a more important external barrier over time as countries accelerate efforts to diversify exports (which are essential to avoid future commodity shocks) and reduce import dependence.
 - Many also lack external private capital flows (FDI and portfolio investment, and trade credit) to promote private sector development and reduce their aid dependence. Others are receiving such flows in ways which contribute little to poverty reduction (ie with long-term tax holidays, financing sources and export earnings conducted offshore, and little transfer of technology or skills or forward or backward linkages in the local market).
 - PRSPs have also often given insufficient emphasis to intra-regional trade and financing efforts in order to promote developing country exchanges of technology and skills, and to donors procuring wherever possible goods financed by aid from other PRSP countries.
- 17) External pressures have been very important in the timing of PRSP preparation.
- Though governments have generally tried to provide sufficient time for the highest-quality design of PRSPs, and for participation by civil society and international partners, the timetables of PRGF reviews and HIPC decision and completion points have sometimes led design and participation to be slightly sacrificed for the sake of maximising financial support.
 - IPRSPs have temporarily overcome this problem for HIPC decision points, but the wide range of different donor initiatives and missions, combined with pressure to reach HIPC completion points, have negatively affected time available for participation and top-quality design.
 - This has two implications: donors need to streamline and coordinate their interventions much more radically, and to guarantee continued interim debt relief from all creditors (including Paris Club) when completion points are delayed for good reasons.
 - However, it is also important for all sides to acknowledge that, due to some degree of lack of knowledge on how to reduce poverty, no PRSP will be perfect – no matter how much time is allowed for its preparation. We therefore need to build into PRSPs much greater flexibility to change course in mid-stream as our abilities to forecast poverty impact grow over time.
- 18) Governments have been anxious to account to donors for the use of their resources – especially those linked to HIPC debt relief and those provided as budget support. However, some donors have refused to provide sufficiently flexible financing and continue to micro-manage their funds, as well as undermining the overall budget management by establishing separate HIPC Trust Funds. Ideally as governments demonstrate their successes in accountability and transparency, more donors should move from project to budget support, from technical assistance to capacity building, and to integrating all accounting for debt relief into wider budget spending. Much larger strides are needed in this direction if we are to maximise ownership by our countries.

Multilateral Institutions

The African Development Bank (AfDB)

Contributions to the PRSP Review

1. Introduction

1.1 The African Development Bank points out at the outset that the three major elements of the PRSPs, namely, ownership, participation and outcome orientation represent the cumulative experience in economic development over the last two decades. The ownership dimensions evolved out of the early experiences with structural adjustment whereby programs were mainly “supply-driven”. In some cases, this led to half-hearted implementation of the programs and in others the programs were not implemented at all, hence the call for their stronger ownership to enhance development effectiveness. The participation aspect reflects the valuable experiences with the positive results in demand-driven projects designed and implemented by national as well as international non-government organisations (NGOs) and local communities. It is also noteworthy to highlight that the outcome orientation of PRSPs is attributed partly to the need to see “results on the ground” before channelling more resources towards poverty reduction efforts.

1.2 PRSPs, therefore, are used to formalise and consolidate the important lessons learnt from the past two decades. In our view, this aspect needs to be articulated more clearly and explicitly in the comprehensive review of PRSPs in order to persuade some sceptics who consider the PRSP approach as a new “development fad” driven primarily by multilateral and bilateral donors.

1.3 The main objective of this review is to address outstanding issues related to the challenges involving the rationale, concept, content and process of PRSPs. The number of full PRSPs prepared so far is limited and the Interim PRSPs for many African countries, especially those prepared in the early days were produced under significant data and time constraints. Therefore, a detailed country-specific assessment of PRSPs at this stage is beyond the scope of this review.

1.4 Given the challenges that the preparation, implementation, and evaluation of PRSPs present, the following comments provide an overall assessment of the experiences in the last two years and address outstanding issues dealing with country ownership, the participatory approach, content of PRSPs, costing of the strategies, analytical capacity at the country level, donor collaboration, lending instruments suitable for supporting PRSPs, and joint staff assessments. The major elements of these challenges, other pertinent issues and the experience of the African Development Bank are highlighted in the paper.

2. An Assessment of the Experience in the Last Two Years

2.1 The experience of the last two years suggests that many countries are “owning” their poverty reduction programs. There are also evidences that suggest that the PRSP process is evolving in ways that strengthen further the involvement of civil society not only in the

design, implementation and evaluation of projects at the local level but also in the formulation of national policies for poverty reduction. In addition, there are clear indications that a number of development partners of these countries are more willing and prepared than ever to support their poverty reduction efforts thus strengthening the country ownership of PRSPs.

2.2 The PRSP approach has also enabled many countries to be more focused in terms of their efforts towards achieving specific and monitorable poverty reduction goals. In addition, the PRSP approach has allowed many countries to galvanise support from the development community on the basis of a shared objective of poverty reduction. These are positive developments and provide an excellent opportunity for maximising the impact of programs and projects on poverty reduction, especially for achieving the Millennium Development Goals (MDGs).

Country Ownership

2.3 The country ownership of the process and content of PRSPs is welcome by many countries as well as their development partners. It is noteworthy that considerable progress has been made in terms of preparing both Interim and full PRSPs in a country-led environment. However, there are some outstanding issues regarding ownership both across countries and line Ministries within countries. The second generation of PRSPs may address the following outstanding issues:

- Some governments are committed to poverty reduction. Others appear to pay lip service. The issue of ownership and international support for such countries can be problematic.
- In many cases, the Ministry of Finance is the base for most of the work on PRSPs thus “owning” the PRSP process for all practical purposes. Ensuring ownership of the PRSP by all Ministries, regional administrations and local communities can be an important but challenging task.

The Participatory Approach

2.4 One of the major achievements of the PRSP approach has been the adoption of the consultative process. The extent of the participation of different members of society however, varies across countries to a considerable degree. In some countries, consultations were carried out even during the preparation of Interim PRSPs. In others, the participatory approach has been applied primarily during the preparation of full PRSPs.

2.5 In order to deepen the participation dimensions of PRSPs, it may be necessary to take into account the following issues:

- In societies where the literacy rate is high and the tradition of civic engagement is strong, the participatory approach is likely to bear fruit. It may be difficult to

implement this approach in countries where the literacy rate is low and the majority of the poor live in remote and inaccessible areas;

- In some countries, the poverty-related views of the private sector, labor unions, large farmers, small farmers, etc, may be different. The participatory approach may need to develop an effective mechanism for facilitating the development of consensus on concepts, policies and intervention mechanisms in this regard;
- Some NGOs have a good track record of delivering good quality social services to the poor in a cost-effective manner. Their contributions to social policies at the micro-level, therefore, can be significant. It is not clear, however, if NGOs and civil society organization (CSOs) have the capacity to engage in the formulation and implementation of macro-economic policies and other national poverty reduction strategies; and
- The extent to which the participatory approach can be applied in quasi-democratic societies or countries where there are several opposition groups is a major issue.

Content of PRSPs

2.6 Thus far, the work on PRSPs was dominated by the articulation of process dimensions. The preparation of full PRSPs, however, presents a number of challenges related to their content. The development of practical methodologies for ensuring coherence of policies across important sectors to facilitate implementation as well as monitoring and evaluation is an important challenge in this respect. This requires a sound analytical basis and agreement among the various actors on outcome indicators, policies put in place to achieve selected targets and the cost of the corresponding strategies. Given that work in this area is at a relatively rudimentary stage, the comprehensive review should emphasize the need to identify best practices along these lines and suggest mechanisms for wide dissemination.

Costing of the Strategies

2.7 An important component of full PRSPs is an estimation of the cost of achieving selected poverty-related outcomes. In general, it is relatively easy to determine the cost of achieving poverty related social indicators (e.g. improvements in primary school enrolment, vaccination rates, access to clean water supply, child nutrition, etc). However, the challenges for estimating the cost of improvements in the incomes of the poor through increases in crop yields, land and labor productivity as well as infrastructural development (especially in rural/remote areas) can be enormous. Estimating the cost of enhancing gender equality, reducing maternal mortality and increasing life expectancy can be equally challenging. This suggests that cost estimates and the accompanying financial gaps in the recent full PRSPs need to be interpreted and used with caution.

Analytical Capacity at the Country Level

2.8 Work on PRSPs, especially the diagnostics of poverty, the formulation of coherent socio-economic policies and establishment and maintenance of the monitoring and evaluation systems is data and skill-intensive. On the other hand, according to gaps identified in Interim PRSPs, many countries suffer from the unavailability of recent and comprehensive household survey data. The analytical and institutional capacity for economic and sector work is also weak. Furthermore, linking the information on the incidence and depth of poverty with policies is a major challenge. Given that many countries have financial constraints, the role of donors in building such capacity is crucial.

Donor Collaboration

2.9 Historically, different donors had various objectives----political, commercial, humanitarian, etc. As a result, they had different intervention mechanisms. The challenge is for donors to harmonise their intervention mechanisms and procedures on the basis of the shared objectives of poverty reduction in a country-led environment.

Lending Instruments

2.10 The extent to which multilateral and bilateral institutions support the Poverty Reduction Support Credit (PRSC) is an issue. For instance, it is not clear whether PRSCs are indeed designed on the basis of demand from the respective countries for such an instrument.

Joint Assessment of the PRSP

2.11 At present, the World Bank and the IMF are the two institutions that assess the quality of the Interim or full PRSPs. However, if both multilateral and bilateral pool resources to fill the financial gap stipulated in full PRSPs, the role of the other donors in the assessment of the PRSPs remains to be clarified.

Other Issues

2.12 The preparation and implementation of the new generation of full PRSPs should also take into account the following outstanding issues:

- Debt relief under the enhanced HIPC Initiative and additional resources. Some countries are concerned that debt relief may mean less aid;
- The trade-off between the speed and quality of PRSPs is still being debated. In some cases, even full PRSPs may have been prepared at the expense of a good anti-poverty strategy;

- For many countries the relationship between PRSPs and the World Bank's Comprehensive Development Framework (CDF) is still not clear. The CDF is a pilot of 13 countries. On the other hand, several countries have prepared Interim or full PRSPs without the benefit of the CDF pilot experience;
- Tracking of public expenditures, especially for money saved under the HIPC Initiative requires an overhaul of the public financial management systems (PEM) in many countries. Without an efficient and transparent public finance management system, the instruments such as budgetary support may not be widely adopted in the near future. This has significant implications for donor support for modernising the PEM systems;
- The need to include issues such as governance, the environment, gender and HIV/AIDS in full PRSPs is just being recognised. The extent to which these issues will be addressed systematically is still a challenge;
- The reduction of trade barriers in developed countries should facilitate growth in PRSP countries. The EU's "All But Arms" Initiatives is an important step in this respect; and
- ODA rescues have been declining. Unless this trend is reversed, the PRSP process may be undermined.

3. The Experience of the African Development in Supporting PRSPs

3.1 The Bank has welcomed the PRSP process since its inception because the major elements of PRSPs are consistent with those of its Vision. Accordingly, it has been incorporating support for the PRSP process in its work program in the last two years. The Bank has carried out a number of PRSP-related missions to several countries in order to take stock of their needs. It has also supported a number of workshops (the Libreville Summit, in January 2000; Abidjan and Addis Ababa in March 2000; Yamoussoukro, in June 2000; and Dakar, in September, 2001) and a number of training programs organized by the Joint Africa Institute (mainly for PRSP teams from its regional member countries) designed to strengthen both the content and process of PRSP.

3.2 Specific examples of recent Bank support for PRSPs include financial assistance for implementing the participatory approach in Guinea, Malawi and Senegal. It has also supported the implementation of PRSPs through a Poverty Reduction Support Credit (PRSC) for Benin, a project for Institutional Support Projects related to governance, capacity building and poverty reduction in Ghana and Sierra Leone, Structural Adjustment Loans for Kenya and Madagascar, and a Governance project for Mozambique. In addition, work on a PRSC for Uganda is at its advanced stage.

3.3 Within the Bank, several PRSP-related initiatives are also underway. It includes the following:

- *Preparation of a PRSP quarterly report.* The first issue will be available at the end of January 2002. The quarterly report will document experiences at the country level, within the Bank and its development partners with the view to share experiences across countries and Country Departments within the Bank. The objective is to enhance the awareness of Bank staff about recent developments related to the PRSP process;
- *Revision of the format for the preparation of the Bank's Country Strategy Papers (CSPs)* to align their content with the poverty diagnosis, sectoral priorities and poverty reduction strategies articulated in PRSPs. This is to ensure that Bank support for its regional member countries is harmonized with their poverty reduction strategies as well as those of their development partners;
- *Establishment of a PRSP Trust Fund* to build the capacity of the Bank as well as its RMCs with respect to the preparation, implementation and evaluation of PRSPs. Regional member countries will be requested to prepare and submit PRSP-related proposals to the Bank for funding. Financial support will be granted on the basis of the relevance and quality of these proposals as assessed by a Task Force within the Bank, which has been set up for this purpose. Plans are also underway to strengthen its collaborative efforts with the ECA's Africa PRSP Learning Group, the World Bank Institute (WBI), the Joint Africa Institute (JAI), and bilaterals in this regard. Capacity building will be at the centre of the collaborative effort in this respect; and
- *Revision of the Bank's poverty policy paper* which was prepared in 1992. The revision takes into account not only new developments in the measurement of policy but also the new strategic framework as articulated in PRSPs. The Bank's new policy will emphasize its support for PRSPs at the country level as well the harmonization of its strategies with those of other development partners.

4. Conclusion

4.1 The PRSP is an evolving process. Despite considerable progress in adopting the ownership and participatory dimensions, there is still room for improvements. Ownership within Government structure needs to be broadened in favour of deeper and more effective involvement of line Ministries, regional administrations and local governments.

4.2 Mechanisms also need to be developed for building consensus across diverse groups within civil society with respect to the definition, goals and objectives of poverty reduction. Further capacity building of government representative and civil society in analysing the different dimensions of poverty including the formulation and implementation of effective policies is a first step in this regard. This should facilitate a common view of issues and their policy implications that allow consensus on remedial measures thus reducing significant differences in roles and expectations. The Bank is willing and prepared to intensify its efforts towards supporting work on PRSP at the country level. It is also making further arrangements to collaborate with its development

partners in the harmonization of its lending and non-lending activities to facilitate the implementation of PRSPs.



ASIAN DEVELOPMENT BANK

21 November 2001

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Dear Sharon and Brian,

Poverty Reduction Strategy Program

I refer to the IMF, World Bank Joint Implementation Committee Co-Chair letter dated September 19 requesting our views of PRSP process and content. We have canvassed staff comment on this matter and replies vary according to country and region.

In the case of our "region west," particularly Cambodia, Lao PDR, Pakistan, and Viet Nam, the question is not so much how to modify 'guidelines and modalities of the PRSP approach' but rather whether the PRSP process itself has worked all that well.

ADB staff observations in the above countries are that 'ownership and participation of PRSP' is largely confined to the Ministries of Finance and other central government agencies dealing with donor assistance. As staff comment, one of the reasons why it is difficult to ensure ownership of the PRSP process is because the timing of its preparation is driven not by the country's broad development needs but by the desire to obtain continued concessional assistance from the IMF/WB and other donors. If the question is whether introduction of PRSP process has helped to change government's approach to social and economic development for the better, the answer would probably be negative.

Many Asia-Pacific developing countries have a long-standing tradition of national development plans. Despite statements in the Development Assistance Committee (DAC) Guidelines, PRSP process does not accept these documents as the poverty strategy requiring instead a new, additional set of documents, which are largely designed and drafted by an external donor. It is not surprising that PRSP has little or no

country ownership. We feel that a single Government document, covering the country's reduction strategy, should be sufficient for IMF/WB, ADB, and other donor purposes. It is also difficult for smaller DMCs to understand why the WB can agree to consider the India's Five-Year Plan and planning documents as acceptable as PRSP, while the five-year plans of smaller DMCs are not acceptable.

PRSPs are prepared by the member country in collaboration with the staff of the World Bank and the IMF. Areas covered by PRSPs, are quite similar to what is being done by ADB under the poverty partnership agreements (PPAs) process, thus coordination is important. While in some countries cooperation between ADB and WB on PPA/PRSPs is proceeding satisfactorily, there are cases when this is not so.

In the case of the Central Asian countries, there is growing awareness and recognition of the rising number of poor and the importance to have strategic actions in addressing this problem. There is also generally an increasing receptiveness of government to participatory approaches in the strategy formulation process. But there is a dearth of strong civil society groups which can actively participate in the strategy formulation process and get directly involved in monitoring and evaluating the performance of the interventions in addressing the poverty issues; and a lack of technical expertise within Government and civil society that can identify focused poverty reduction strategies, and implement reduction measures. Governments also continue to suggest state-centered and not market-driven measures. The PRSP process may therefore be considered to be more timely and to be of greater benefit in the case of Central Asia.

Sincerely,



Cedric Saldanha
Officer-in-Charge
Strategy and Policy Department

cc: Directors, PED/PWD/OPO
Lourdes Adriano, PED
Brent Dark, PWD

October 2001

IDB Contribution to Review of the PRSP Approach

Introduction

We strongly agree with the overall concept of the PRSP process. In particular, we support the concept of country-led, country-prepared poverty reduction strategies that orient the actions of countries around the overarching objective of poverty reduction. We agree with the long-term vision of the PRSPs, and we also agree with the broad consultation process that necessarily forms an integral part of the PRSP process. Moreover, we support the strong emphasis placed by the PRSP process on indicators, monitoring and evaluation. Furthermore, we agree with requiring at least one year of implementation prior to granting HIPC final completion point debt relief.

Major Issues Associated with the PRSP process:

In our two years of involvement and support of the PRSP process, we have identified issues which merit further consideration. The most important of these are listed below.

Contradictions between the HIPC process and quality PRSPs

- Making PRSPs a condition for debt relief imposes a timetable that is not optimal from technical and political standpoints. From the technical standpoint, the time pressure undermines the quality of the document and from the political standpoint, it compromises the social marketing of its contents.
- In their rush to complete HIPC requirements, countries have hurried in the preparation of the strategies. In particular, the countries have sought to finish the consultation process too quickly and have not allowed time to fully incorporate the results of civil society.
- The requirement of interim PRSPs to qualify for decision point relief makes little sense. The I-PRSPs have generally been extremely weak documents with little more than a diagnosis and a list of good intentions.

Irreversibility of debt relief at the completion point

- We believe that this removes a key incentive for the long term implementation of the PRSPs.

Technical problems in the PRSPs and minimum technical standards

- It has been difficult and sometimes frustrating for the international agencies to help the country authorities correct what appear to be obvious shortcomings of the strategies. Examples include too high a projected growth rate for Honduras and inadequate costing and prioritization in Bolivia.
- While the documents can be perfected over time, the countries lack a clear sense of what constitute minimum technical standards for poverty reduction strategies.

- Recurring shortcomings of the PRSPs across countries include the lack of strong linkages between the diagnoses, programs, inputs and expected outputs.
- The documents do not clearly specify how the strategies are to be implemented. We believe that this problem threatens the implementation of the PRSPs.

Consultation process

- The emphasis on stakeholder consultations and participation is a big plus, but also comes with pitfalls. The PRSP has become a shopping list of problems and issues that stakeholders want to see addressed by the Government. The concepts of prioritization, trade-offs, etc are hard to sell in these forums. This balance between genuine consultation and input, and the inevitable shopping list is another challenge that needs to be resolved at this stage.
- Time, patience and continued support of the international financial institutions are key inputs to consolidating and improving the consultation process.

Sustainability of the PRSPs

- The issues of sustainability become especially important as these processes enter the implementation phases.
- Implementation of the PRSPs will require careful and well-coordinated actions of many weak public sector entities. The difficulties of this coordination are exacerbated by the heavy emphasis placed on local levels of government in implementing the PRSPs in Bolivia, Honduras and Nicaragua. New requirements to gather, process and analyze information needed to manage and assess programs at the local level will pose important challenges to implementing the PRSPs. The PRSPs we have seen do not adequately address this issue.
- Are the countries really committed to carrying out the PRSPs? The preparation of PRSPs may be more oriented to debt-reduction objectives than to a genuine commitment to orient country policies toward poverty reduction. Forthcoming elections and changes of governments in Bolivia, Nicaragua and Honduras will test the country commitments toward poverty reduction. These elections and changes of government will take place just as the implementation process begins.
- The implementation of the PRSPs also calls for a continuation of the consultation processes, which will require ample coordination and a commitment from new governments.
- Perhaps the best response to these issues is a reiteration of the long-term commitment of international financial institutions to poverty reduction. Implementation of the strategies will require concerted and long-term lending and technical assistance targeted to the continuation of these processes.

The preparation of PRSPs takes too long and is too costly

- This will be important when non-HIPC countries, without the debt-reduction incentives, consider whether or not to prepare poverty reduction strategies. A major challenge to international agencies is to find ways to make the process better, and more efficient.
- The diagnoses in the PRSPs that we have seen in the Honduras and Nicaragua PRSPs are quite good, but perhaps less time could be spent in preparing diagnoses,

and more time in designing appropriate responses to the countries' most pressing problems. Most countries already know what their most pressing problems are. It might be better to pick a few of these, consolidate them and analyze them (instead of repeating lengthy descriptive material), and quickly move on to the design of the strategy.

Views of international financial institutions in reaching decisions

- There is concern on the part of non-Bretton Woods institutions that their inputs into key decisions are not fully considered in the HIPC and PRSP processes.

Responses to specific questions on the PRSP Process

1. *Has the preparation of PRSPs been country-led and, if so, have governments assumed full leadership of the PRSP process?*

Yes. In the four countries where the IDB is supporting the PRSP process (Bolivia, Guyana, Honduras and Nicaragua), the countries have clearly taken the lead in the preparation of the PRSP process. In the four countries, the governments took the lead in drafting the strategies and they set up mechanisms for carrying out the consultation processes.

2. *To what extent have governments been preparing and implementing PRSPs in an open and participatory way, and what has been the role of IFIs in this process?*

In general preparation of the PRSPs has been open and participatory. The four countries have engaged in open and participatory process that entailed consultations with civil society. Bolivia, Honduras and Nicaragua published drafts of their PRSPs on internet web sites. Nicaragua published comments it received on early drafts of the strategies. It also published its responses to the comments and when appropriate explained how it intended to incorporate the responses into later versions of the paper.

In general, the IFIs were treated as stakeholders in the PRSP processes. We provided comments on draft PRSPs. Some, but not all, our comments influenced the content of subsequent drafts of the paper.

The IFIs, including the IDB, helped by offering technical assistance and financing for the consultation process.

The IDB is preparing sector loans to support the implementation of the PRSPs in Bolivia and Honduras. In addition, the Bank prepared an Innovation Loan which is helping set up the implementation mechanism in Nicaragua. The Bolivia loan will place special emphasis on a stable macroeconomic environment, broad participation in the implementation process, social inclusion and the protection of social expenditures.

3. *To what extent have participatory processes influenced the content and implementation of poverty reduction strategies?*

The degree to which the conclusions of the dialogues were included in the PRSPs varies over countries. In many cases deep divisions concerning what civil society wanted and what the PRSP process could realistically deliver were apparent during the consultation processes.

In the case of Bolivia, many of conclusions of the National Dialogue (ND) were included in the PRSP. The recently approved National Dialogue Law (with most “reglamentos” still pending) seeks to establish a lasting impact of participatory processes on public policy formulation.

In Guyana the consultation process provided especially important inputs to the section on governance. Likewise the participatory process helped establish the prioritization of actions and costing.

Extensive consultations helped validate and in some case modify priorities in the Nicaragua and Honduras PRSPs.

4. *To what extent are PRSPs built on adequate poverty diagnosis?*

The general view is that the poverty diagnosis was adequate. The diagnoses are the strongest parts of the Nicaragua and Honduras PRSPs. Perhaps in Bolivia, not enough emphasis was given to the problem of social exclusion. The preparation of the diagnosos in Guyana clearly identified the need for better baseline data.

5. *To what extent do PRSPs have relevant targets and indicators for poverty reduction and appropriate proposals for monitoring and evaluation?*

This topic has not received adequate treatment in the PRSPs, and is one of the primary reasons why we believe that the implementation of the PRSPs needs to be given much more attention by the IFIs as well as by the interested countries. In the four countries the institutional arrangements for PRSP implementation, monitoring and evaluation are only now being addressed. The IDB is helping with this process through technical cooperations and loans.

6. *Have countries' needs for technical assistance in the preparation and implementation of their PRSPs been adequately addressed by development partners?*

While development partners are clearly focussed on the question of implementation, it is still not clear that we will help the countries rise to the challenge of implementing the strategies. The IDB believes that, despite our efforts in this area, the countries and the IFIs will have to redouble our efforts to ensure that the strategies are constantly updated and effectively implemented.

7. To what extent have external development partners, including the Bank and the Fund, begun to align their assistance and policy conditionalities behind PRSPs?

The IDB is currently designing and adjusting country strategies to ensure that they conform to the priorities stated in the PRSPs.

8. Has an appropriate balance been achieved between country ownership and the need for donors to be held accountable for the use of their resources?

We have not reached a consensus on the answer to this question.

The Decent Work Agenda and Poverty Reduction:

ILO Contribution to IMF/World Bank Comprehensive

Review of Poverty Reduction Strategy Process

Washington 14-17 January 2002

Introduction

The International Labour Office welcomes the opportunity to join in the comprehensive IMF/World Bank review of poverty reduction strategies, both to offer ideas drawn from its own work and also to further partnership with other international organizations. In 1999, during the period in which the World Bank and the IMF were formulating the concepts of a Comprehensive Development Framework and Poverty Reduction Strategy Papers, the ILO was undertaking a similar exercise of reflection around its Decent Work agenda. Both initiatives share the common goal of creating opportunities for women and men to enlarge and realise their capabilities to provide a decent living for themselves and their families through productive work.¹

At its March 2002 meeting, the ILO Governing Body will evaluate the work of the Organisation in support of PRSPs with a view to enhancing the potential complementarities between ILO efforts to operationalize its Decent Work agenda and the PRSP process and strengthening the role of the social partners in all phases of national strategies. This statement to the special International Review Conference will therefore be followed up subsequently with further information on the outcome of the ILO Governing Body's discussions.

In March 2000, Director-General Juan Somavia of the ILO and President Wolfensohn of the World Bank agreed that, given the considerable synergies between the ILO's goal of Decent Work for All and the World Bank's focus on poverty reduction, the two organizations should work closely together to assist countries in the preparation, implementation and evaluation of PRSPs. Following on from this a pilot programme was established (in Cambodia, Nepal, Honduras, Mali and Tanzania) with the aim of strengthening ILO's contribution to the PRSP and learning lessons with respect to country level collaboration. The ILO has also been asked by governments and social partners in a number of other countries to assist in their work on poverty reduction.

Although the ILO has not formally joined the UN Development Group, it is active at the country level in the UNDAF process at the supports the decision to align the UNDAF process with PRSPs. The ILO aims in all of its activities to link poverty reduction strategies with employment-intensive economic growth and the generation of decent work opportunities, and sees considerable scope for strengthening policy integration through its involvement in the PRSP and UNDAF. An important mechanism for this effort

¹ Reducing the Decent Work Deficit: A Global Challenge. Director-General's Report to 2001 International Labour Conference

is to introduce the ILO's unique tripartite structure (government, workers' and employer's organisations) as a means for introducing the voices of key stakeholders into the development dialogue and thus giving substance to the objective of national ownership.²

The ILO regards the PRSP as a dynamic process providing opportunities for improved policy dialogue on poverty reduction and decent work. The concept of decent work integrates the four pillars of ILO's activities: employment, social protection, social dialogue and labour standards/rights. Gender equality is an integral cross-cutting theme in the decent work agenda with particular focus on the process of creating equal opportunities for women, enhancing their social protection, ensuring that the human rights of women are addressed and in enabling them to participate in social dialogue. Decent work recognises that the global economy has to deliver increased employment but that this has also to involve improvement of working conditions, social protection and representation based on respect for fundamental principles and rights at work. Increasing the quantity and quality of employment opportunities is central to poverty reducing growth, and is therefore a strong feature of the ILO's work on PRSPs.

Decent work stems from peoples' own perceptions of what they can realistically expect from their working environment (be it paid or unpaid work in the formal or informal economy). It recognises that work defines peoples' sense of themselves and that dignity is important in its own right, is a contributory factor in productivity as well as in the prevention of social exclusion. Decent work underpins efforts to enhance global security.

Central to ILO's work is the ILO Declaration on Fundamental Principles and Rights at Work which aims to help countries to eradicate child labour, abolish forced labour, assist people to work free from discrimination and freely organise themselves to represent their interests and bargain collectively.

Decent work also recognises that the majority of people in the member countries of the ILO gain their livelihoods outside the formal sector, in agriculture and in the rural and urban informal economy, and there is an urgent need to devise means for improving their livelihoods.³

Ownership and Participation

The ILO strongly supports the key principles of enhanced national ownership of poverty reduction strategies based on broad civil society participation in the process of preparation, implementation and monitoring and evaluation. Although many governments of least-developed countries have initiated efforts to enhance their own capacities to undertake PRSPs, and have sought to facilitate the participation of civil society organizations in the exercise, it may take some time before the full potential of this major shift in policy becomes embedded in the governance of development.

The ILO has encouraged governments to invite trade unions and employer's organizations to join fully in all phases of the PRSP process. However, in many cases the social partners have expressed concern and frustration that

² Poverty Reduction and Decent Work in a Globalizing World (GB.280/WP/SDG/1 March 2001)

³ The 2002 International Labour Conference will discuss a major report Decent Work in the Informal Economy

their views and potential support appear undervalued. There are a number of explanations for the relatively marginal role in many but not all PRSP countries of what are in many cases the largest democratic membership based organisations in society.

- The traditional conduit for the views of social partners into government policy making is the ministry of labour, but in many countries it plays a relatively minor part in what is still a heavily budget-oriented intra-governmental process;
- The emphasis on the participation of “civil society organizations” can cause difficulty in that few trade unions and employers identify themselves with this relatively new all-embracing term, although in a literal sense they clearly are encompassed in its meaning. Furthermore other CSOs do not often think of unions and employers as part of their movement;
- The new approach of PRSPs has stimulated important innovations in participatory mechanisms but has often neglected established channels such as tripartite economic and social councils and parliaments;
- Some governments may prefer to engage with less autonomous partners than trade unions and employer organizations and have deliberately marginalized the social partners in the PRSP process.
- Some Bank and Fund officials are unfamiliar with the work of the social partners and have not felt the need to alert government PRSP teams to seek their involvement, despite encouragement to do so from senior management.
- A few workers’ organizations have themselves preferred not to get involved in what some regard as a continuation under a new acronym of previous policies to which they were opposed, and some employer’s organizations have decided to concentrate their resources on other aspects of public policy.

For these and perhaps other reasons, tripartite social dialogue is in general an under-utilised mechanism for extending participation and national ownership of PRSPs. The ILO has therefore offered to facilitate the creation or adaptation of social dialogue mechanisms for the purposes of informing and consulting employers and workers on the PRSP. Recently, the Tanzanian Ministry of Labour, the Association of Tanzanian Employers and the Trades Union Congress of Tanzania invited the ILO to help prepare and facilitate a major national tripartite conference that concluded with the adoption of conclusions and recommendations outlining action “Towards a Decent Work Strategy for Poverty Reduction in Tanzania”. A number of other governments and their social partners have shown interest in this approach, as have the Bank and Fund and other international and bilateral development agencies. The ILO will therefore be extending its work on social dialogue, decent work and poverty reduction to several other countries this year if resources permit. The challenge in the next phase is to extend the number of countries where the ILO is active and develop capacity building support programmes which can further enlarge the contribution of unions, employers and labour ministries to the success of the PRSP process.

In this regard, it is important to note that in many PRSP countries considerable restrictions on the freedom of workers and employers to associate and form or join organizations of their own choosing hamper the development of social dialogue on poverty reduction. Landless rural workers, small tenant farmers, small traders and producers are frequently excluded from laws providing for the legal establishment of workers' and employer's organisations or protecting such organisations and their members from intimidation and acts of violence. Reforms in these areas are essential if the poor are to be able to organise themselves and articulate their interests in society and the PRSP process.

Content of Strategies

The ILO has been tracking progress with respect to the inclusion of employment and decent work concerns in PRSPs. In Mali, ILO suggested that two additional theme groups on income generation and social protection and employment and training join the drafting team. In Tanzania employment, child labour and gender have been covered in the PRSP as it has evolved and links with the "Investment in Poverty Reducing Employment (IPRE)" component of the ILO Jobs for Africa programme have been made. In Ghana, the Jobs for Africa project participated in the Economic Dialogue process and assisted in the drafting of a section of the PRSP on employment generation. Likewise in Pakistan, ILO at the invitation of the government prepared a major input into the Planning Division's Employment Strategy as part of the PRSP process. The ILO is seeking clarification as to why the resulting section on employment in earlier drafts was omitted from the recently completed I-PRSP. Initiatives are also envisaged for pension reform, including consideration of the question of how to extend coverage to workers in the informal sector.

In some countries analysis has been provided of weaknesses. In Cambodia, the I-PRSP lacked detailed specification of a growth strategy and there was no mention of the labour market and employment. ILO work on strengthening respect for freedom of association in Cambodia is particularly important to the development of social dialogue on poverty reduction. The Nepal I-PRSP was also not very detailed in its growth strategy and there was no consideration of the necessary market reform agenda or of the importance of strengthening the weak infrastructure necessary for creating employment and work, such as roads and irrigation systems. The Nepal I-PRSP has however taken on board on-going ILO supported work on the elimination of forced and child labour. In Honduras, ILO is involved in the formulation of specific policies and programmes including:-

- improving statistics and indicators to measure linkages between employment with poverty reduction,
- the inter-relationship between economic growth, employment generation and poverty,
- the impact of macro-economic policies on the pattern and pace of economic growth and employment generation,
- the impact of existing social programmes and their impact on excluded and vulnerable groups, and

- developing work with social partners in all these areas.

Despite the scope for PRSPs to draw on previous analysis and policy development work by the ILO, the first wave of I-PRSPs and PRSPs are disappointingly meagre in their coverage of employment issues both in terms of the quantity of jobs that need to be created and raising the quality of conditions of work. Given that income from work is the overwhelmingly most important means of survival for the poorest this is somewhat surprising. In part, the weakness of the employment policy dimension of PRSPs probably reflects the relative absence of labour ministries and the social partners from the consultation processes for the drafting of the first papers. It may also arise from the failure to give sufficient prominence to the gender dimensions of poverty since nearly two-thirds of those working for less than a dollar a day are women subsistence farmers. As others have observed, PRSPs have not fully overcome the tendency for discussions to concentrate on the contribution of foreign aid to the national budget. Whilst public expenditure in vital areas such as education and health is of great significance to poverty reduction, the larger question of how to generate pro-poor growth is yet to be fully integrated into deliberations surrounding PRSPs. This is likely to change as PRSPs evolve and the ILO would expect the fundamental question of how to raise the productivity of the working poor and the returns they get from their labour to become more central in the future.

The ILO was invited by the 2000 Special UN General Assembly review of follow-up to the Copenhagen Social Summit to prepare a global employment agenda. A major conference in November 2001 has recommended a 10 point programme of work to the ILO Governing Body much of which is focused on the central issue of employment generating growth in developing countries. This on going work will contribute to the support the ILO will be able to offer governments and the social partners in the next phase of work on PRSPs. Already in Tanzania, the first progress report on the PRSP has identified employment as a major cross-cutting theme and, following the Conference mentioned above, the ILO will be working with the government and the social partners to develop a Decent Work dimension to the on-going PRSP work.

In applying its work on the Global Employment Agenda to the goal of enlarging decent work opportunities as a key instrument in reducing poverty, the ILO will encourage all working on PRSPs to see employment is a principal means of social inclusion and integration.⁴ How jobs are created through the processes of trade, investment and enterprise creation and by various labour market measures is thus a critical dimension of policies that aim to ensure that growth in a globalizing world reduces poverty. The quality of jobs depends on participation through social dialogue, action in favour of equal opportunities on labour markets, skill acquisition, social protection and forms of labour market regulation and intervention. Direct job creation for the poor is often possible through targeted programmes, frequently involving labour intensive processes, but the main thrust of job creation is through enterprise creation and expansion, including small and micro enterprises. Decent work is a cross-cutting theme grouping basic rights at work and freely-chosen and productive employment. All these form a package.

⁴ See Global Employment Agenda, ILO Geneva, 15 December 2001.

Having work is obviously fundamental to decent work but employment alone cannot meet all the aspirations that people have of their work. All this bears repetition because job creation is not something added on to other economic processes but rather interacts with those processes. Correspondingly there are various entry points where the ILO can contribute to bringing about decent work. These can be through strengthening social dialogue, extending social protection⁵, through greater attention to labour market processes and measures, often thereby strengthening the role of the labour ministry in development policy dialogues. In addition, ILO can assist countries in their analysis of the most appropriate macro-economic policy stance by ensuring a good feedback of information on labour market developments and thus the design of policies that can spur employment and productivity growth and contain inflationary pressures.

Many I-PRSPs and PRSPs give high priority to the improvement of education and health services, and in particular their availability to the poorest. It will however be necessary to give much closer consideration to the design of policies that attract, retain and train the significant numbers of people who will be required to provide the quality and quantity of services needed to meet the targets in national poverty reduction strategies and in the Millennium Development Goals.

One of the largest ILO programmes (IPEC) is aimed at the eradication of child labour through time bound programmes agreed with governments on targeted measures to increase educational alternatives to child labour, reduce family poverty and implement labour laws especially concerning the most dangerous and damaging forms of child labour. These programmes are directly connected to the overall drive for poverty reduction and should become more thoroughly integrated into strategies.

The elimination of child labour is one example of a policy field where the ILO is able to contribute to the vital issue of monitoring and evaluation. In general, the ILO would urge all concerned with PRSPs to focus on the development of simple and reliable indicators of progress and seek the involvement of target groups and non-governmental organizations including the social partners. This method forms part of the IPEC approach and is proving a most successful technique for ensuring on-going commitment to making a challenging programme successful.

The main achievements and challenges to date in developing and implementing poverty reduction strategies

The drive to develop PRSPs in a large number of countries as a means of working towards an integrated and comprehensive development framework has imparted a fresh stimulus to the international community's efforts to improve the well being of the world's most disadvantaged people. In addition, the shift of emphasis to the process for deciding priorities and monitoring policies designed to realise these goals has focused attention on identifying where the responsibility lies for taking action. All too often in the past carefully constructed policies failed because it was unclear who was supposed to

⁵ See Social Protection: A New Consensus, ILO Geneva, 2001

follow them up. The ILO welcomes the opportunities created by this important change of direction in thinking about development.

Although experience with PRSPs is still relatively recent, the ILO has recognised a change in the climate of the donor/recipient relationship with a growing sense on the side of developing countries that if they can demonstrate a strong broad-based national support for their poverty reduction strategy they can insist vigorously that donor agencies live up to their promises of increased assistance. Similarly, donor agencies are aware that a well-considered nationally developed programme is likely to be more successful than even the most technically sophisticated foreign designed equivalent. As a result, a more balanced relationship between the "international community of development experts" and government and non-government policy-makers is gradually emerging. This progress is, however, fragile and could easily be broken if confidence is damaged of either developing countries in the responsiveness of donors to their identified needs, or of donors in the commitment of developing country governments to a participative approach to poverty reduction.

The ILO itself has recognised the challenge of improving and integrating its own services to its constituents in support of their commitment to poverty reduction. At the same time as the IMF and World Bank have been reorienting their working methods to the PRSP approach, the ILO has launched a new strategy for Decent Work for All. By aiming to ensure that national Decent Work strategies are developed as part of PRSPs, the ILO believes that more and better jobs can make a major contribution to sustainable development and poverty reduction.

Guidelines and modalities of the PRSP approach

The ILO's two major concerns with PRSPs so far are that:

- Few contain much analysis of labour market developments and, thus, the contribution of increased decent work opportunities to poverty reduction is largely absent from policy proposals; and
- Trade unions and employer organisations have had difficulty in participating in the PRSP process, and labour or employment ministries have also been somewhat marginal actors in governmental networks.

Given the potential significance of increased employment opportunities, improved conditions of work and extended social protection mechanisms to sustained poverty reduction, it will be necessary to work in partnership with the World Bank, UNDP and other agencies to promote more explicitly consideration of policy options in these areas.

Consideration should be given to encouraging all involved in the PRSP process to be alert to weaknesses in the participation of employer's organizations and trade unions. The ILO would see the main remedy as extending its support to its national constituency to facilitate a clearer definition and thus recognition of the value of tripartite social dialogue and decent work to the PRSP process. This could be part of a more differentiated strategy that takes account of the wide variety of groups and organizations encompassed in the term civil society.

Similarly, PRSPs should take account of the importance of promoting the engagement of strong worker and employer's organisations able to articulate and represent the interests of those usually poor sections of the population largely without a voice in the development process. Support for the capacity building efforts of trade unions and employer's organisations should become a component of PRSPs in many countries, and will need to address questions of reform to laws and practices that inhibit the full realisation of fundamental principles and rights at work.

Recommendations

At this relatively early stage in the development of the PRSP process, the main priority is to foster the confidence of developing country governments, the social partners and other civil society organisations that the approach is going to be sustained and will yield increased international support for more effective poverty reduction policies. Regularly peer review of national strategies to enable the sharing of good and bad experiences is an important method for examining how policy advice and guidelines might be adapted. This is particularly important in the critical area of participation. Many PRSP countries may wish to develop a more differentiated strategy for extending and deepening the involvement of the wide variety of groups interested in the PRSPs. Such a trend would certainly be welcomed by trade unions and employer's organisations in a number of countries.

Capacity-building for all concerned in the dialogues around PRSPs also deserves increased attention. In addition to helping non-governmental organizations and ministries improve their ability to engage in the PRSP process, international agencies themselves need to train their officials to understand the culture and origins of the institutions of the countries with which they are working. The institutional framework for development is, as a consequence of the PRSP approach, increasingly recognised as a key factor in poverty reducing growth and knowledge of the path through which current structures evolved is critical to consideration of how they might adapt to changing needs. This is especially true with regard to the institutions in and around the labour market on which the ILO has particular experience. The ILO is ready to expand its collaboration and partnership with other agencies involved in the PRSP process and would trust that the contribution that its programmes for the operationalization of Decent Work will increasingly become integrated into the comprehensive multilateral effort to support national poverty reduction strategies.

Finally, the effort being made by developing country governments to attack poverty directly by programmes elaborated, implemented and monitored by a wide variety of non-governmental bodies, including the social partners, must be matched by an equivalent political drive in industrial countries to increase and make more stable and predictable the flow of concessional financial resources to the poorest parts of the global community.

The PRSP Approach: A Preliminary Assessment by FAO

FAO is delighted at being given the opportunity to respond to the invitation by the IMF and the World Bank to governments, civil society organisations, aid donors and development partners –including the UN system– to participate in a comprehensive review of the Poverty Reduction Strategy Paper approach.

The formulation of poverty reduction strategies has become of paramount importance for most low income countries. On the one hand, PRSPs are considered a key requirement to qualify for debt relief and to access concessional IMF/WB support, as well as being a critical factor in bilateral and multilateral donor support. On the other hand, they set the basis for more comprehensive co-ordination amongst donors and international agencies and for promoting participatory processes in fighting poverty and hunger and in aiming for more equitable and sustainable economic development.

Seeking the views, recommendations, and concerns on the achievements and challenges in developing and implementing poverty reduction strategies from a broad-based audience is a major step forward. It is hoped that the process will contribute to developing a common ground and common understanding of the long-term developmental goals and short-term outcomes of the PRSP approach. Drawing and building on each stakeholder's inputs and perceptions would further contribute to improving the guidelines and modalities of the approach.

We believe that FAO can offer to the Fund and the Bank useful views and recommendations concerning the PRSP approach. This preliminary assessment draws primarily on PRSP analyses now underway in various departments at FAO Headquarters and, most importantly, on in-country direct experience, engagement and knowledge of FAO staff in several countries where full and interim PRSPs have been prepared or implemented (in particular Honduras, Mauritania, Mozambique, Tanzania, Uganda, Cameroon, Ethiopia, Gambia, Guinea Bissau, Guinea, Kenya, Rwanda, Vietnam and Yemen). FAO intends to produce a fuller review of the PRSP approach at a later date.

Achievements and challenges in developing and implementing poverty reduction strategies

The PRSP process seems to have already delivered a series of important benefits. The process appears to support and contribute to the building of national commitment and ownership around poverty objectives, to the increased participation of stakeholders in poverty analysis and policy making, and to the improved co-ordination amongst donors. A case in point is Tanzania, where the process has involved wide, active and genuine participation of all stakeholders in the PRSP preparation. However, the situation has been different in a few other countries, where the PRSP appears to be considered as a donor-driven process, with little in-country dialogue either between development agencies and/or between local stakeholders – line ministries, local administrations, private sector, and civil society. Even where strong national participation has been promoted, this sometimes has been limited to interaction with government and even some specific units of government (eg. Ministries of Finance and Planning).

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As far as the implementation of PRSPs is concerned, we are at too early a stage to evaluate whether the process will be delivering the expected poverty reduction outcomes. Nevertheless, what already seems to be raising concerns are issues like the gap between the financial resources required to implement an extremely wide range of policy measures, and the funds available. One of the main challenges will continue to be the sourcing of funds for the effective implementation of the PRSPs.

Recommendations to modify guidelines and modalities of the PRSP approach

The PRSP process is still relatively new, and improvements are possible and needed to strengthen its contribution in the areas mentioned above. Some recommendations follow:

- It is widely recognised that growth is important for poverty eradication. However, too much emphasis is still given to economic growth as the “single most important factor” influencing poverty. There is a growing concern that the Millennium Development Goals will not be reached unless significant changes in income and wealth distribution are supported. Growth and distribution both matter when it comes to poverty eradication. Still, there is neither agreement nor strong and sound evidence in support of which of the two objectives is the most important, and results appear to be strongly country specific. Thus, defining policies in the context of poverty reduction strategies implies that both growth and distribution enhancing policies should be considered as means to achieve poverty targets as an ultimate goal, and not as an end in itself. For this reason, it is believed that there is an urgent need to develop and adopt appropriate tools and to carry out analyses which compare and evaluate the trade-offs of different policies. In particular, it would be useful to carry out an analysis to evaluate which forms and combinations of policies promise to be the most effective in reducing poverty.
- More emphasis should also be given to the various dimensions of poverty. A wider use of social assessments as well as the development and integration of environmental and social target and monitoring indicators within the PRSP approach would be strongly recommended. Moreover, what still appears to be missing in many PRSPs is a direct and clear reference to human rights, despite the fact that enabling institutional and political frameworks are, together with sound macroeconomic stability, well recognised preconditions for achieving poverty targets. Whether this is due to lack of commitment by governments, or lack of coverage of the links and relations between growth, human rights and poverty in the PRSP Sourcebook, is not clear. But if a government commits itself to eradicate poverty “as an ethical, political and moral imperative of human-kind”, then it should as well take the required steps to ensure, protect and fulfil the human rights of its people, and in particular the right to food¹. This calls for international support which goes beyond a mere technical economic advice.

More specific views, comments and recommendations on the PRSP approach follow under four of the areas proposed by the WB and IMF, namely: i) ownership and participation, ii) content of strategies, iii) donor assistance and partnerships, and iv) constraints and challenges, including on implementation of the strategies. These comments are meant to reflect as closely as possible the views and concerns expressed by FAO staff directly involved

¹ At the World Food Summit in 1996, leaders from 186 countries made a solemn commitment to halve the number of hungry people by the year 2015.

in the PRSP process in various countries as well as of those who are reviewing the PRSPs which have so far been formulated.

(i) Ownership and participation

In many countries the PRSP is recognised as being country-led, with the Government taking full leadership in formulating the document (e.g. in Ethiopia, Tanzania, Yemen and Uganda)². Line ministries have often contributed to the formulation of PRSPs in areas of their competence either directly, or through participation in thematic task groups³. In several cases, however, the process seems to have started out looking like an exercise whose main purpose was to satisfy a requirement for budgetary support by the Bretton-Woods Institutions (BWI), as in Kenya. In Rwanda, the process is seen as fully IMF/WB driven, with little in-country dialogue and even disagreement amongst some of the development partners. In Vietnam also, the process is seen as donor-driven and considered by the Government as a tool to obtain BWI resources. The line ministries and decentralised authorities are only marginally involved, since technical advice is mainly provided by the relevant sections of the Ministry of Planning and Investments and by research institutes (eg. Agricultural Economics Institute). In Uganda, despite the process of decentralization, Government involvement has mostly been through the Ministry of Finance, Planning and Economic Development (MFPED), with little participation of sectoral ministries such as Ministries of Agriculture, Local governments, districts, etc.

To a large extent, FAO staff recognise that the formulation of interim and full PRSPs is being carried out in a participatory manner, involving also stakeholders from the private sector, donors and civil society, including NGOs and farmers associations. However, some concerns are raised regarding the participation of representatives from NGOs, CBOs and civil society, and more generally of representatives of the lower strata of society. In certain cases, participation of these groups appears to have been limited to witnessing the formulation process, through attendance to workshops and fora of discussions, more than actively contributing to it. While it is recognised that national, regional and district level consultations are essential to raise visibility and foster discussion on the need to link local priorities and resource allocation decisions, it is still not clear, in some countries, whether and how these consultations would feed the policy decision-making process. There are not many clear cases where stakeholder participation has had a direct impact on strategy formulation and policy decisions reflected in the PRSPs. Possible explanations are related to: i) the time constraints that many governments face in formulating strategies required for accessing funds from IFIs, and ii) lack of technical skills and capacity of civil society to actively contribute to both the formulation and the implementation processes. For a PRSP to be successful and owned by the country, we would recommend a stronger involvement of –and partnerships with– all stakeholders, including civil society groups in poverty analysis, decision making, and in monitoring and implementation of the PRSPs. In most cases, however, there is need for capacity building and improved understanding of the future working arrangements at almost all levels of governments and local authorities, and this would require the international

² In Yemen, the methodology and preparatory process have followed very closely the WB approach, with the understanding that the PRSP exercise is of full national ownership, with leadership exercised by the Ministry of Planning and Development.

³ In Mauritania, for example, 12 thematic groups have been set up to contribute to the formulation of the PRSP. In Kenya there are 8 sectoral working groups and 7 cross-sectoral thematic groups. The existence of these working groups, and more generally of any participatory process, while making it less easy to prioritise policies and actions, adds much value both to the analysis of causes and determinants of poverty and to the range of policy options.

community to provide technical and financial assistance to governments as well as other relevant stakeholders.

(ii) Content of strategies

In a few notable cases, as in Ethiopia, Mozambique and Tanzania, the PRSPs, to their credit, have built on existing national policies. To take the last example, Tanzania has largely drawn from existing policies and strategies and integrated them into the PRSP. Adequate structures and instruments have already been instituted to enable the integration of the PRSP in the core processes for policy making and programme implementation as well as inclusion in the budget cycle and Medium-Term Expenditure Frameworks (MTEFs). International agencies and the main donors have been very supportive to the whole process and have assisted government in a variety of ways to its successful completion and acceptance.

The participation of a wide range of actors has often contributed to improve the poverty profiles in many countries and to highlight, to some extent, regional and socio-economic variations. In Tanzania, the participatory processes have significantly influenced the content of poverty reduction strategies, particularly in tailoring the strategies in accordance to the people's needs as well as prioritizing them. Considerable attention has been directed to meeting the needs at the grassroots level. The Tanzania PRSP clearly defines, costs and prioritizes public actions that are likely to reduce poverty. Adequate attention has been given to pro-poor growth strategies. All sectoral policies were carefully scrutinized for appropriateness. The adequacy of the macro-economic framework was carefully assessed in terms of costs, implementation and comprehensiveness in terms of financing plan.

In general, however, many of the PRSPs tend to repeat existing strategies without given them the expected pro-poor slant. When changes are introduced in existing programmes, they are inclined to overemphasise the development of social services or of infrastructure which, while undoubtedly contributing to growth in the medium or long term, have limited impact in the short term and are sources of recurrent costs that will be difficult to bear in the absence of growth. Given that most of the poor in developing countries live in rural areas and depend on agriculture for at least part of their income, agriculture and rural development should have a more prominent place in PRSPs than what is currently observed.

It should also be noted that the level of disaggregation is often insufficient to identify the different livelihood strategies of various groups of poor people. Moreover, the proposed poverty reductions strategies, while not always sufficiently linked to the analysis of poverty in terms of assets, present rather similar patterns, ranging from macroeconomic and liberalisation reforms to increased social sector spending, provision of safety nets, good governance and public sector management.

- Poverty and food insecurity. Food insecurity issues are insufficiently analysed, examined or attended to the extent that FAO would wish, given its mission and mandate. Although the multi-faceted nature of poverty is acknowledged, there is scant attention paid to the specific problem of food insecurity in the PRSP countries. Poverty is at the root of hunger and undernourishment but hunger is also a basic cause of poverty. Hunger has substantial economic costs for individuals, families and whole societies⁴. There may be cases where a more explicit focus on food security is required,

⁴ Adult productivity losses from the combined effect of stunting, iodine and iron deficiencies are equivalent to some 3 percent of GDP every year in some countries.

especially in countries where food insecurity is the principal manifestation of poverty and/or governments identify food insecurity as an entry point for fighting poverty. We also believe there is a need to widen the poverty agenda to address more fully issues of vulnerability, assets endowments, livelihoods, and nutrition. Possible actions include: i) building capacity amongst policy-makers and civil society organizations in analysis poverty and food insecurity, including nutrition; ii) developing food insecurity indicators and analysing food insecurity problems and rural/urban livelihoods within an assets-vulnerability framework; and iii) more in-depth analysis of the poverty and food security impact of alternative policies and public spending patterns.

- Acknowledging trade-offs and prioritising among policy alternatives. Although many PRSPs heavily draw on previous experience and existing policies and strategies (often integrating or referring to these in the documents), comparative analyses between alternative policies hardly ever appear in the documents. Similarly, prioritisation amongst the extended list of proposed policies is often missing, or when it is done it is not always supported by a clear and sound explanation of how policies have been prioritised⁵. Analysis and evaluation of macro-economic and sectoral policies should highlight the (multidimensional) trade-offs involved in the different policy options. It is important to recognise and highlight the inter-linkages between the various sectoral and cross-sectoral policy measures, and to evaluate how policies in one sector affect others (eg. changes in the agricultural economy and rural-urban migration, while on the one hand may increase income opportunities and earnings, on the other may have negative effects on social capital and social integration). Given budget constraints and multiple goals, there is a need to prioritise among policy alternatives, making explicit the rationale underpinning choices, and acknowledging the trade-offs as well as spill-over effects in terms of i) multidimensional outcomes, ii) targeted categories of people, iii) favoured sectors or sub-sectors, and iv) processes involved.
- Markets and livelihoods. It is widely recognised that efficient markets play an important role in generating economic growth, by providing a way to allocate resources ensuring the highest value of production and maximum consumer satisfaction. Most countries are in the process of establishing those conditions accepted to be essential for favouring the development of well-functioning and efficient markets. However, it is too often taken for granted that the development of an efficient market will contribute to poverty eradication, for it will for example increase the opportunity for the poor to access that market or an inter-linked market, to spread risks, or to raise their income amongst other positive outcomes. Well-functioning (efficient) markets can co-exist with widespread poverty, since distributional and equity issues are not directly dealt

⁵ This is not always the case. According to FAO staff, with regard to Tanzania “the poverty diagnostics have to a large extent been taken into consideration. Data have been disaggregated by region, social groups and gender. Poverty trends and determinants have been well stipulated. Indicators and targets for poverty reduction as stipulated in the PRSP for the respective sub-sectors are appropriate for effective monitoring and evaluation. The indicators have been well selected and their ability to monitor the results is high if conducted properly”. However, “the assessment of impacts of past policies and programmes has been undertaken to some extent although not adequately. Ex-ante analysis of social impact of key proposed macro-economic and structural reforms, although covered somehow, should be beefed up in future reviews of the PRSP. There are also concerted efforts to improve data collection and analysis, through the development of systems such as the Tanzania Socio-Economic Database and others through the sectoral ministries”.

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with⁶. Conventional policies for market restructuring and reform, such as liberalisation and privatisation policies, aimed at promoting the development of competitive and efficient markets and economic growth, cannot simply be assumed to be poverty reducing through an anticipated "trickle-down" process. Evidence shows that in many countries, particularly in Africa, these policies have resulted in a reduction in the participation of small farmers in the market. Difficulty of access to markets, high transaction costs and low prices resulting from inefficient markets have often resulted in a regression of small farmers to subsistence agriculture⁷, denying these poor farmers from growth opportunities the market was to offer them. It is now widely accepted that such policies need to be framed in such a way as to consider equality of opportunities in the process and the social impacts of reform⁸. In particular it is important to consider explicit methods to encourage and promote access and participation of the poorer sections of the population⁹. In this context, there would be value-added in analysing whether enhancement of sustainable livelihoods approaches and other assets-vulnerability frameworks could be used as tools both for both analysis and operational processes.

- Costing policy measures Analysing the responses from the FAO field staff, it appears that many poverty reduction strategies have not been adequately budgeted, although it has to be recognised that we are mainly referring to interim PRSPs or full PRSP which have not yet been finalised. Much effort is therefore still needed to adequately cost the proposed policy measures. This task is extremely important. Once the expected policies are budgeted, it would be possible to analyse whether there is a gap between the required funds and those which are effectively available. In costing policies it is also recommended that direct references and linkages be made with respect to the expected poverty outcomes, and social assessments. This would add transparency to the prioritisation exercise.
- Improving the methodology for assessing poverty dimensions and policy impact. The methodology for assessing the dimensions of poverty as well as the causal relations¹⁰, both at aggregate and disaggregate levels, should be improved. Too often income and consumption indicators¹¹ are the only proxies used in the analysis while the other

⁶ Neo-classical economic efficiency aims at maximising outcome and utilities for whole economies. This would result in a social optimum only if income distribution is universally agreed to be acceptable (Scarborough and Kydd, 1992).

⁷ In Zambia, for example, the participation rate of smallholders in agricultural output markets fell from 46.6% in 1993/94 to 31.8% in 1997/98, while their participation rate in agricultural inputs markets dropped from 26.9% to 7% over the same period (Institute of Economic and Social Research, University of Zambia, 2000).

⁸ One clear example is the need to be explicit about the social safety nets that will provide support to those who may lose employment as a result of trade liberalisation. Another example is that a clear definition of land property rights, while necessary for the development of land markets, will not be sufficient for that market to be pro-poor until the more vulnerable strata of rural societies are guaranteed access to land.

⁹ Markets, particularly undeveloped markets in rural areas, are deeply embedded in a set of social and political institutions. Moreover, price signals and economic endowments, as well as social customs and power amongst other factors, determine the way people, and the poor in particular, are involved in different market operations. Therefore, the social, institutional, organisational and political variables that condition the working of markets must be incorporated in the analysis if we are to achieve a clearer understanding of the real world. In this regard, worth noting is the need to "review... the Law Code to ensure equal access to public services, investments and business opportunities" (I-PRSP Vietnam).

¹⁰ It is noted that, in examining the causes of poverty one cannot avoid a certain degree of circular causality, since poverty can often be at the same time cause and effect with relation to many dimensions.

¹¹ As an example, the interim PRSP exercise in Yemen took into consideration the basic economic indicators (macro and micro economic figures) for poverty reduction, along the country's long-term strategic plan

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dimensions of poverty are neglected. Well-being and social indicators –whether quantitative or qualitative–, apart from the HDI, are rarely used. There is need to develop and adopt indicators which look beyond the economic and financial sustainability of policies, investments or projects. More emphasis should be given to social assessments as well as quantitative and qualitative information and indicators for monitoring and evaluating the processes which underpin policy-decision making. In this respect, the Food Insecurity and Vulnerability Information and Mapping System (FIVIMS), which has been called for by the World Food Summit in 1996, is a step in the right direction. There is also need of tools and analysis which look at and evaluate carefully the links between the livelihoods of the poor at micro level and the economic and social conditions and policies at meso and macro levels. Depending on the specific country-situations, a full-scale food insecurity impact assessment (FSIA) could prove to be a useful tool to clearly identify the likely impact of proposed policies, programmes and strategies on the food security status of various groups in the country. Such a FSIA would focus on the macro, structural and social measures that are expected, a priori, to have a substantial positive or negative impact on poverty and food security in particular¹².

- **Capacity building in monitoring and evaluation.** Responses from the field highlight the lack of clear PRSP impact indicators and of adequate monitoring and evaluation systems, many of which are still very much work in progress. This deficiency has adversely affected many past poverty reduction programmes. While developing more participatory monitoring systems, it is of paramount importance to build and improve stakeholders' capacity in monitoring and evaluation. In the context of on-going decentralisation processes, it is expected that local authorities and civil society will have an increased role to play in monitoring the implementation of PRSPs and the impact of the policy measures adopted. In terms of action, this ought to stimulate international donors and development agencies to support, both technically and financially, not only the development of participatory systems but also, and perhaps more importantly, the building of national capacity to monitor short-term and long-term progress and impact on the poverty goals. It is believed that such support will also contribute to strengthen more genuine stakeholder participation in policy dialogue, and would thus contribute to increase the sense of national ownership of the PRSPs. FAO is well placed to provide independent analytical assistance to countries in assessing the food security impacts of policies. It could also support the development of national capacity for food security impact assessment analysis, inclusive of monitoring and evaluation components.

(iii) Donor assistance and partnerships

Country needs for technical assistance in the preparation and implementation of PRSPs are enormous, even when these have not been clearly addressed in the documents. Offers of potential support for preparation and implementation have been reasonably good, although in some cases it appears to be provided on the basis that other conditions be met. Feedback from FAO staff in Kenya highlights that “the barriers to BWI budgetary support can

objectives (vision 2025) to reduce poverty in rural areas and among women (priority targets: rural areas and women), as well as the insertion of the PRSP objectives within the presently adopted five-year plan, 2001-2005.

¹² These issues should be identified and evaluated in broad-based participatory discussions with the various stakeholders in the country, especially those suffering from hunger, and with development partners. However, carrying out such an assessment may be difficult for the country in question.

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preclude a lot of the inputs that could be expected for PRSP preparation". In most countries, development partners have, to a large extent, been involved in the PRSP process since its early stages. In Tanzania, it is reported that development partners supported and participated actively in the process of preparation of the PRSP, with IFIs taking the lead role. Both the Bank and Fund staff have been extremely instrumental in the preparation of the PRSP, particularly through provision of the much-needed analytical inputs into the PRSP, consistent with principles of country ownership and partnership. Representatives of most international agencies have been providing technical support to the formulation of the documents, either directly, for example, as members of the various task groups responsible for drafting PRSP sections, or indirectly through involvement in development programmes which are strongly linked to the PRSP process.

It should also be noted that some countries may lack effective donor co-ordination mechanisms. Although all donors would support poverty reduction, their contribution may not fit an agreed framework. National Strategies and plans should be the foundations upon which external assistance is built. The PRSP provides an important opportunity for donors to plan and co-ordinate their assistance policies, as well as a useful entry point for the UN Development Assistance Framework (UNDAF). In many countries UNDAF represents the UN System's plan for cooperating in programmes and projects in support of national efforts under the PRSP. In Tanzania, for example, the UN agencies are developing joint/collaborative programmes, within the overall framework of the UNDAF. In Kenya, UNDAF recognises the importance of the PRSP process, but they are struggling to identify programmatic implications from the current documents. The UN team is attempting to redirect its priorities in light of the PRSP.

Some examples of FAO participation in the PRSP process, directly and/or as part of the UN Country Resident Team, are given below.

- **FAO direct involvement.** In Vietnam, FAO has proposed to the Government a Task Force (TF) to assist the Ministry of Agricultural and Rural Development (MARD) to actively participate in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) formulation process. Members of the TF are the main donors engaged in agriculture and relevant MARD departments. The TF is chaired by the MARD International Cooperation Department. No specific external funds have been allocated for TF operations. In Kenya, FAO is an active member of the agriculture, land and environment working groups. In Mozambique FAO has provided sustained technical support to the formulation of PROAGRI (the national strategy for agricultural and rural development), which has been incorporated into the PRSP. FAO has also been associated, at the local level, in the PRSP process in Guinea. In Uganda, the FAO Representative has actively participated in the PRSP formulation process as member of both the Steering and Technical Committees.
- **FAO involvement as member of the UN System.** In Cameroon FAO has contributed to the formulation of the Common Country Assessment (CCA), in particular with respect to the elaboration of the strategy for rural development and fight against poverty. In Ethiopia the FAO Representative is a member of the Development Assistance Group¹³, and also of

¹³ The broad areas of DAG support to the PRSP in Ethiopia are envisaged to include a) direct support to the Government Plan of Action; b) support by way of technical assistance, research and analysis for formulation of the PRSP by the Government; c) support to civil society inputs and d) support to independent observation/documentation of consultations. DAG members have also responded to the Federal Technical

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the thematic working group providing inputs on Food Security to the PRSP process. In Yemen, the PRSP exercise is closely linked to the ongoing UNDP "Poverty Alleviation and Employment Generation" Programme (1998-2001), in which FAO is an associated agency for two sub-programmes: community based regional development, and local initiatives for household food security.

(iv) Constraints and challenges

This section briefly summarizes or highlights those factors which have been flagged by FAO field staff as being critical for the formulation and implementation of the PRSPs. It is to be noted that not all of these factors may have been indicated within the various interim and full PRSPs produced to date.

- **Government commitment.** In some countries it is felt that the commitment of the government in carrying on with the process of finalising and implementing the PRSP is still uncertain. This may be due to the fact that formulation of an interim PRSP is, in some cases, seen as a means to access financial resources. The challenge here is to strengthen the consistency between PRSPs and the National (and sectoral) Plans and Development Strategies as well as Vision statements, whilst respecting the principles of political neutrality and national ownership.
- **Institutional constraints.** Lack of participation of all stakeholders in policy dialogue, and lack of capacity in implementing the poverty reduction strategy at all levels, particularly in a decentralised context, are in many cases considered serious institutional constraints. In this context it is important to stress that to get effective national ownership and actions that lead to real poverty reduction, it is crucial to have not only "national government ownership", but a sense of ownership and participation of all stakeholders.
- **Financial constraints.** Financial resources are considered an extremely important factor for both the formulation and the implementation of PRSPs in many countries. First, funds are needed for supporting the process underpinning the formulation of PRSPs. Participatory processes are costly in terms of both finance and time, however, it is expected that these will deliver more positive poverty outcomes. Thus it may be questioned whether conditioning IDA loans and debt relief to the formulation of a PRSP somehow undermines the PRSP process itself (it may be worth considering other alternatives, for example having IDA loans and debt relief for financing and sustaining participatory processes, especially at the grassroots level). Second, the gap between required and available local resources would need to be bridged by external funds. The sourcing of these funds, whether from donors, international agencies, IFIs or the private sector, is a big challenge for most countries.
- **Timeframe.** In some of the HIPC countries, the accelerated preparation of the PRSPs seems aimed at reaching the deadline of the HIPC initiative completion point. It appears that considerable pressure has been put on governments, especially from the IFIs, to complete the process in the earliest time possible so as to facilitate the flow of resources through the HIPC window. It is believed that accelerating the process of document formulation in most cases would contradict the participatory principles which underpin the PRSP approach.

Committee's request for financial assistance to facilitate the consultations at the grass root level by pledging about USD 600,000 (UNDP will manage the funds of this project which is known as Project ETH/01/012).

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- ***Lack of prioritisation.*** The lack of transparent prioritisation and costing of policy measures can somehow undermine the implementation of PRSPs, especially when there is no real match between the newly formulated poverty reduction strategies and the existing national plans. For PRSPs to be powerful instruments for national planning and for co-ordinating donor's assistance policies, transparent prioritisation of programmes and objectives appears to be fundamental.
- ***Natural disasters and adverse climatic conditions.*** These can have strong negative effects on the implementation of the PRSPs in many developing countries, in particular with reference to productivity, occupation, education and health. A particular reference is made to Honduras, where an increase in poverty was registered as an effect of Hurricane Mitch.
- ***External constraints.*** Access to international markets, agricultural policies of developed countries, world-wide economic recession and the lower than expected aid flows (particularly for development co-operation) are mentioned as the most important external factors which could hinder the implementation of PRSPs.

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WB-IMF Proposed Framework**Overarching questions**

1. *Achievements and challenges in developing and implementing poverty reduction strategies*
2. *Proposals to modify guidelines and modalities of the PRSP approach in order to improve its long-term developmental impact*

Ownership & Participation

- Country-led preparation and Government leadership of the PRSP process?
 - Endorsement by highest political authorities; Involvement by sectoral ministries; Involvement of parliaments
 - Behavior of staff of international financial institutions
- Open and participatory process in preparing and implementing PRSPs?
 - Extent of involvement of local governments and civil society & Role of development partners, including IFIs
 - Effectiveness of arrangements for consultations and feedback on how decisions were made
 - Impact of capacity constraints among CSOs & Participatory monitoring of implementation
- To what extent participatory processes influence content and implementation of PRSP
- Link with existing PR strategies, and integration with other policies, strategies and budget plans

Content of Strategies

- Comparison with, and improvement respect to, previous development strategies?
- Adequacy of poverty diagnostics?
 - Quality of data, including its disaggregation by region, social groups, and gender
 - Understanding of poverty trends and determinants & Assessments of impacts of past policies and programmes
 - Ex ante analysis of the social impact of key proposed macroeconomic and structural reforms
- Relevance of targets and indicators for poverty reduction and appropriateness proposals for monitoring and evaluation?
 - Selectivity and monitorability of targets and indicators; Efforts to improve data collection and analysis/use
 - Transparency of arrangements for monitoring PRSP implementation
- Clear definition of costs and prioritisation of public actions
 - Adequate attention given to pro-poor growth; Appropriateness of policies in light of diagnosis, costs and implementation capacities; Realism of the macroeconomic programme and its financing plan;
 - Allocations of public expenditures and comprehensiveness of their presentation;
 - Structural and sectoral policies, taking into account analysis of their likely impacts on the poor
 - Policies for social inclusion and equity; Policies to improve governance and public sector management.

Donor Assistance and Partnerships

- Countries' needs for technical & financial assistance in the preparation and implementation of their PRSPs adequately addressed by development partners? (2, 3, 4)
 - For strengthening data systems, and building financial management capacity and accountability
 - Respect for country leadership
- Provision by the Bank and Fund staff of useful analytical inputs into PRSP preparation consistent with principles of country ownership and partnership? (2, 3, 4)
 - Quality and utility of Joint Staff Assessments
 - Sharing of information with development partners
- To what extent have external development partners, including the Bank and the Fund, begun to align their financial assistance and policy conditionalities behind the PRSPs? (4 only)
 - Content of IMF PRGF programs ; Content of IDA CASs, PRSCs, and other lending and non-lending services
 - Content of UNDAFs ; Content of strategies and lending of other development partners

Implementation of Strategies

- Experience thus far in the implementation of PRSPs (4 only)
 - Operationalization of strategies in budget allocations and execution; Implementation of proposed policy measures
 - Usefulness of annual PRSP progress reports in tracking implementation

Constraints

- Financial, institutional, and political constraints faced by governments and civil society, which adversely affected the development and implementation of PRSPs (1, 2, 3, 4)
 - Role of the I-PRSP in alleviating short term capacity constraints; Flexibility in the guidelines for the PRSP approach
- To what extent has implementation of poverty reduction strategies been constrained by external factors?
 - Limited access to external markets; Lower than expected aid flows
- External factors affecting timing of PRSP preparation (1, 2, 3, 4)
 - The desire to obtain donor concessional assistance based on the strategy; Effectiveness of I-PRSPs as a transitional device; The desire to reach the completion point under the HIPC Initiative
- Balance between country ownership and donors accountability for the use of their resources (2, 3, 4)

*An UNCTAD Contribution to the IMF/World Bank Comprehensive Review
of the Poverty Reduction Strategy Papers (PRSP) Approach*

**THE PRSP APPROACH AND POVERTY REDUCTION
IN THE LEAST DEVELOPED COUNTRIES**

The PRSP approach is an extremely important and useful initiative. It is not “business as usual”.

It is important and useful as it provides a concrete mechanism to enable national ownership of strategies and policies in poor countries. In addition, the PRSP approach offers donors a framework for greater coordination and reduced transaction costs, and thus an opportunity for more efficient aid. For national governments, it offers an opportunity for building national coalitions to support poverty reduction efforts. It encourages increased effectiveness and transparency of public expenditure. This is valuable in itself, but it is also a necessary precondition for the mobilization of additional donor resources.

Our common aim should be to help poor countries to break out of the cycle of stagnation and poverty in which many of them are trapped. The central issue is to make the PRSP approach work better for this end.

This can be achieved by: (a) building the PRSP approach on the basis of a good diagnosis of the strengths and weaknesses of past national and international policies, and (b) learning by doing and adapting the approach as it is applied.

A. Getting the Diagnosis Right

The current diagnosis for policy change is based on the proposition that the generally weak economic performance associated with past adjustment programmes in most poor countries is the result of poor implementation, and that this in turn is the result of a lack of national ownership. In addition, it is argued that insufficient attention has been paid in the past to social objectives. Social policies, which should aim to ensure that growth is more pro-poor, should thus now be integrated with the macroeconomic policies and structural reforms that define the right national policy environment. The notion that the right national policy environment is present in poor countries when governments pursue macroeconomic stability, open their economies to the rest of the world, and liberalize domestic product and factor markets through privatization and deregulation, has not been subject to a thorough questioning.

Our research on the least developed countries¹ suggests that, although there have been problems of implementation and interruptions, and although progress varies between countries, there has been a significant change in the policy environment of many least developed countries (LDCs) in the direction of economic liberalization. But past adjustment programmes have not delivered sustainable growth at rates sufficient to make a significant dent in poverty.

¹ This note is based on UNCTAD *The Least Developed Countries 2000 Report*, chapters 4, 5 and 6, and our on-going research on the specific nature of poverty in least developed countries.

From this perspective the central policy problem in promoting poverty reduction is to identify which national and international policies can accelerate economic growth in poor countries in a sustainable way.

The fact that past structural adjustment programmes have been associated with a relatively poor economic performance does not necessarily mean that these programmes have failed. They have certainly succeeded in promoting a major change in the policy culture in most countries where they have been applied. It is well understood by everyone now that economic growth and poverty reduction is best realized by providing a greater role for market forces and private initiative. It is also well understood by everyone that countries can benefit from integration with the rest of the world and the harnessing the benefits of trade and FDI for national development. But in moving forward, it is necessary to recognize the weak growth results of past adjustment policies, and to reject "business as usual" in the content of policies as well as in processes of policy formulation. It is necessary to identify the causes of weak results even in countries where everything has been implemented satisfactorily.

Our work suggests that the poor growth performance associated with past adjustment policies can be mainly attributed to: policy design shortcomings; inadequate external funding; and inadequate debt relief.

The design of past structural adjustment programmes did not pay sufficient attention to various structural constraints which are important in poor countries where the majority of the population are living with less than \$2 a day. These constraints include: the lack of social and economic infrastructure, the weakness of market development and rudimentary nature of the division of labour, and the thinness of the entrepreneurial class and low private sector capabilities. It is necessary now to develop more growth-oriented macro-policies, and to complement these with specific meso-policies, which increase the investment, productivity and competitiveness of private enterprises within key sectors. Emphasis should be placed on providing the necessary ingredient for growth, and not simply putting in place a framework within which enterprises, exports and investments are expected to spring up like mushrooms.

The weak performance of structural adjustment programmes is also a result of inadequate external funding. The situation with regard to external funding is complex. It is clear that when countries initially adopted ESAF-funded programmes, this led to increased concessional finance. Expanded official flows in import-strangled economies typically increased production and consumption possibilities. But in the second half of the 1990s donors have significantly reduced aid flows. In real per capita terms, net ODA to LDCs dropped by 45 per cent in the 1990s and is now back to the levels it was in the early 1970s. This would not matter so much if private capital flows could substitute for ODA both in volume and function. But in practice, reforms have not catalyzed private capital inflows. During the period 1990-98, private capital flows constituted over 10 per cent of long-term net capital flows in only 13 LDCs. Moreover, comparison of the ratio of FDI to GNP, in the five years before the initiation of an ESAF-funded reform programme with the five years after, shows that this ratio declined in almost half of the 29 cases for which we have data, increasing by 1 per cent in just five cases.

External funding has also been inadequate because of the lack of coordination of aid, the instability and unpredictability of aid flows, and a persistent bias towards under-financing in relation to assessed resource requirements. Countries have been put in a situation where they are dealing with a multiplicity of donor projects, each with their own rationale and logic, which have generally been poorly integrated into national economic and administrative structures. Dealing with donors has involved high transactions costs for key government officials. Still worse, the diversity of aid delivery systems, together with strict policy conditionality on the fiscal budget and heavy debt service obligations which have to be met through the government budget, has eroded state capacities, leaving governments project-rich but cash-poor.

Foreign aid has been more volatile than government current revenue in almost all LDCs for which we have data, and it has shown higher annual variations than export revenues in most countries. Aid has not alleviated short-term external shocks, and has, if anything, reinforced the effect of such shocks. This has contributed to macro-economic instability. There has also been an ever-present tension between projections of minimum resource requirements and donors' resource ceilings. Together with the political impossibility of having an under-funded programme, this created a bias toward under-funding in structural adjustment programmes. Misleading expectations for both the public and private sector have worked against the effectiveness of structural adjustment programmes.

Finally, structural adjustment programmes have been undermined because of the inadequacy of debt relief. Most of the adverse effects of unsustainable external debts on poor countries are agreed now. However, it is clear that the debt problem has also had significant adverse effects on donor behaviour. As the ex-Director of the World Bank's World Development Report 2000/2001 put it, "much of the aid flows are motivated simply to ensure 'normal relations' with regular debt servicing...for their own reasons – to do with the institutional importance of avoiding certain types of balance sheet adjustments – the official donors, who are also the main creditors, are putting money in so the debt can be serviced".² This aid-debt service system has seriously undermined the effectiveness of aid in promoting development in highly indebted poor countries.

If one believes that the enhanced HIPC Initiative will be provide a durable exit for poor countries from their debt problem, this system is no longer an issue. But the forecasts of a durable exit depend on high rates of economic and export growth, sustained over a long period, often over and above rate achieved in the 1990s, and accomplished without increasing import intensity. We do not believe that these forecasts are credible, even with the on-going shift to country ownership and more coordinated aid. More debt relief is therefore needed.

B. Learning by Doing

The on-going PRSP process has made significant achievements. In particular, there has been an increase in country ownership and leadership in the formulation of poverty reduction strategies; major efforts are being made to improve public expenditure management and to link

² Kanbur, R. (2000). Aid, conditionality and debt in Africa. In: Tarp, F. (ed.), *Foreign Aid and Development: Lessons Learnt and Directions for the Future*, Routledge, London.

budgetary processes to poverty reduction targets; there is much greater involvement of civil society in designing national strategies. However, on the basis of initial experience, there are a number of areas where renewed efforts have to be made to improve the effectiveness of the approach. Key areas are: (i) enhancing country ownership; (ii) the relationship between long-term development strategies and the PRSP; (iii) financial constraints; (iv) mechanisms for coping with shocks; and (v) the debt problem.

Enhancing Country Ownership: (1) Policy Conditionality

Enhanced country ownership of development strategies is the most important shift to occur with the introduction of the PRSP approach. But this process needs to be strengthened through more attention to: policy conditionality; capacity within countries; and donor alignment.

In the IMF external consultation on conditionality, a World Bank official is quoted as saying that “The PRSP is a compulsory process wherein the people with the money tell the people who want the money what they need to do to get the money”.³ Given the limits of domestic resource mobilization which stem from generalized extreme absolute poverty, together with their marginalization from private capital flows and the accumulation of unsustainable external debts to official creditors, it is certainly correct to describe it as a compulsory process for most poor countries. It may be more accurate to describe the PRSP as a compulsory process in which the people who *need* the money *find out*, from the people with the money, what they need to do to get the money.

There is clearly an inherent tension between country ownership and the need for the international financial institutions (IFIs) and other donors to be assured that their assistance will be well used to support what they regard as credible strategies. But given the high level of dependence of poor countries on aid and debt relief there is a danger that country-prepared PRSPs presented to the Boards of the Bank and the Fund for endorsement seek to second-guess what is endorsable. Ownership would actually then be deeper internalization of the norms of the IFIs. It is notable in this regard that the rush to complete Interim PRSPs (I-PRSPs) and PRSPs in order to reach the decision and completion points for the enhanced HIPC Initiative and/or to secure a Poverty Reduction and Growth Facility (PRGF) arrangement is widely recognized as reducing the quality of the PRSPs in terms of country ownership.

The IFIs are certainly signaling that, given the experimental nature of the PRSP approach, there is flexibility in terms of what they expect. But true country ownership in the preparation of PRSPs requires that the IFIs have total open-mindedness as to what is regarded as a “credible strategy”. This is something different from the streamlining of conditionality (which is itself a welcome trend), as it concerns the nature, rather than the number, of conditions. Moreover, true country ownership requires that the countries themselves prepare strategies that they would seek to pursue whether or not they were externally funded. From the International Conference on Poverty Reduction Strategies held in Washington DC during January 14-17, 2002, it is clear that some countries are definitely in this mode.

³ See IMF *External Comments and Contributions on IMF Conditionality*, September 2001, p.147; letter from Nancy Alexander, June 29, 2001 (<http://www.imf.org/external/np/pdr/cond/2001/eng/collab/comment.pdf>)

Even if the PRSP itself is country-owned, a further problem is the relationship between the PRSP and the conditionalities specified in HIPC decision and completion point documents, PRGF arrangements, or Poverty Reduction Support Credits (PRSCs). It is worrying in this regard that research by the European Commission, covering 10 countries up to November 2000, observed a wide divergence between I-PRSPs and conditionalities for HIPC completion point and the PRSPs, and follow-up research, which extended the coverage by 14 countries, including all countries that reached decision point before September 2001, confirmed the pattern, finding “unclear links between I-PRSP and HIPC documents, with the risk of having parallel (or incoherent) reform tracks”.⁴ This may well reflect the early phases of the application of the PRSP approach. However, it is important that this is continually monitored. Research for the PRGF review has shown that the macroeconomic goals, economic projections and main structural policies and objectives in PRGFs are the same as those set out in I-PRSPs and PRSPs. But this should not be taken as evidence that the main elements of the PRGF programmes are drawn from I-PRSPs and PRSPs. Given that PRGF and PRSP processes have often overlapped, it could equally be the other way around. Indeed, it is clear from the Joint Staff Assessments that in the cases of Cambodia and Tanzania, the macro-economic framework is taken from the PRGF arrangement.

Enhancing Country Ownership: (2) Capacity-building and Donor alignment

Capacity-building within countries is also essential for enhanced country ownership. This requires the institution of mechanisms of learning, which should include South-South exchange of experience. It is important that international institutions resist the temptation for avant-gardism in poverty analysis, constantly innovating and introducing new terms and techniques, thus effectively undermining national learning processes. Rather they should search for simple methods that enable greater domestic ownership of policy formulation and implementation. It is also important that the nature of technical assistance is considered carefully. According to HIPC Finance Ministers and PRSP coordinators, “a huge amount of technical assistance is being provided – but much of it is replacing rather than building capacity within our administrations”.⁵

Capacity-building essentially requires re-building state capacities. Key specific areas are: capacity of national statistical systems; analytical capacity; and forecasting capacity. Each of these is important. But it is worth noting that in our initial attempt to establish a baseline to see where the least developed countries currently stand in relation to the development goals in the new Programme of Action for LDCs agreed at the Third United Nations Conference on Least Developed Countries held in Brussels in May 2001, we found that the data available were woefully inadequate. For 20 indicators which could be used to monitor the human development goals in the Programme, internationally comparable data for 2000 are widely available for only one indicator and data for 1999 are available only for literacy rates, HIV

⁴ See European Commission, SPA Task Team on Contractual Relationship and Selectivity, *Review of Conditionalities Used for the Floating HIPC Completion Point*, 27 November 2000; *Comparative Review of I-PRSP Targets and Conditionalities for HIPC Completion Point*, 1 October 2001, p.1.

⁵ *Reviewing PRSPs: The View of HIPC Ministers and PRSP Coordinators*, memo. distributed at the International Conference on Poverty Reduction Strategies, Washington D.C., January 14-17 2002,.

prevalence and infant mortality rates. For 11 out of the 20 indicators, progress in the 1990s cannot be monitored in over 25 per cent of the LDCs.⁶ There is an urgent need for investment to improve national statistical systems in these countries.

A further necessary condition for enhanced country ownership is donor alignment behind the PRSP approach. Aid effectiveness has in the past been considerably undermined by coordination failures, and it is in this area where the PRSP approach can make a significant difference. The importance of donor alignment with the PRSP stems from the fact that the accumulation and budgetary processes in most least developed countries are highly dependent on external resources. But not only does only a small proportion of ODA come in the form of budget support, but often governments have little information on aid flows. The OECD's important study of aid in Mali found that the aid flows given in Malian statistics represent only between one and two thirds of the official figures published by OECD and UNDP in their development cooperation reports. In these circumstances, improved public expenditure management by the national government will be a necessary, but by no means a sufficient condition for improved public expenditure.

It is clear that donors are committed to supporting the PRSP process, but as the Issues Paper for the International Conference on Poverty Reduction notes, progress in alignment is uneven across partners and countries.⁷ A concrete proposal to improve aid effectiveness is the introduction of donor performance monitoring indicators at the country level, which assess such aspects as the degree to which donor projects and priorities are coordinated and integrated into national strategies, the degree of budgetary support, the relationship between aid commitments and aid disbursements, progress in untying aid, transaction costs, and so on. The approach adopted within Tanzania could serve as a model for this.

Long-term national development strategies and the PRSP

The core of the PRSP is concerned with policy actions and public expenditure priorities to promote growth and poverty reduction over a three-year period. Although references are generally made to long-term objectives, the link between the PRSP and long-term development strategies is not as yet strong enough. The PRSPs should be anchored in long-term national development strategies. Sectoral and structural measures, and how they relate to long-term growth, are necessary elements of long-term development strategy, and they can play a more prominent role in PRSPs if they are derived from this strategy.

Trade issues are also currently not treated in depth in PRSPs. This is a serious weakness. They are an important aspect of long-term development strategies, and it is from an understanding of the role of trade within the overall development strategy that one can build appropriate trade and complementary policies into PRSPs.

⁶ UNCTAD *The development goals of the Programme of Action for the Least Developed Countries for the Decade 2001-10: Towards a set of indicators to monitor progress*, TD/B/48/14, August 2001.

⁷ IMF/World Bank *Review of the PRSP Experience: An Issues Paper for the January 2002 Conference*, January 7, 2002.

Financial Constraints

The degree to which PRSPs can be expected to reduce poverty is highly dependent on external financial constraints. If they are under-funded in relation to resource requirements, as the structural adjustment programmes of the 1990s were, it is likely that the high expectations surrounding the introduction of the PRSP approach will not be realized.

Initial experience is suggesting that there are major poverty reduction financing gaps. Examples of this are found in the PRSPs of Tanzania and Uganda. In the Tanzania case, technical studies indicated that the financing of acceptable levels of health care in Tanzania would cost about \$9 per head. This would entail a doubling of the present budget allocation for the health care sector. But this was considered infeasible given projections of the overall resource envelope. Therefore budgetary provision for the sector had to be constrained to available resources, implying that the delivery of health services under the present circumstances would fall below acceptable levels in the short term.⁸ Similarly in Uganda, where the PRSP developed out of a home-grown Poverty Eradication Action Plan (PEAP), discussion with the sector line ministries revealed that there was a gap in the order of 37 per cent between current and required spending levels for full funding of PEAP/PRSP-related programmes. Although such increases were believed by national authorities to be necessary to meet initial PEAP/PRSP targets, the Joint Staff Assessment notes that "Increases of this magnitude are clearly incompatible with macro-economic stability, and accordingly, the government is in the process of refining costing figures, and adjusting and prioritising activities and targets". As the government paper puts it, the implication is that "the implementation of the PEAP/PRSP will take longer than initially expected and that Government needs to prioritise the different actions to get a more realistic program which can then be used to guide the MTEF [medium-term expenditure framework]."⁹

It is primordial that countries must develop their capacities to use money effectively and to show that money is used effectively. However great gains from poverty reduction can come through enlarging the fiscal space for poverty reduction through external assistance as much as through improving the poverty-reducing efficiency of public expenditure. Unfortunately it is impossible at the current moment to examine the trade-offs between different levels of external assistance and poverty reduction. Countries are currently expected to submit PRSPs that are "realistic" in terms of external financing projections. But this effectively closes off the opportunity of examining the possible gains from poverty reduction through loosening external financial constraints. Donors, as well as governments, should be concerned with exploring the poverty reducing effects that stem from expanding the overall financing envelope.

A further problem for governments is the predictability of aid flows. Research within the IMF has shown that "aid cannot be reliably predicted on the basis of donors' commitments" and that "the predictive power of donors' commitments tends to be lower in poorer and more

⁸ Tanzania: Poverty Reduction Strategy Paper, October 1, 2000, p.23.

⁹ See Uganda: Poverty Reduction Strategy Paper Progress Report 2001, p.12; and IMF/IDA Uganda PRSP Progress Report Joint Staff Assessment, March 9, 2001, p.5

aid-dependent countries".¹⁰ This creates major dilemmas for governments in designing and implementing PRSPs. If a government takes the commitments at face value and they are surpassed, not only is the resource envelope for poverty reduction underestimated but also there are difficult problems of absorbing unexpected increased flows. If, on the other hand, disbursements fall short of donor commitments, there is a difficult problem of adjusting to the shortfall and re-distributing cuts in public expenditure.

An important feature of HIPC assistance is that governments know exactly what its time-profile is. It would help poverty reduction efforts if ODA flows also have a much higher degree of predictability over a long time horizon. Indeed, urgent thought should be given to a mechanism for ensuring that ODA flows have such predictability. In the end, true ownership is relational. It requires a stable and predictable multi-year, quasi-contractual relationship between aid donors and recipients.

Mechanisms to Deal with Shocks

Economic growth and poverty reduction in poor countries is adversely affected by shocks beyond the control of government. Our work on the least developed countries suggests that the size of these shocks may not necessarily be greater than in other developing countries. But shocks have much greater adverse effects because of their scale in relation to the domestic resources available to deal with them and finance development and poverty reduction. For example, during the 1990s 14 out of 24 LDCs for which data are available experienced income losses equivalent to over 100 per cent of the domestic resources available for financing development owing to terms of trade movements in two consecutive years. Lack of recourse to international capital markets makes these economies almost totally dependent on foreign aid to alleviate or smooth out the consequences of external shocks for their foreign exchange and government revenues. In these circumstances, shocks can easily derail country-led poverty reduction efforts unless effective mechanisms to deal with them are put in place.

Urgent measures are required to deal with this problem. HIPCs have virtually no access to compensatory and contingency financing from international institutions. The IMF contingency credit line is not available to a country that is borrowing any other IMF facility (as all HIPCs applying for relief are) and its Compensatory Financing Facility (CFF) is so expensive that it would breach the concessional borrowing ceilings that are standard in PRGF programmes. The possibility of establishing a contingency financing element in PRGF arrangements should be considered as part of the PRGF review process.

The Continuing Debt Problem

It is clear that both the IMF and the World Bank are strongly committed to increased aid flows and improved market access as part of an enhanced international enabling environment for poverty reduction. However, it seems to be assumed that the debt problem in poor countries has been resolved by the Enhanced HIPC Initiative. Unfortunately, as argued above, we do not believe this to be the case. Genuine long-term sustainability requires further

¹⁰ Bulir, A. and A.J. Hamann, (2001) How volatile and unpredictable are aid flows, and what are the policy implications, *IMF Working Paper WP/01/167*, p.21 and p.30.

debt relief in poor countries. Also, as there is a very close relationship between dependence on primary commodities and unsustainable external debts, renewed policy attention needs to be given to the links between the international commodity economy and unsustainable external debts in poor countries in order to move to a lasting solution to the debt problem.

UNITED NATIONS DEVELOPMENT FUND FOR WOMEN (UNIFEM)
CONTRIBUTION TO THE WORLD BANK & IMF PRSP REVIEW
 - 26 November 2001 -

The following feedback is based on assessments done by non-governmental organizations, consultants and national women's machineries in countries with both interim and full Poverty Reduction Strategy Papers (*see bibliography for reference*).

1. One of the key areas where there is a singular lack of gender dimension in the PRSPs is that of data collection to inform poverty diagnoses, policy development and monitoring and evaluation. A review of the interim PRSPs for Laos, Yemen, Lesotho and Ghana and of the full PRSP for Bolivia showed that none had established any kind of system for gender-sensitive data collection nor was there evidence of different methods of data collection that would produce key indicators on the gender dimension of poverty. In some countries, the processes and methods of data collection and analysis were quite new and inadequate (Laos), but even in countries with strong processes and methods of data collection (Ghana), there was inadequate attention paid to engendering its methodology. (Rodenberg 2001; UNIFEM 2001a)

The lack of gender-sensitive data collection methodologies and analysis could be the result of insufficient importance given to gender issues and/or because data collectors did not gather information from the right person or gathered it from one person only -- usually the "male" head of household. The troubling aspect of this omission is the invisibility of women from any poverty diagnosis, which can lead to their becoming invisible in the poverty reduction process, thus resulting in policies and strategies that completely omit women. It is therefore paramount that "gender disaggregated data should be addressed as a priority in order to enhance the development of gender-sensitive poverty reduction strategies." (OECD DAC 2001)

2. Gender is not addressed as a crosscutting issue; instead it is often limited to a few specific sectors such as health and education where gender issues are traditionally addressed. The larger context of gender relations and issues of power which are at the root of gender inequality and women experiencing poverty different to men are not taken into consideration. In other words, structural gender inequality is not addressed, with the focus being mostly on practical and basic versus strategic needs. Furthermore, women are broadly subsumed under the "vulnerable" category, which reinforces the use of a targeted approach, instead of an empowerment and rights-based approach. In the Ghana PRSP, for example, the focus is "merely on gender-specific lack of access to social and natural resources without identifying the structural causes. What is missing is a transformation approach, which could be developed based on problem-oriented comments on structural gender inequality." (Rodenberg 2001).

Although it cannot be denied that providing and enhancing educational opportunities for women is an important determinant of upward social mobility, it is not a general panacea for addressing gender-based inequalities. At the same time, a focus on health of women, which is quite necessary given the high-fertility rates and maternal morbidity in the countries studied, reinforces the traditional notion of women as child-bearing and child-rearing agents. Further, even while attention to gender issues is limited to health and education, the policies and strategies on improving health and education services for women are often vague and generic with no clear outcome indicators and monitoring progress. For example, in Lesotho, primary school enrolment is higher for girls than for boys, because boyhood in Lesotho traditionally involves the herding of livestock. In spite of that the enrolment rate for girls has

dropped by nearly one third over the period, a fact not addressed by the Lesotho I-PRSP and no measures recommended to address this drop.

3. Related to the above, gender is rarely addressed in relation to macroeconomic and structural policies, these are assumed to be gender-neutral when in fact they are not. Ranging from fiscal policy, whether the preference is for direct or indirect taxes, to monetary policy, whether priority is given to achieving minimum inflation versus employment creation, macroeconomic policies have a gender and class dimension and therefore impact differently on women than on men, rich and poor. In the case of Ghana, "...all thematic aspects of the [draft] GPRS (dimensions of poverty, poverty reduction strategies, macroeconomics, production and employment, human development and basic services, vulnerable groups and governance) have generally been described as though they were gender-neutral spheres." (Rodenberg 2001). In order to address women's poverty it is important to analyze from a gender perspective both the content and the impact of macroeconomic and structural policies to avoid gender biases detrimental to women. The bringing together of the economic and social dimensions will also contribute to a more holistic approach to development and poverty eradication. In Tanzania the CSO report on PRSP "argued for a pro-poor participatory development strategy in place of the market and growth orientation, which underlies PRGF." (Muna 2001)

In addressing the productive and economic role of women, PRSPs often do so in the context of developing the microenterprise sector as a way of providing economic benefits to women. For example, the Bolivian PRSP emphasizes micro-enterprises as a way of improving opportunities for women. However, such an approach can be critiqued as reinforcing yet again the traditional notion of women involved in low-paid craft production without effectively enhancing better-paying or challenging skill-sets, or transforming the economic environment to one in which women have opportunity to benefit.

4. PRSPs emphasize the market economy at the expense of the household economy, which is mostly female dominated, based on unpaid labour and has direct contributions to the market economy, especially during business cycle downturns. The time and work invested by women in the household in the long-term "sustain a supply of labor to the [market] economy and make human societies possible, weaving the social fabric and keeping it in repair." (UNIFEM 2000) These services however are not included in national planning models nor recognized as a contribution to the national economy. "Taking into account women's input to the economy would allow for government investment into enhancing the sectors where women's labour is concentrated, thereby meeting women's different needs and making women's work more productive." (OECD DAC 2001)

5. Participation of civil society in the development of PRSPs is often limited, without institutionalized mechanisms that can ensure the views of all groups are actually reflected in the various stages of a PRSP. According to TCDD, processes for NGO participation in the development of PRSPs have been characterized by: (1) limited information provided to NGOs, mostly through unofficial channels; (2) a few active NGOs taking the lead in participating in the government led process and setting up parallel reviews; (3) NGOs developing a position paper on the process and content; and (4) NGOs having to advocate for a more participatory and gender sensitive process. Furthermore, the lack of formal mechanisms to institutionalize the participation of civil society has weakened the actual influence and ownership of the strategies by CSOs.

In Tanzania, for example, the government developed the interim PRSP internally and at a later stage, in zonal workshops, allowed for civil society participation. "Rather than having a joint-sharing process about the best way to merge the civil society and government inputs, the inputs prepared by the civil society organizations [in a separate process convened by the Tanzania Coalition for Debt and Development] were simply sent to the government led process for integration." (Muna 2001) In the

national workshop carried out after the zonal workshops, NGOs were invited to comment but their inputs were not reflected in the final drafting of the PRSP. "In this way, civil society organizations were inadequately involved in the process and did not truly participate fully in the process of preparing the poverty strategy paper for the United Republic of Tanzania." (Muna 2001)

In Senegal, officials from the ministry of finance dominated the formulation process of PRSPs. "Civil society organizations were ignored, especially women. During the presentation of the document in presence of IMF officials, only questions of comprehension were allowed. It was not possible to refute the ideas in the document." Similar situations prevailed in Cape Verde and Burkina Faso. (UNIFEM 2001)

In Ghana, contributions made by civil society organizations -- especially by independent women's organizations -- were not reflected in the PRSP and no mechanisms have been put in place to ensure civil society participation beyond the formulation phase. "Participation is interpreted mainly as consultation...and while the National Development Planning Commission has complained that the role of NGOs has been limited to that of a watchdog that voices criticism, there are no indications so far that structures will be established that would enable NGOs to play a proactive role in contributing to the coming phases of the policy cycle (e.g. monitoring)" (Rodenberg 2001). Furthermore, while a high number of women's NGOs participated in the consultation process, their concerns were not commensurately reflected in the PRSP.

If PRSPs are to be nationally owned and driven, it is crucial to ensure widespread and full participation from all sectors of society throughout all of its stages, including formulation, implementation and monitoring and evaluation. "Monitoring and reporting tools and structures need to be developed which are transparent and participatory, so to ensure that the funds released as a result of debt relief are allocated and used as planned, to fit the vision and objectives of the PRSP programme." (Muna 2001). Furthermore, countries need a "permanent, institutionalized participation by 'gender commissioners' (both women and men) throughout all phases and in all bodies of the [PRSP] cycle" and should encourage cross-country and regional sharing of gender expertise. (Rodenberg 2001)

6. One important omission in PRSPs has been the very limited discussion on violence against women. Women are vulnerable to violence everywhere and poor women are even more so, both at home and at the workplace. Since poor women are disproportionately engaged in informal sector without benefits and security, and are even engaged in risky and dangerous occupations, their vulnerability to violence is very high. A review of the interim PRSPs for Laos, Yemen, Lesotho and Ghana and of the full PRSP for Bolivia showed that there has been extremely inadequate attention paid to this issue and no concrete strategies elaborated. (UNIFEM 2001a)

RECOMMENDATIONS

1. Much policy attention is still focused on conventional measures of poverty, which do not give the complete picture of poverty levels of women. It is important to focus on engendering measurement and indicators of poverty and identifying gender issues in the poverty diagnosis in order to highlight the gendered dimensions of relative and absolute poverty and unremunerated labor. All methods of data collection, whether qualitative or quantitative, can be made gender sensitive and efforts should be made to make them so. Further, monitoring and evaluation also has to be gender sensitive.
2. The tendency to develop social policies separate from economic policies has contributed to an invisibility of embedded biases within economic policies, especially with regard to the biases that

place women in a vulnerable position vis-a-vis men and the poor in general. Therefore, in order to effectively address women's poverty, PRSPs need to address the embedded gender biases in macroeconomics and structural policies that negatively affect women.

3. Fostering participation of women's organizations at every level of the poverty reduction strategies will lead to better-informed PRSP. Therefore, the capacity of local, national, and regional organizations needs to be strengthened in order to substantiate the PRSP and understand and respond effectively to the gendered dimensions of poverty. Likewise, there is a need to strengthen understanding of gender issues among policy officials responsible for the design, implementation and monitoring of PRSPs.

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UNDP Review of the Poverty Reduction Strategy Paper (PRSP)

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UNDP Review of the Poverty Reduction Strategy Paper (PRSP)

PART I: Summary of conclusions and recommendations

1.1 UNDP support for the PRSP process

UNDP is active in 60 countries in all regions (33 in Africa) in supporting the development of IPRSPs and PRSPs. This support builds on UNDP's involvement in PRS processes in over 100 countries since 1996.

The types of support provided by UNDP to the PRSP process include

- Substantive inputs into the PRSP document
- Human development and pro-poor policy analyses
- Macro-economic policy framework
- Trade
- Promotion of consultation and stakeholder participation
- Assessment and monitoring
- Coordination and implementation capacity
- Resource mobilisation

See Annex table

Staff from 21 UNDP Country Offices responded to the questionnaire.

Africa: Burkina Faso, Cameroon, Ethiopia, Guinea, Lesotho, Zambia, Rwanda, Uganda

Asia: Bangladesh, Cambodia, Laos, Mongolia, Nepal, Sri Lanka, Vietnam

Latin America: Bolivia, Nicaragua

Middle East: Yemen

Europe and Central Asia: Armenia, Azerbaijan, Georgia

UNDP has been involved with the World Bank and IMF as co-sponsor and co-organiser of three regional PRSP review meetings during the second half of 2001: Dakar (for Africa) in September, Budapest (for Europe and Central Asia) in November and Hanoi (for East Asia) in December.

1.2 Achievements of PRSPs

- Helped to strengthen the focus of policy-makers on pro-poor strategies and policies.
- Encouraged more consultations among stakeholders in the discussion of poverty and in the formulation of strategies and policies.
- Provided a focus for strategic programming by Governments.
- Highlighted the importance of accurate poverty measurement and monitoring, helping to identify data gaps and the need for statistical capacity building.
- Encouraged a closer alignment of donor assistance in individual countries.
- Helped to bring about the beginning of a fundamental culture change in the Bretton Woods Institutions and donors in terms of pro-poor thinking.

1.3 Comments and recommendations

Comments	Recommendations
<p><u>Consultation</u> Consultation processes for (I)PRSPs have often been hasty, ad hoc and perfunctory</p>	<p><i>More time should be provided for the development and scrutiny of PRSPs</i></p> <p><i>Consultation processes should include examination by existing institutions (including Parliaments and local/regional bodies)</i></p> <p><i>More support should be provided to NGOs to enable them to play a more active and informed role in consultations</i></p>
<p><u>BWI-driven</u> (I)PRSPs have been perceived in many countries as BWI-driven because</p> <p>(a) They were conceived and named in Washington and had been accompanied by extensive guidelines</p> <p>(b) They are subject to appraisal by Fund/Bank staff using the JSA guidelines</p> <p>(c) they are nationally-owned, yet subject to scrutiny by the Fund/Bank Boards</p>	<p><i>The PRSP acronym should disappear in favour of locally named strategies poverty reduction strategies (PRS)</i></p> <p><i>Appraisal should be broadened to include additional criteria. It should involve other development partners besides WB and IMF</i></p> <p><i>They should not be formally adjudicated by the governing bodies of development partners. The role of such bodies should be to</i></p> <p><i>(a) determine the nature of the support they can provide to the development of PRS</i></p> <p><i>(b) approve support to implementation of PRS (e.g. through CAS or UNDAF)</i></p>
<p><u>Time frame</u> The three year time frame is too short to bring about significant progress in poverty reduction</p> <p>An automatic time frame determined externally is not aligned with country programming timetables</p>	<p><i>The time frame should be flexible, and extended to 5 years or more</i></p> <p><i>The next generation of PRS should be compatible and co-terminous with other national planning instruments</i></p>

Comments	Recommendations
<p><u>Content</u> There is insufficient attention to non-economic and less easily measurable concerns which are fundamental to sustainable human poverty reduction</p>	<p><i>Governments should be encouraged to give explicit consideration in PRS to issues of gender equity, human rights, land reform and decentralised governance-poverty relations</i></p>
<p><u>Social impact analysis</u> There is inadequate ex-ante analysis of the poverty impact of policies, particularly those pertaining to the macro-economic framework and structural reforms</p>	<p><i>Analysis should be undertaken of the impact of macro-policies on poverty. PRSPs should incorporate policy scenarios to accommodate different options</i></p>
<p><u>Resources</u> PRSPs need to be made more consistent with available development resources in order to facilitate implementation and sustainability</p>	<p><i>PRSPs should be linked to annual budgetary provisions within the framework of MTEFs</i></p> <p><i>Donors should focus their ODA more on support to the needs of PRSPs and ODA should be better meshed with national budgets</i></p>
<p><u>Monitoring and targets</u> (I)PRSPs do not always clearly spell out the benchmarks by which successful implementation can be judged</p>	<p><i>(I)PRSPs should incorporate the – and be oriented towards achieving – Millennium Development Goals and other locally relevant human development indicators as far as possible. There should be country analysis of the costing of these goals</i></p> <p><i>Monitoring systems should be put in place to track progress in terms of these indicators</i></p>
<p><u>Partnerships</u> WB and IMF have increasingly extended cooperation to UNDP and other UN development partners at the HQ and country level in supporting the development of (I)PRSPs</p>	<p><i>With Governments acting as the principal arbiter and 'demandeur', BWI and UN collaboration should be further strengthened on the basis of their respective comparative advantages</i></p>

PART II - Detailed responses to the questionnaire

2.1 Overarching questions

- **What have been the main achievements and challenges to date in developing and implementing poverty reduction strategies?**

Challenges:

- ***Participatory processes for the PRSP need to be strengthened.*** Several countries have remarked on this aspect and have noted that although consultations have been held with NGOs, CSOs, and sometimes with local government representatives, these have typically taken the form of presenting a draft IPRSP. However, it is unclear how feedback from even these consultations has fed into subsequent drafts of IPRSPs (Azerbaijan, Lesotho, Georgia). Further, participatory processes require time but countries trying to access HIPC debt relief resources have been more concerned with getting the PRSP ready than with engaging in a meaningful participatory process for formulating a poverty reduction strategy (Zambia, Tanzania, Ethiopia). Another factor inhibiting a participatory process from being undertaken in some countries has been the weak capacity of civil society organizations to substantively contribute to the content of PRSPs, particularly on key issues such as macroeconomic analysis and budgets. Finally, in some countries a participatory process has been limited because the development of civil society organizations is still at a relatively early stage (Laos, Cambodia, Vietnam).
- ***Country ownership needs to be strengthened.*** In some countries, the PRSP is strongly resisted by a wide range of national stake-holders because it is an instrument of conditionality -- a donor driven instrument (Bangladesh, Cambodia, Laos). To ensure ownership, it may be necessary to insist that PRSPs be endorsed by parliaments prior to presentation by before the BWI Board. This could also ensure that the focus on poverty reduction is maintained even if there is a change in government. Further, to ensure that the PRSP is not perceived simply as an initiative of the central government, local governments must be involved early on in the PRSP process (Mongolia, Nicaragua, Laos).
- ***Lack of harmonization between PRSP and other planning strategies.*** Several PRSP countries are concurrently preparing national development plans. However, in some countries, little effort has been made to harmonize these different planning strategies (Cambodia, Mongolia, Bangladesh). This also implies that different branches of government are not clear regarding their respective roles. But also, there is a risk that divergent policy and strategic directions get reflected in the different planning documents. Further, such a situation puts tremendous pressure on an already limited human and institutional resource base.
- ***Institutional linkages between ministries need to be strengthened.*** Since the implementation of the PRSP will involve a number of sectoral ministries such as health and education, and a variety of government units both at the central and local level, there is a need to strengthen institutional linkages, establish coherence and complementarities between the various implementing ministries.

- ***Prioritization of poverty reduction programmes/strategies needs to be sharpened.*** This is especially true for countries that have prepared IPRSPs. Many countries' IPRSP's resemble a long shopping list of various projects/programmes but there is very little clarity on which programmes/projects are going to be prioritized. Given financial resource constraints as well as absorptive capacity constraints, prioritization becomes all the more important. (Georgia, Azerbaijan, Cambodia).
- ***Poverty reduction strategies need to be costed.*** Unless countries have a clear picture of the financial resources (costs) required for implementing poverty reduction strategies, the effective implementation of these strategies will be jeopardized. Further, links between the poverty reduction strategies and budgets (whether annual or medium term) will remain weak (Cambodia, Sri Lanka).
- ***Risk analysis associated with achievement of poverty reduction targets remains weak.*** Although several countries have established poverty reduction targets, the PRSPs do not undertake a comprehensive risk assessment to identify factors that may inhibit achievement of these targets (Azerbaijan)
- ***Coherence between the macroeconomic framework and poverty reduction goals/targets needs to be strengthened.*** When the PRSP process was initiated, the BWIs had stated that it would be important for countries to conduct ex-ante impact analyses to assess the poverty/equity impact of macroeconomic policies. A review of the macroeconomic policies in different countries' PRSP indicates that they are not significantly different from earlier stabilization and structural adjustment policies. It would be important to know how countries intend to resolve the oft-noted conflicts between such macroeconomic policies and poverty reduction goals.

Achievements:

- ***Advocating a participatory approach.*** Despite the concerns noted above regarding the nature of the participatory exercise, it is clear that for many countries, the PRSP has initiated a dialogue among a wide range of national stakeholders. In so doing, it has sensitized/mobilized local communities, and in some instances local governments and parliaments.
- ***Pointing to data limitations/gaps.*** An effective poverty reduction strategy depends fundamentally on identifying who the poor are and preparing a comprehensive poverty assessment. Through the use of participatory poverty assessments (to complement quantitative data on poverty), PRSPs have endorsed the need to listen to "voices of the poor" in formulating poverty reduction strategies.
- ***Reoriented development assistance practices.*** The PRSPs for many countries are being discussed at CG meetings and Round Tables and donors are being requested to align their development assistance in support of the poverty reduction strategy. ODA (and also debt relief) is increasingly being considered as a mechanism to fill resource gaps identified by PRSPs. Such alignment and harmonization among donor practices is an important achievement of the PRSP.

➤ **How might the guidelines and modalities of the PRSP approach be modified to improve its long-term developmental impact?**

- ***Flexible time-frames.*** For instance, a very tight schedule for preparing the PRSP does not encourage meaningful participation. Further, concern with meeting the deadline for PRSP submission can compromise the quality of analysis. For instance, in Azerbaijan, sectoral strategies for poverty reduction were prepared without even defining the poverty line.
- ***Integrated approaches to poverty reduction.*** Although the PRSP is intended to present an integrated and holistic approach to poverty reduction, in several countries' some of the policies being adopted appear to be inimical to poverty reduction. For example, in Cambodia, the Integrated Framework on Trade and Poverty undermines (rather than supports) key PRSP principles.
- ***Identification of capacity constraints.*** The long-term developmental impact of PRSPs could be enhanced if countries prepared a matrix that captured the human, technical and institutional capacity gaps that need to be filled if PRSPs are to be effectively implemented.
- ***Critical assessment of poverty/inequality impacts of key policy recommendations.*** It is crucial for PRSPs to assess systematically and critically the poverty/inequality impact of all key policy recommendations, especially those pertaining to structural and macro-policy reforms. Further, it is important to consider integrating pro-poor policy conditionalities in the frameworks of SAC and PRGF. There is some concern, especially by CSOs that the PRSC matrix, a mechanism for resource mobilization to fund the PRSP implementation, especially in capacity building programmes entails non pro-poor conditionalities.
- ***Participatory JSA's.*** JSAs could be more inclusive. For instance, independent advisors, UN agencies could be involved in these assessments. Also, national country counterparts should be present at JSA deliberations so as to defend the content of PRSPs. This would also serve to improve transparency of BWI decisions regarding endorsement (or not) of countries' PRSPs..
- ***Incentives for innovative poverty reduction strategies.*** Many PRSPs have not engaged in a discussion of key issues that are central to poverty reduction such as land reforms, employment strategies, gender concerns, decentralization/poverty linkages. PRSPs that address these central concerns should be rewarded for innovations and for having a holistic approach to development.
- ***Linking national poverty reduction strategies to global challenges.*** It is obvious that variables external to a country's domestic environment (falls in commodity prices, recession in industrial countries) can affect national poverty reduction efforts. How are these trends in the global economy and national poverty reduction targets to be reconciled?
- ***Mobilization of adequate financial resources.*** Since the financing of PRSPs is inadequately addressed, more focus should be placed on addressing this issue. Mobilization of domestic resources (through tax reforms, user fees) cannot be relied upon to mobilize the volume of resources needed.

2.2 **Key questions**

2.2.1 **Ownership and participation**

- **Has the preparation of PRSPs been country-led and, if so, have governments assumed full leadership of the PRSP process?**

Endorsement by highest political authorities

Generally speaking, preparation of the PRSP has been under the leadership of Ministry's of Finance but has been endorsed by Presidents of several countries. For instance, in Nicaragua, the Technical Secretary of the Presidency (SETEC), was the institution delegated to coordinate and write the PRSP. In Azerbaijan, a presidential order established the "State Commission to develop the State Poverty Reduction Programme" and was chaired by the Prime Minister; in Georgia, the president issued a decree on "supporting the organizational activities for elaboration of the poverty reduction and economic growth programme". In Sri Lanka, the President is actively involved in monitoring the PRSP exercise. In Uganda as well, the PRSP has received political endorsement from the President, and also from the Cabinet and Parliament. In fact, in Uganda, there have been persistent demands by Parliament for a wider say in economic management. Members of Parliament have called for the establishment of a National Planning Authority as provided for in the country's constitution.

Involvement of sectoral ministries

Sectoral ministries have been involved in most countries through their participation in thematic groups and in the formulation of sector specific strategies (Guinea, Georgia, Azerbaijan, Lesotho, Mongolia, Sri Lanka, Nepal, Uganda, Burkina Faso, Bolivia).

Involvement by Parliamentarians

In most cases, parliaments do not appear to have played a significant role (Nicaragua, Zambia, Sri Lanka, Lesotho, Georgia, Cambodia). However, there are increasingly voices that support a greater role for parliament and for parliamentarians. It has been suggested that parliament as an institution should be involved especially during discussions regarding budget formulation and can monitor the effective implementation of the poverty reduction strategy. Individual parliamentarians can be involved in their constituency districts when, for instance, the PRSP content is debated at sub-national levels.

Behaviour of staff of IFIs

It is difficult to make general statements on this. It all depends on the strength and commitment/seriousness of the government as well as previous work on poverty reduction. In countries where national programmes for poverty reduction were prepared, the government and civil society have been in the drivers' seat: that is the case for Uganda, Burkina Faso, Mali and Ethiopia. However, this cannot be said to apply to all countries. For instance, in Cambodia (among other countries), the overall policy and planning processes, including work on the PRSP has remained essentially external expert-driven and in some cases has embraced the syndrome of "hotel room manufactured documents". Also, the process has been facilitated by a "one way explanation" instead of "dialogue and participation". This has characterized BWI's staff support to the PRSP process in Cambodia. Such an approach may probably find its motivation in the context of key national capacity constraints. But precisely and because of these constraints, there

is a compelling case to consider alternative and to some extent innovative advisory support services.

- **To what extent have governments been preparing and implementing PRSP in an open and participatory way?**

Extent of involvement of local governments and civil society

The experience of countries with respect to this issue varies considerably. From limited NGO participation (Azerbaijan) to a much greater involvement by civil society (Uganda, Lesotho). However, civil society in many countries have sought to play a greater role. For instance, in Georgia, civil society organizations have created the PRES P Watchers Network, which is facilitated by Oxfam. In Nicaragua, despite initial hesitation on the part of the government, some groups from civil society such as the Civil Coordinator for the Emergency and Reconstruction (CCER) (assisted by aid agencies like UNDP and DfID) conducted consultation processes and formulated local poverty reduction strategies.

The involvement of local government appears to have been limited and generally confined to attendance at consultations. For example, in Georgia, meetings with the public were held in different regions and this was the only involvement of local government.

Role of development partners, including IFIs

Many bilateral donors are eager to play an important role in the PRSP process, mainly through the financing of the consultative process, but are less involved with the substantive (content) aspects of the poverty reduction strategy. However, with respect to PRSP implementation, bilateral development partners are trying to figure out how PRSPs can be harmonized with their respective programming tools.

The IFIs have been involved in a variety of ways: from providing technical assistance for drafting analytical pieces required by the PRSP (Azerbaijan, Georgia, Sri Lanka) to assisting in institutionalizing systems for poverty monitoring.

Where UNDP has established a good working relationship with the donor community, it has been entrusted to lead the donor contribution to the PRSP process as in Ethiopia, Azerbaijan, and Georgia. For instance, in Georgia, UNDP has been charged with coordinating the donor community and has drafted a framework for donor assistance for the preparation of the PREGP. This framework will provide technical assistance to improve the process and content of the PREGP and for the consultative process.

Effectiveness of arrangements for consultations and feedback on how decisions were made

Most countries don't appear to have instituted formal mechanisms for consultation and feedback (Georgia, Sri Lanka, Lesotho).

Impact of capacity constraints among CSOs

The term CSOs covers a large number of organizations that are of different sizes, have different strengths and weaknesses, strong and poor representativity, and a strong and weak commitment to development. As a result, there are large differences in the quality, will and motivation of CSOs. Generally speaking, NGOs have lacked the capacity and/or expertise to contribute in a

substantive way to the content of PRSPs, particularly on key issues such as macroeconomic analysis, and the formulation of pro-poor budgets. (Azerbaijan, Lesotho).

Participatory monitoring of implementation

In Africa, there are only 4 full-fledged PRSPs whose implementation is at the beginning. It seems too early to assess the monitoring exercise.

➤ **To what extent have participatory processes influenced the content and implementation of poverty reduction strategies?**

When the participatory process has been limited, so has its influence on the content of the PRSP (Azerbaijan, Sri Lanka). However, in countries where significant efforts were made to engage in a participatory process or countries where the PRSP built upon prior poverty reduction strategies (Uganda, Burkina Faso), the content reflects some of the concerns voiced by civil society.

➤ **Have countries drawn on existing strategies and integrated the preparation and implementation of their PRSPs with core processes for policy making and programme implementation, including budget cycles and medium-term expenditure frameworks?**

So far, very few countries have linked the PRSP with annual budget cycles and an MTEF although more efforts have been made to integrate sectoral strategies such as for health and education in the PRSP (Azerbaijan, Georgia, Nicaragua, Sri Lanka, Yemen, Vietnam).

Indeed, a fundamental weakness of several PRSPs seems to be the weak links established between the poverty reduction strategy and the annual (or medium term) budget. Further, annual budgets tend to be disconnected from ODA flows and bilateral ODA does not seem to be ready to be integrated with the budget anytime soon, although there is a possibility that HIPC resources could go through the government budget through sector wide programmes.

2.2.2 Content of strategies

➤ **To what extent do poverty reduction strategies represent an improvement over previous development strategies?**

According to governments, civil servants as well as field development practitioners, the PRSP represents a major departure from previous development strategies for the following reasons: (1) previous strategies did not specifically target poverty reduction but at best growth and development (with poverty reduction a by-product in so far as there were trickle down effects); (2) previous strategies were the domain of specialists and experts with no room for consultations; (3) even when strategies were formulated, external partners could ignore them in the formulation of their own programming instruments.

➤ **To what extent are PRSPs built on adequate poverty diagnostics?**

Quality of data, including its disaggregation by region, social groups, and gender

It is difficult to generalize as there are significant differences among countries regarding data availability and reliability as well as the frequency with which it is collected. However, those countries that have institutionalized the LSMS system of household surveys, poverty data, at disaggregated levels, is collected periodically (generally every five years). For instance, for Nicaragua, the recent data from the 1998 LSMS contributed to preparing a rather comprehensive poverty profile. In Uganda and Zambia as well, the PRSP is built on adequate poverty diagnostics with efforts made to address regional, social and gender imbalances. One issue to be kept in mind is that often a trend analysis of poverty is unavailable or the data is suspect because surveys conducted at different times have used different methodologies (ex. Nepal, Mongolia).

Ex ante analysis of the social impact of key proposed macroeconomic and structural reforms

This indeed is one of the weakest elements of the PRSP. Typically, there has been a lack of a more systematic and comprehensive assessment of the dynamic relationship between the macroeconomic environment and poverty/inequality issues. An examination of the IPRSP policy matrix indicates that key policy areas such as those related to the macroeconomic framework and structural reforms (ex. deregulation, commercialization of public utilities) have not been subject to systematic pro-poor assessments.

➤ **To what extent do PRSPs have relevant targets and indicators for poverty reduction and appropriate proposals for monitoring and evaluation?**

Selectivity and monitorability of targets and indicators

Generally, indicators and targets of the PRSP are relevant and include commitments made by the country at various international summits. The indicators typically tend to monitor poverty at the national level but given regional disparities and inequities more attention needs to be paid to developing indicators at local levels. Also, indicators need to be refined so that impacts on specific segments of the population are captured. Further, there is a need to harmonize the indicators developed for PRSPs with indicators being developed to assess country progress on the Millennium Development Goals.

Efforts to improve data collection and analysis/use

Many donors are assisting countries with developing/building capacity for data collection and analysis. For instance, in Nicaragua, UNDP, WB, IDB and other donors have formulated the MECOV V project that will institutionalize data collection and systematically will feed such data into the national poverty monitoring system. In Vietnam, in order to get data at frequent intervals and to monitor progress of PRSP indicators, a multi-household survey will be initiated in early 2002. This survey is intended to continue for 10 years and will cover 30,000 households every 2 years.

➤ **To what extent do PRSPs clearly define, cost and prioritize public actions that are likely to reduce poverty?**

Costings of the PRSP are a rather weak element of the poverty reduction strategy as are the links between costings and development of the MTEF. For instance, for Nicaragua, there is some

information on the proportion of GDP allocated to specific sectors, but no comprehensive costings of the poverty strategy or identification of resource gaps has been undertaken.

2.2.3. **Donor assistance and partnerships**

- **Have countries needs for technical assistance in preparation and implementation of PRSPs been adequately addressed by development partners?**

For strengthening data systems and building financial management capacity

Development partners have indeed been extremely supportive in assisting countries strengthen data collection systems and build capacity for financial management. For instance, in Guinea, the WB and UNDP are assisting with household surveys to get poverty data and the French government is assisting by setting up a Fund to look at the country's economic and financial structure (treasury, customs, tax). Uganda's need for technical assistance to strengthen database systems and build financial management and accountability through the Economic and Financial Management Project has also been addressed by development partners; and in Vietnam, UNDP along with other donors (ADB, WB, DfID) has been requested to provide technical assistance for issues such as financial management capacity and the strengthening of data systems.

Indeed, UNDP has been and continues to provide significant technical assistance to many countries to strengthen their monitoring and data systems, such as in Yemen, Nepal, Lesotho and Mongolia.

- **Have the WB/Fund staff provided useful analytical inputs into the PRSP that is consistent with principles of country ownership and partnership?**

Quality and utility of JSAs

Responses from Azerbaijan, Georgia, Laos, Nicaragua, Vietnam, Yemen, Lesotho and Mongolia indicate that the JSA offered useful comments on the content of Interim PRSPs. In particular, the risk assessment in Lesotho was considered to be especially useful; in Vietnam, the JSA had added value by referring to issues such as the relationship of the IPRSP with national strategies already in place or under formulation.

Notwithstanding the utility of the JSA for specific countries, some additional comments on the JSA guidelines are warranted. Although the poverty diagnosis section is good in terms of addressing the issue of growth and distributional impacts of past policies and programmes, this is not followed through on the section on Priority Public Actions. Distributional effects could be given greater attention since these can cancel much of the impact of growth. In this regard, the section on "Macroeconomic Framework, Fiscal Choices and Financing Plan" is one of the weakest. There is no real focus on what some call "pro-poor growth". The first two points of the section mention inflation and a sustainable external position, but what about achieving sustainable growth as the prime objective (identifying, for example, the sources of growth) and then directly relating the character of the growth process to the impact on poverty? Further, why emphasize the so-called trade-offs between short-term and long-term poverty reduction? What would this mean? Too much growth implies too little poverty reduction? Some of the assumptions underlying this statement could and should be questioned.

The JSA is also a little weak in terms of monitoring and evaluation issues. For instance, on page 5, it is noted that “adequate use of results of monitoring and evaluation in policy formulation should be made”. A stronger or clearer statement would help. The real challenge is an assessment of the impact of the national poverty reduction strategies and general economic and social policies. In addition, what role could civil society play in doing this kind of assessment?

The section on fiscal choices could probably say more on how to involve civil society as well as government institutions such as parliament in making decisions about the budget. Also, a clearer statement would be desirable on having civil society organizations and community based organizations assess the delivery of public services and benefits.

Sharing information with development partners

Responses from Sri Lanka, Cambodia, Laos indicate that information exchange between the WB/IMF and other development partners has been erratic, rather delayed and should be improved.

- **To what extent have external development partners, including the Bank and the Fund, begun to align their financial assistance and policy conditionalities behind the PRSPs?**

Content of IMF PRGF programmes and content of IDA CASs, PRSCs

Although the BWIs have begun to align their financial assistance and policy conditionalities behind the PRSP, the IMF is not always transparent about the policy conditionalities associated with the PRGF.

Content of UNDAFs

Links between the UNDAF and PRSP depend in part on the time frame for preparing these documents. For instance, Mongolia’s UNDAF preceded the PRSP so the links between these two documents is weak. However, in Nicaragua, the PRSP was seen as a national reference point for policy and provided the central content for prioritized actions in the UNDAF -- implementation of which will begin in 2002. Also, in Zambia, the seven thematic priorities for 2002-06 UNDAF are in line with the priority areas of the PRSP.

Content of strategies and lending of other development partners

Although not all donors have aligned themselves with the budget support modality being proposed in conjunction with PRSPs, some donors are contemplating using PRSPs to align programme support. However, regional development banks such as ADB and AfDB are considering the PRSP when making loan decisions.

2.2.4 Implementation of strategies

- **What has been the experience thus far in the implementation of PRSPs?**

Operationalization of strategies in budget allocations and execution

For Nicaragua and Zambia, the PRSP is still not in the implementation phase as the document has only recently been approved. However, work on budget allocations for 2002 has been completed in Nicaragua and in Zambia indications are that budget allocations for 2002 will

largely be in line with the priorities of the PRSP. The experience from Uganda thus far indicates that additional budgetary resources (from debt relief under the HIPC Initiative) have been used efficiently. Donors' willingness to contribute to the PAF demonstrates the extent to which donors can support a government provided they witness the government's commitment to poverty reduction.

Usefulness of annual PRSP progress reports in tracking implementation

Uganda has prepared a Poverty Status Report, which is the progress report of its PRSP. The report was discussed in a participatory manner and fed into the CG process (May 2001 CG) and was used to mobilize additional donor resources for poverty reduction.

2.2.5 Constraints

- **To what extent have financial, institutional and political constraints facing both governments and civil society adversely affected the development and implementation of PRSPs, and has the PRSP approach to date taken adequate account of these country-level constraints?**

Role of the IPRSP in alleviating short term capacity constraints

Several countries face critical financial and institutional constraints in the context of developing and eventually implementing the PRSP. Crucial short-term capacity constraints also imply that countries may not achieve poverty reduction targets and may fall short of delivering on their commitments. Further, for some countries (such as Cambodia, Laos), the ambitiousness of the exercise, its pacing, and priorities needs to address and reflect national capacity constraints and should take account of the nation's absorptive capacity.

The lack of technical and financial capacity has certainly impacted on the development of an effective and comprehensive poverty reduction strategy. For instance, in Azerbaijan, the IPRSP did not provide a convincing analysis of the roots of poverty; did not identify poverty pockets and ignored critical issues such as employment creation. In Nicaragua, lack of time and financial resources limited the government and civil society's involvement and acceptance of the PRSP, especially in the formulation phase.

Institutional constraints in Mongolia led to confusion over the division of responsibilities between two ministries such as Ministry of Finance and Economics and the Welfare and Labor Ministry; and in Georgia, institutional problems related to the unwillingness of some Ministries to participate fully in the process influenced the quality of the IPREGP.

Political problems can also play a significant negative role, if the present conflict of interest between government factions translates into a lack of attention to long-term policy vision. For instance, Sri Lanka has been engaged in a war/civil conflict for 18 years and faces a huge fiscal crisis. This along with short political cycles act as tremendous constraints for policy making and planning. In Zambia, corruption charges against the Minister of Finance and Economic Development lengthened the preparatory process for the PRSP.

In some countries, the IPRSP process has taken account of political constraints. For instance, Vietnam's difficult history and the consequent (understandable) suspicion of foreign agendas has

meant that the opening up of the country and the ongoing transition has been proceeding cautiously. As a result, the development of civil society is still at an early stage in Vietnam, and such political sensitivities have been taken into account during the process of formulating the IPRSP.

- **To what extent has implementation of poverty reduction strategies been constrained by external factors?**

Limited access to external markets

In Uganda, for instance, despite a big export promotion drive, export earnings have declined every subsequent year since 1996. This has been mainly on account of deteriorating terms of trade arising from unfavorable international prices for coffee. The decline in export revenues adversely impacts the mobilization of domestic revenues to finance poverty reduction strategies/programmes.

Lower than expected aid flows

In Uganda, aid flows have been growing more slowly for about a decade. Further, despite the country's efforts to attract FDI, the increase in FDI has been below projected levels. The PRSP does not adequately address these challenges.

- **To what extent have external factors affected the timing of PRSP preparation?**

The desire to obtain donor concessional assistance based on the strategy

There is no question that most countries have embarked on the PRSP exercise to access resources for development either through debt relief or through concessional lending facilities. That being said, it is fair to say that in many countries, the PRSP has assumed a life of its own and it is hoped that over time, future PRSPs will be more country-driven and owned (Laos, Nicaragua, Uganda, Zambia, Azerbaijan, Georgia, Sri Lanka, Bangladesh, Nepal, Lesotho, Mongolia).

Effectiveness of IPRSPs as a transitional device

In several countries, the IPRSP has been effective in starting public discussions on the issue of poverty.

- **Has an appropriate balance been achieved between country ownership and the need for donors to be held accountable for the use of their resources?**

Not quite. With respect to financing the PRSP process, several donors have indicated their willingness to make available funds to be used at the discretion of the Ministry of Development Planning. Donors appear to prefer solutions that avoid micro-management but with some degree of regular reporting. Several modalities have been suggested and there is a clear need for harmonization among donors on this score. For instance, Uganda has asked donors to extend their assistance to the country through budget support. The Bank supports this view and has responded by channeling its assistance to the country through budget support. Some donors have either wholly or partially followed this lead. However, many donors are constrained by their aid disbursement and financial reporting and accounting modalities in support of the PEAP/PRSP. The need to show accountability for use of their resources partly explains why some donors show reservations in extending assistance to the country through the budget support modality.

Annex Table: Country experiences: UNDP Support to PRSPs

AREAS OF FOCUS		NATURE OF PROGRESS REPORTED		ILLUSTRATIVE COUNTRIES	
Substantive inputs into PRSP policy document	<ul style="list-style-type: none"> Supporting national PRS and development plans upon which the I/PRSP are based Provision of technical assistance in PRSP preparation, integrating lessons from pilots, commenting on drafts Studies linked to preparation of PRSP (e.g., expenditures on basic social services, determinants of poverty/inequality; review of previous PRS) Enabling the incorporating of various thematic linkages for effective PRS, such as governance, gender, environment, HIV/AIDs Ensuring that human poverty and human development – including rights-based approaches - are taken into consideration and encouraging pro-poor policies 	<ul style="list-style-type: none"> Central African Republic; The Gambia; Ghana; Guinea-Bissau; Madagascar; Malawi; Mozambique; Senegal; Uganda; Zambia; Cambodia; Mongolia; Sri Lanka; Bolivia; Yemen; Georgia Angola; Benin; Bangladesh; Cameroon; Madagascar; Mauritania; Niger; Rwanda; Sierra Leone; Tanzania; Cambodia; Lao PDR; Viet Nam; Honduras; Nicaragua; Yemen; Armenia; Kyrgyzstan Guinea-Bissau; Malawi; Rwanda; Viet Nam; Bolivia; Honduras; Nicaragua Burkina Faso; The Gambia; Mauritania; Uganda 			
Human development and pro-poor policy emphases	<ul style="list-style-type: none"> Ensuring that human poverty and human development – including rights-based approaches - are taken into consideration and encouraging pro-poor policies 	<ul style="list-style-type: none"> Lesotho; Madagascar 			
Macro-economic policy framework	<ul style="list-style-type: none"> Developing macroeconomic framework, preparation of guidelines and background studies. 	<ul style="list-style-type: none"> Angola; Benin; Ghana; Lesotho; Cambodia; Lao PDR; Viet Nam; Bolivia; Nicaragua; Georgia; Kyrgyzstan 			
Trade	<ul style="list-style-type: none"> Incorporating international trade considerations (including the Integrated Trade Framework) into PRSPs. 	<ul style="list-style-type: none"> Burundi; Ghana 			
Promoting consultation, stakeholder participation in the PRSP process	<ul style="list-style-type: none"> Fostering stakeholder awareness and inputs through Poverty Forums, seminars and workshops Creating high-level institutional mechanisms for participation such as multi-stakeholder advisory committees. 	<ul style="list-style-type: none"> Angola; Cameroon; Guinea; Lesotho; Niger; Tanzania; Uganda; Zambia; Bangladesh; Cambodia; Nepal; Pakistan; Bolivia; Honduras Lesotho; Tanzania; Honduras 			
PRSP Monitoring Indicators and Assessments	<ul style="list-style-type: none"> Strengthening PRSP monitoring capacity - development of disaggregated indicators, data, training at national and local levels as well as poverty <i>observatoires</i> Facilitating poverty surveys and assessments, especially at grassroots level, to feed into policy formulation Monitoring progress towards MDGs as benchmarks in determining progress in poverty reduction. 	<ul style="list-style-type: none"> Benin; Burkina Faso; Cameroon; Chad; Ethiopia; Guinea; Lesotho; Malawi; Rwanda; Tanzania; Uganda; Cambodia; Mongolia; Nepal; Bolivia; Haiti; Honduras; Nicaragua; Armenia; Tajikistan Benin; Chad; Ghana; Malawi; Mauritania; Niger; São Tomé and Príncipe; Tanzania; Pakistan; Viet Nam; Bolivia Viet Nam 			
Coordination and Implementation Capacity	<ul style="list-style-type: none"> Coordinating UN Country inputs into PRSP formulation and ensuring consistency and closer linkages between PRSPs and the CCA/UNDAF Improving alignment of the principal planning bodies and instruments, and ensuring PRSP compatibility with other PRS, development plans. Advising government on strategy and processes for PRSP formulation and implementation Strengthening institutional (national government) capacity for PRSP implementation Strengthening local government capacity for PRSP implementation 	<ul style="list-style-type: none"> Ghana; Guinea-Bissau; Kenya; Malawi; Mauritania; Tanzania; Uganda; Armenia Ghana; Kenya; Lesotho; Mozambique; Cambodia; Viet Nam; Bolivia; Guyana Angola; Burundi; Chad; Côte d'Ivoire; Ghana; Kenya; Lesotho; Madagascar; São Tomé and Príncipe; Bangladesh; Cambodia; Pakistan; Viet Nam; Haiti; Djibouti Madagascar; Malawi; Mauritania; Tanzania; Zambia; Cambodia; Mongolia; Nepal; Viet Nam; Nicaragua Lesotho; Uganda; Cambodia; Lao PDR; Angola; Mali; Laos 			
Resource mobilisation	<ul style="list-style-type: none"> Helping governments mobilise resources in support of PRSPs through Round Tables and other in-country donor consultation meetings 				

HEALTH IN PRSPs
WHO Submission to World Bank/IMF
Review of PRSPs



World Health Organization
Department of Health and Development

December 2001

EXECUTIVE SUMMARY

There is a growing international consensus that improving health status is an essential part of improving human capabilities and livelihoods, and therefore of poverty reduction. As ill health is linked to poverty, so better health can be an engine for prosperity – both for the individual and for the nation. A series of UN conferences and the Millennium Development Goals (MDGs) have recognised this link, and committed the world's leaders to concrete action to improve the health of the poor.

Poverty Reduction Strategy Papers (PRSPs) provide an opportunity to translate this recognition into action. Many donors are now using PRSPs to guide their aid programmes, and many are also moving to direct budgetary support in their financing of PRSPs. This has important implications for the way that health and health-related programmes are designed and funded. Thus the place of health in PRSPs is significant, and requires close attention.

This paper presents the results of a rapid desk review of PRSPs from 10 countries: Bolivia, Burkina Faso, Mauritania, Mozambique, Nicaragua, Tanzania, Uganda (full-PRSPs), Ghana (draft full-PRSP) and Cambodia and Vietnam (interim-PRSPs). The review looked at the process of PRSP development in each country, the content of the PRSP, and the financing of the health sector under PRSPs. The findings are summarised below.

The review looks at what PRSPs say explicitly about health (i.e., in their health components) and what they say implicitly; in particular, it assesses whether PRSPs maximise the potential of better health to reduce poverty. This reflects the important distinction between the health sector (activities under the jurisdiction of Ministries of Health) and health status, which has many determinants.

Process of PRSP development

- In all countries in WHO's review, PRSP development has been led by a small team in an oversight or economic ministry, e.g., in the finance ministry or the President's office. Ministries of Health (like other line ministries) are often only marginally involved in the PRSP process, providing limited input on the health content and on the overall PRSP. This appears to be the result not only of the overly-dominant role taken by oversight ministries, but also of a perceived lack of capacity of and in health ministries.
- The World Bank and IMF have urged the rapid completion of PRSPs, particularly interim-PRSPs. This has led to a mistrust that PRSPs are not genuinely country-owned strategies but a new form of conditionally imposed by the Bretton Woods institutions. The Bank and Fund have recognized this problem, and are committed to fostering greater country ownership of full-PRSPs. As only 8 full-PRSPs have been completed so far, it is too early to judge whether this is occurring – in some cases countries have taken the lead, while in others government representatives complain that World Bank/IMF staff are still playing an overly-dominant role.

Health and poverty reduction

- Most PRSPs acknowledge, either explicitly or implicitly, that improved health plays an important role in reducing poverty. Yet this understanding is not often reflected in analysis, nor in the programmes of action outlined in PRSPs.
- Ill health is typically described as a *consequence* of poverty, rather than a *cause*. Thus many PRSPs provide data on health status by income quintile, showing that the poor are more likely to suffer from ill health, but very few calculate the impoverishing effects of ill

health such as out-of-pocket medical costs, lost income, or the consequences of ill-health/disability of the breadwinner. The gap in analysis is particularly striking as many PRSPs contain the results of a participatory poverty assessment (PPA) in which poor people themselves identify ill health as a cause of poverty.

- As a result of this analysis, PRSPs characterise health as an outcome of development, rather than a means of achieving it. Most PRSPs contain several strands, one or more on increasing the rate of economic growth and/or maintaining macroeconomic stability, and one strand on improving human capabilities. The 'growth' strand covers sectors traditionally considered 'productive' (business, tourism, manufacturing, etc.) while the 'human capabilities' strand covers the provision of basic services, including health.
- This division creates obstacles to improving health status, and limits the potential of improved health to positively benefit other sectors. For example, improved health is key to worker productivity, to creating and sustaining rural livelihoods, and to educational achievement. Similarly, employment, agriculture, the environment and other sectors all have an impact on health status. Most PRSPs fail to make these links.

The health sector content of PRSPs

- Most PRSPs contain interventions that should benefit the poor, such as targeting resources to the most deprived areas and population groups; protecting the poor from the impoverishing costs of health-care use; and tackling health staffing problems in remote areas.
- However, there is no evidence that the interventions outlined will actually reach the poor. It appears that many countries "wrote" the health components of PRSPs by inserting those sections of their existing health plan that were considered pro-poor – without analysing whether these activities were in fact reaching the poorest groups, or were appropriate for their needs. Some countries have developed additional pro-poor health activities for their PRSPs, but in many cases the bulk of interventions reflect existing health strategies.
- There are usually no plans to monitor the impact of PRSPs on the health of poor vs. non-poor groups. This is crucial, as improvements in average health status can disguise stagnant or even declining health status indicators among the poorest.
- Other omissions common to many PRSPs include: no discussion of health sector governance issues (e.g. government doctors working privately); no analysis of the problems associated with cost-recovery programmes; and no exploration of the potential impact of decentralisation on health services. Problems associated with each of these areas can significantly reduce the effectiveness of health provision, with particularly negative consequences for the poor.

Financing the health sector components of PRSPs

- In PRSP countries, health expenditure is set to remain well below the minimum of \$30-\$40 per capita needed to provide decent health care for the poor.
- Of the 10 countries reviewed, seven provided sufficient information to calculate planned changes in health spending over the PRSP period. Of these, six suggest that health spending as a percentage of government spending will increase. However, the net effects of real GDP per capita growth rates, and the change in total government expenditure as a percentage of GDP need to be reviewed to determine if there will be a real increase.

- It is not clear whether the health expenditure increases outlined in PRSPs are additional, or already planned in existing budgets. There is also insufficient information in PRSPs on expected increases in donor allocations. In addition, overall expenditure increases are often based on ambitious rates of economic growth which may not be realised. Thus it is too early to say whether PRSPs will result in additional money for the health sector.
- PRSPs also provide very limited information on the distribution of resources between sub-sectors of health and geographical areas, making it impossible to know whether increased resources will flow to poor areas or types of interventions that will benefit the poor.

WHO's review suggests that within the framework of PRSPs health will remain under-resourced, as it has been in the past, and that opportunities to reduce poverty through improving health will be missed. As the PRSP process is in a relatively early stage, there is an opportunity to influence this trend. This will require:

- A conceptual change in the understanding of health's contribution to development: from 'a basic service' that helps to mitigate the impact of poverty, to pre-requisite of growth and poverty reduction.
- That health outcomes are distinguished from the provision of health services. The latter are important, but not sufficient to ensure the health of the poor. Explicit health objectives need to be incorporated into sectors which influence – and are influenced by – health.
- That Ministries of Health take a more active role in the development of PRSPs and other poverty reduction strategies. This will require improved capacity within health ministries, and greater openness within those leading the PRSP process.
- That health and health-related programmes are adequately and equitably financed. This means greater resources for health, and a shift of resources within the health sector to favour the poor.

INTRODUCTION

This paper is a preliminary review of the place of health in Poverty Reduction Strategy Papers (PRSPs). It has been produced primarily in response to a call from the World Bank and IMF for input into their review of PRSPs, which looks at all aspects of PRSPs not just health.

All PRSPs include objectives to improve the health of the poor, and most recognise the importance of improved health status to overall poverty reduction objectives. As such, PRSPs are potentially an important mechanism for raising the profile of health in poverty reduction policies and practices, and increasing flow of resources to health.

The World Bank review comes at a critical juncture. On the one hand, PRSPs are becoming an increasingly important instrument in development policy and development assistance. Countries qualifying for the Poverty Reduction and Growth Facility (PRGF) of the IMF, and for debt relief under the HIPC (Highly Indebted Poor Countries) scheme, must produce a PRSP in order to access resources. But many non-HIPC countries are also preparing PRSPs, and many other donors are joining the World Bank in using PRSPs to guide their funding support.¹

On the other, the PRSP process is at a relatively early stage. At time of writing, only eight full-PRSPs had been completed, yet more than 30 countries were in the process of developing a full-PRSP. Thus there is an important, if narrow, window of opportunity to improve the content of future PRSPs and the process by which they are developed. This paper aims to contribute to that task.

¹ Including the UK, Netherlands, the EC and the Nordic Countries.

METHODOLOGY and APPROACH

Part One of this paper presents the results of a rapid review of 10 full- and interim-PRSPs. The countries included in the review are: Bolivia, Burkina Faso, Mauritania, Mozambique, Nicaragua, Tanzania, Uganda (full-PRSPs), Ghana (draft full-PRSP) and Cambodia and Vietnam (interim-PRSPs).

It is important to note the distinction between interim-PRSPs and full-PRSPs. It is widely accepted that the former were developed extremely quickly, often by external consultants, in order to allow countries to access debt relief immediately. Full-PRSPs are much more comprehensive documents, including targets, budgets and institutional mechanisms of monitoring performance. Nevertheless, interim-PRSPs do provide an important insight into how seriously countries are taking the PRSP process, and broadly, their approach to poverty reduction.

A framework for analysis was developed to guide the review (see appendix 1). It looks at both the process by which PRSPs are developed, and their content. In summary, the framework addresses these questions:

1. Is investment in health regarded as a means of poverty reduction?
2. Are ill-health and the associated costs of care recognised as causes of poverty?
3. How is the issue of HIV/AIDS handled in the PRSP?
4. How well developed and detailed are the health components of PRSPs?
5. To what extent does the health component of the PRSP address the health needs of the poor?
6. What has been the role of the Ministry of Health in the PRSP process?
7. What is the relationship between PRSPs and other planning frameworks (national planning and budgetary frameworks, and health frameworks)
8. To what extent does the PRSPs envisage changes in social sector/health spending in the absolute amounts or patterns of spending?

The review was primarily a desk review, i.e., its most important component was looking at the PRSP documents themselves. Information was also gathered from WHO representatives in-country, and informal interviews were conducted with WHO staff with knowledge of the PRSP process in the relevant countries.

One of the main constraints of a desk review is that it is very difficult to gather information on process. For this reason, and because many other studies have looked at process issues – particularly civil society participation – this review looks only at the role of the Ministry of Health in the process of PRSP development. A comprehensive review of PRSPs should take into consideration the role of all stakeholders.

Finally, it is important to emphasize that WHO's review looks not only at what PRSPs say explicitly about health (i.e., under their health components), but also at what they say implicitly. The review attempts to assess whether PRSPs reflect the growing international consensus that improving health status is an essential part of improving human capabilities and livelihoods, and therefore of poverty reduction. This consensus will be explored in the next section, *Context*.

CONTEXT – Health and poverty reduction

The development of Poverty Reduction Strategy Papers coincides with a critical period in the relationship between health and development policies. A growing body of evidence now suggests that good health status – an important goal in its own right – is central to creating and sustaining the capabilities which poor people need to escape from poverty. Clearly, better health is not the only means of securing poverty reduction, but it is one that has been undervalued and for too long under-resourced.

There is also a growing political momentum to address the health needs of the poor. The Copenhagen Plus Five conference gave specific recognition “to the role of health policies as an instrument for poverty eradication”, and the Third UN Conference on Least Developed Countries in 2001 organised a specific plenary debate on the role of health in enhancing productive capacities, and endorsed a framework for action on health (see Appendix 2). In addition, the Millennium Assembly has committed the world’s leaders to a set of Development Goals, four of which specify health outcomes.

The most recent example of growing political commitment to health comes from the World Trade Organisation Ministerial Conference in Doha in November 2001. Health, in particular the access of poor people to essential medicines, was at the centre of discussions, and the meeting issued an unequivocal declaration that countries must be allowed to prioritise public health needs.

Pathways from better health to poverty reduction

It is now widely accepted that ill health and poverty are closely linked with the cause-and-effect running in both directions. That is, sick people are more likely to become poor, and the poor are more vulnerable to disease and disability. The reverse is also true; people in good health are better able to learn, earn a living and be more productive than those who are sick.

The economic evidence which confirms this relationship for individuals² is now joined by a growing body of macroeconomic data which support similar links between better health and higher productivity, and between the national burden of ill-health and poverty.

Recent research shows that malaria slows economic growth in Africa by up to 1.3 per cent each year, with malaria-free countries averaging three times higher GDP per person than those with malaria, even after controlling for government policy, geography and other factors affecting economic growth.³ Compounding the problem is HIV/AIDS, which disables and kills mostly adults in the prime of their lives as workers and parents. The World Bank has estimated that in a typical sub-Saharan country with an HIV-prevalence rate of 20 per cent, the GDP growth rate is 2.6 percentage points less each year that it would have otherwise have been.

There are several pathways through which good health contributes to economic development:

- **Higher labour productivity** – Healthier workers are physically and mentally more productive, earn higher wages, and miss fewer days of work than those who are

² Strauss and Thomas, 1998. “Health, Nutrition and Economic Development”, *Journal of Economic Literature*, Vol. 36: 776-817.

³ Gallup and Sachs, 2000. “The Economic Burden of Malaria”, Center for International Development, Harvard University, CID Working Paper N° .52, July.

chronically ill. In addition, a healthy workforce creates incentives for foreign companies to make long-term investments.

- **Higher educational attainment** – Healthy children are better able to learn and miss fewer days of school. As health improves, parents invest more in education. Noting this relationship, the World Bank and G8 have declared their intention to target primary education and health.
- **Demographic changes** – Improvements in health lead to lower rates of fertility and mortality in the population. The lag between declines in mortality and fertility produces a “baby-boom”, which can contribute to economic growth if policies allow these extra workers to be productively employed.
- **Improved macroeconomic stability:** A healthier population can help to increase tax revenues and decrease the burden of health-related expenditures.
- **Higher rates of investment and savings** – People who live longer are more likely to put away funds for retirement, which in turn provides funds for capital investment. Aggregate savings increase as the share of the population in their prime coincides with their peak savings years (in the 40s).

The Commission on Macroeconomics and Health (CMH) has brought together some of the world’s leading macroeconomists and health and development experts to investigate these pathways in more depth. Its final report, due at the end of 2001, will provide detailed evidence on how better health can be an engine for growth, along with recommendations for how to improve the health of the poor.

This work, along with other evidence on the role of health in poverty reduction, imply that a **new health agenda** is needed to improve and protect the health status of the poor. This agenda should recognise the positive economic benefits of investing in health in low-income countries, and the need to combine health sector interventions with interventions outside the health sector. PRSPs present both a great opportunity – and a great challenge – in this regard.

EMERGING FINDINGS

This section of the paper presents the results of WHO's preliminary review of PRSPs. These results are divided into six areas:

1. The process of PRSP development
2. The place of health in the analysis of poverty
3. The place of health in overall PRSP strategy
4. The health sector content of PRSPs
5. Coherence between PRSPs and other planning frameworks
6. Financing the health sector content of PRSPs

1. Process of PRSP development

This section looks at the process by which the overall PRSP, and the health component, are developed. It touches on two key issues: the role of the Ministry of Health in the PRSP process, and government "ownership" of PRSPs. As mentioned in the methodology section, the narrow scope of this review means that the role of other actors, including civil society, donors, and the private sector was not considered. We recognise this omission – and acknowledge that one of the strengths of the PRSP process is that it involves many different stakeholders, often holding very different views. A box on the perspectives of different groups in Bangladesh highlights this issue (*see below*).

In all countries in WHO's review, PRSP development has been lead by a small group based in either the Ministries of Finance, Economic Affairs or Planning, or in the President's office. This is true for interim-PRSPs and full-PRSPs. One positive consequence of this approach is that it represents an "upgrading" of poverty issues by placing responsibility for poverty reduction in the most senior parts of government.

The downside is that sectoral ministries – who should be critical stakeholders in the development of PRSPs – have often been marginalised. In some countries in WHO's review, inter-ministerial committees were established in order to gather input from sectoral ministries (for example, Burkina Faso, Cambodia, Mauritania, Tanzania and Vietnam), while in others consultation with line ministries was carried out on a more informal basis. However most countries report that, regardless of whether formal consultation mechanisms were established, health ministries have had very limited opportunity to contribute to the development of the overall PRSP, or to the development of health content.⁴

In Cambodia, for example, the Ministry of Health was not consulted on the health component until after an initial draft had been prepared by a World Bank consultant. In Vietnam, the health ministry did not take an active role in inter-ministerial committees (*see box on Vietnam, below*).

WHO's finding is reflected in other literature on the participation of line ministries in general. A DFID review (in draft)⁵ found that line ministries played a minimal role, while a report on the PRSP process in Uganda and Rwanda comments: "Finance ministries take the lead and do not make enough time for consultation with line ministries particularly with regard to budgeting and planning for priority sectoral programmes."⁶

⁴ The exception to this trend is Bolivia, which reports strong inter-sectoral collaboration in the development of the PRSP.

⁵ DFID, *Poverty Reduction Strategy Papers and Health: a background paper*, July 2001 (Draft)

⁶ Mbire Barungi, B., *Review of PRSP approach*, submitted to Poverty Team, Bretton Woods Institutions

Diverse Views on PRSP: Lessons from Bangladesh

The experience from Bangladesh suggests that different stakeholders hold very different views on PRSPs.

The Ministry of Finance (MoF) prioritises macroeconomic reforms in order to get access to concessional lending. Poverty figures in the MoF view only as a subordinate concern to the overarching goal for macroeconomic reform. In contrast, the World Bank, IMF and Asian Development Bank emphasize the need for a stable macroeconomic framework and long-term structural reforms. Poverty reduction is largely seen as the by-product of accelerated private economic growth. Transforming the poor as one of the main agents of economic growth and social progress appears to be a peripheral concern.

On balance, bi-lateral donors are much more interested in prioritizing the needs of the poor, including the extreme poor, women, and the most vulnerable. DfID, the Scandinavians, the Dutch (along with UNDP and UNICEF) see PRSPs as a key instrument to achieve pro-poor resource allocation, and to extract commitments from the government on faster poverty eradication, broad-based human development, and the expansion and protection of human rights. These donors are quite insistent that "consultation with the poor and the civil society" is taken seriously by government.

The *Citizen Task Force Report on Poverty*, carried out by many prominent Civil Society organisations, presents a different view again. The Task Force recommended policies to foster the activities of "organizations for the poor" (NGOs, CSOs, CBOs, etc) and "organizations of the poor" (such as marketing and producer's cooperatives). However, views differed within civil society depending on whether consultation was carried out in Dhaka or in the periphery. There was also a significant divergence between the views expressed by the poor, women, and the most vulnerable and the non-poor.

Finally, views differ on the pace and sequencing of policy implementation. Long-term structural reform issues tends to be overshadowed by the imperatives of short-term "crisis" issues, such as the balance-of-payment difficulties currently affecting Bangladesh. The Fund and the Bank also appear to take the advantage of the crisis by tying structural conditionalities, which essentially correspond to longer-term reforms, to the 'bail-out' package necessary for meeting the short-term needs.

*When Voices Matter: Analysis of Divergent Views on PRSP, Dhaka, Bangladesh
Institute of Development Studies, 2001 (Mimeo)*

Other levels of government, including local government, are said to have played even less of a role. The process of consultation as outlined in PRSPs themselves rarely mentions the involvement of local government even though decentralisation is a feature of all PRSPs in this review. A World Bank workshop report comments: "with some notable exceptions, local governments have been bypassed in PRSP consultations".⁷

Government ownership

A common criticism, particularly of interim-PRSPs, is that they were developed extremely quickly primarily in order to access HIPC funds. In many cases, it is reported that the World

⁷ World Bank, Report of the *Second African Forum on Poverty Reduction Strategies* – Dakar, Senegal, 10-14 September 2001

Bank and IMF imposed tight deadlines, and provided consultants to draft the PRSP, including the health component.

This is a criticism that the World Bank and IMF themselves accept, commenting: "The initial timetables for developing full-PRSPs are proving to be ambitious. ... The boards of the World Bank and IMF, as well as other development partners have continued to stress that the quality of PRSPs should not be sacrificed to the speed of preparation, and have encouraged countries to take the necessary time required to develop effective strategies".⁸

Nevertheless, in some countries suspicion of the PRSP process remains. For example, a UN Country Team (UNCT) report from Ghana comments that the "orientation and conditionalities of the Bretton Woods institutions will drive the implementation" of the PRSP. Another report suggests: "The PRSP ... is viewed as conditionality imposed by the Bretton Woods institutions and embraced by the finance ministries ..."⁹ In other cases government representatives complain that World Bank/IMF staff are still playing an overly-dominant role in the development of full-PRSPs.

This is not the experience of all countries. Government ownership is reported to be high where pre-existing poverty reduction frameworks exist, such as in Uganda and Burkina Faso. Equally, in Nicaragua and Bolivia, the formulation of the PRSP involved a national debate, which mobilised interest groups in many sectors and at both ends of the political spectrum, and has led to high national awareness of the process of PRSP development.

The process of PRSP development in Vietnam

In Vietnam, the impetus for the preparation of the interim-PRSP was primarily external: the World Bank and IMF required the preparation of a PRSP in response to a request by government for a loan of \$500 million.

The Ministry of Planning and Investment (MPI) was designated by the Prime Minister as the lead agency for the development of the interim-PRSP, in collaboration with other concerned ministries. This raises concerns about coordination and duplication, as a previous poverty reduction strategy, the *Hunger Eradication and Poverty Reduction Strategy*, was prepared by the Ministry of Labour, Information and Social Affairs.

Civil Society (mostly international NGOs) have had the opportunity to discuss but not to participate in decisions about the PRSP. This is in part because tight deadlines, provided by the World Bank and IMF, meant that the consultation process had to be conducted very quickly.

The Ministry of Health's (MoH) involvement in the development of the PRSP has been very limited. There is no clearly designated focal person in MoH dealing with PRSP matters, and many officials do not regard the PRSP as important or relevant to their work. Another constraint is that the health component is not very strong within the national poverty reduction and socio-economic development strategies, which form the basis for the content of the PRSP.

⁸ International Monetary Fund and International Development Association, *Poverty Reduction Strategy Papers – Progress in Implementation*, 14 September, 2001.

⁹ Mbire Barungi, B., *Op. Cit.*

Summary points

- *Ministries of Health have taken a very limited role in the development of PRSPs. This is likely due to an overly dominant role taken by Ministries of Finance, and perceived lack of capacity of and within health ministries.*
- *The World Bank and IMF have urged the rapid completion of PRSPs, particularly interim-PRSPs. This has led to a mistrust among some stakeholders that PRSPs are not genuinely country-owned strategies but new a form of conditionally imposed by the Bretton Woods institutions. The Bank and Fund have recognized this problem, and are committed to fostering greater country ownership of full-PRSPs.*

2. The place of health in the analysis of poverty

This section begins by looking at how PRSPs analyse the link between the health status of the poor and poverty. It goes on to discuss the type of health data provided in most papers.

All PRSPs in WHO's review contain a 'poverty profile' of their country, which includes analysis and presentation of available statistics and data. Poverty profiles distinguish between income and non-income poverty, but most describe income poverty in much more detail.

All PRSPs link poverty to ill health. However, ill health is typically described as a *consequence* of poverty, rather than a *cause*. Thus many PRSPs provide data on health status by income quintile, showing that the poor are more likely to suffer from ill health, but very few calculate the impoverishing effects of ill health such as out-of-pocket medical costs and lost earnings. A report by The Netherlands development agency suggests that this gap is common to all PRSPs, not just those reviewed by WHO: "Even though poverty analysis often show that paying for health care, especially hospital admissions, is a cause of poverty and debt, and a major concern for the poor, this issue is hardly explored in any of the PRSPs developed so far".¹⁰ Equally, few PRSPs describe the pathways from ill-health to poverty, such as ill-health/disability of the breadwinner.

There are some notable exceptions to this trend - for example, Bolivia's PRSP says: "[The poor's] ability to create income depends almost entirely on physical labour and the financial cost of dealing with illness can be beyond their means". In Cambodia, the PRSP states: "the cost of medical care represents approximately 30 per cent of family expenditure ... The cost of health services has been cited as one of the main causes of indebtedness for the poor and vulnerable." In Burkina Faso, it is reported that health care represents 14.3 per cent of non-foodstuff household spending in urban areas.

But such information is rare in PRSPs: Cambodia and Burkina Faso are the only two countries in WHO's review to provide hard data on out-of-pocket medical costs, and even in these countries there is no general discussion of the impoverishing effects of ill health. The gap in analysis is particularly striking as many PRSPs contain the results of a participatory poverty assessment (PPA) in which poor people themselves identify ill health as a cause of poverty. For example, the Mozambican PPA found that one of the primary causes of poverty was "inability (due to physical or mental factors) to work". In Burkina Faso a PPA found that, in both rural and urban areas, physical handicaps were among the top ten determinants of poverty identified by the poor.

¹⁰ Netherlands Development Cooperation *Poverty and Health*, internal draft (undated)

Other studies suggest that poverty analysis in PRSPs tends to focus on consequences rather than causes in all sectors, not just in health. A report on PRSPs in sub-Saharan Africa by Oxford Policy Management comments: "Typically the approach is to identify characteristics of poor people and poor areas without specifying whether these are simply correlates of poverty or whether and in what sense they are actually causes ... [There is] an overwhelming emphasis on poverty snapshots – paths in and out of poverty are not discussed."¹¹

Health data

The type of health data, and the level of information provided on access to health services varies greatly in PRSPs. At one extreme is Vietnam, which includes no health statistics at all in its PRSP. At the other is Mozambique, which provides geographically-disaggregated health data and detailed information on access to and use of health services.

Most countries fall somewhere in between these two extremes. With the exception of Vietnam, all countries in WHO's review provide the basic health indicators: maternal mortality, infant and child mortality, and life expectancy. In most cases trends over recent years are shown. Most countries provide some data (at least one indicator) on how income affects health status and/or access to health services. Most countries reviewed also provide information the diseases of the poor – in some countries the information is detailed, showing what percentage of morbidity these diseases account for; in others, the diseases are simply identified.

Information on HIV/AIDS is patchy. Vietnam, Bolivia and Nicaragua provide no information on the epidemic. All other countries report HIV-prevalence rates, and/or information on worst affected regions, though few include detailed analysis of the HIV/AIDS-poverty links. A UNAIDS review of 21 full- and interim-PRSPs in Africa confirms this, finding that only 33 per cent of PRSPs highlighted AIDS as a cause of poverty and 19 per cent had no reference to HIV/AIDS in their poverty analysis. UNAIDS comments: "where HIV/AIDS is mentioned as a development problem, the issue is not discussed in any detail."¹²

Summary Points

The pathways from poverty to ill health and from ill health to poverty, are not adequately calculated, analysed or discussed: the majority of PRSPs describe ill health as a consequence of poverty, rather than a cause.

There are several key gaps in the provision of health information in PRSPs. With one exception, none of the PRSPs reviewed disaggregate health data by region, making it difficult to form a picture of where health programmes need to be targeted in order to reach those in greatest need. Nor is information typically disaggregated by gender or age (some health data by income quintiles is provided).

3. The place of health in overall PRSP strategy

This section discusses the overall strategies presented in PRSPs from a health perspective. In particular, it looks at: how the role of health in poverty reduction is perceived in PRSPs; and

¹¹ Thin, N, Underwood, M, Gilling, J *Sub-Saharan Africa's Poverty Reduction Strategy Papers from Social Policy and Sustainable Livelihoods Perspectives*, March 2001

¹² UNAIDS, *AIDS, poverty reduction and debt relief*, Power point presentation, Conference of African Ministers of Finance, Algiers, 8-10 May 2001

if and how other sectors acknowledge their role in protecting and improving the health status of the poor and those at risk of poverty. The following section (4) looks specifically at the health sector activities described in PRSPs.

Many PRSPs acknowledge that improved health plays an important role in reducing poverty. In the PRSPs reviewed by WHO, the most explicit statements on this issue come from Mozambique and Cambodia:

- “The experience of a number of developing countries shows that investment in human capital, especially investment in education, agricultural research ... and health is key to ensuring economic take-off and reducing poverty.” (Cambodia)
- “The health sector plays a fundamental role in directly improving the well-being of the poor, while at the same time contributing to rapid economic growth by improving the quality of human capital” (Mozambique).

Many other PRSPs refer to the role of health in poverty reduction implicitly, in statements about the importance of investments in human or social capital. For example:

- “Economic policies are dependent on progress in social policy” ... “low human-capital levels have constituted the major obstacle to economic growth” in the past (Bolivia).
- “Robust growth is unlikely to happen without massive investment in human resources” (Burkina Faso).

However, with the notable exception of Mozambique, very few PRSPs move beyond such statements in either analysis or strategy. Mozambique explicitly links improved health to macroeconomic objectives by identifying “strong investments in education and health” as the third of 11 actions required to meet macroeconomic objectives. None of the other PRSPs reviewed include a detailed discussion of health or other social sector issues in their macroeconomic framework.¹³

This analytical gap is reflected in the overall strategies proposed by PRSPs. These strategies usually have several strands; all PRSPs reviewed by WHO contain one or more strand on increasing the rate of economic growth and/or maintaining macroeconomic stability, and one strand on improving human capabilities. The ‘growth’ strand covers sectors traditionally considered ‘productive’ (business, tourism, manufacturing, etc) while the ‘human capabilities’ strand covers the provision of basic services, including health. The specific titles given to these strands varies from country to country (*see table*), but essentially they cover the same areas.

¹³ Macroeconomic targets in PRSPs include: real GDP growth, fiscal policy (tax and expenditure policies), inflation and interest rates, floating exchange rates, and months of foreign exchange reserves. These targets directly affect poverty and health at the sectoral and microeconomic levels. For example, devaluation of the currency increases the cost of imported goods, importantly basic food stuffs, and inputs used by the health sector such as drugs, vehicles and fuel and spare parts.

Country	'Growth' strand	'Human Capabilities' strand
Bolivia	Creating employment and income opportunities for the poor	Building the productive capabilities of the poor
Burkina Faso	Accelerate growth based on equity	Guarantee that the poor have access to basic social services
Cambodia	Promoting opportunities	Strengthening Capabilities
Ghana	Macro-economic stability for accelerated growth	Human development and provision of basic services
Mauritania	Accelerating economic growth	Public investments programmes in sectors and zones that benefit the poor
Mozambique	Macro-economic and financial management	Building human capacity
Nicaragua	Economic growth and structural reform	Better investment in human capital
Tanzania	Reducing income poverty	Human capabilities
Uganda	Creating a framework for economic growth	Improving the quality of life of the poor
Vietnam	Create a fair business environment	Mobilise and efficiently use resources for the poor

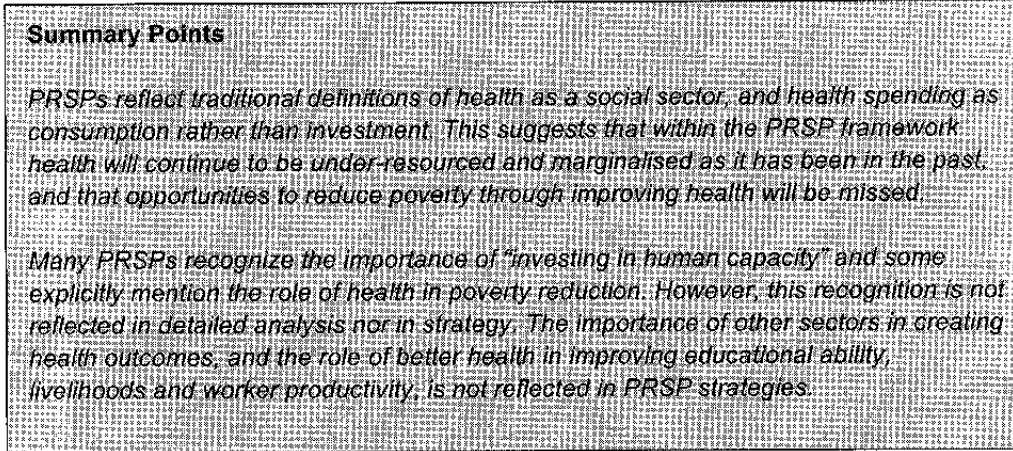
Overlap between the growth and human capabilities strands is very limited in the PRSPs reviewed by WHO. A striking example of this comes from Uganda's PRSP, which in addition to the two strands shown in the table above, contains a strand on "actions which directly increase the ability of the poor to raise their incomes". Clearly, good health is crucial to allow the poor to work and to earn, yet in Uganda action on improving health falls under 'Improving the quality of life of the poor'.

This false division between "productive sectors" and "social services" is reflected in most PRSPs. It creates obstacles to the objective of improving health outcomes, as the role of other sectors in creating and maintaining health is not adequately acknowledged, and limits the potential of improved health status to positively benefit other sectors. For example:

- All PRSPs in WHO's review (with the exception of Vietnam) include strategies on rural and/or agricultural development. Many countries also identify malnutrition as a key problem affecting the health of the poor. Yet no links between rural development and improved nutrition are made, nor is the importance of good health to agricultural production mentioned.¹⁴
- Improving the rural roads network is often a sub-section of rural development (in, among others, Mozambique, Bolivia, Burkina Faso, Ghana and Uganda). This could impact on health in two ways: through a likely increase in road and traffic accidents, and by improving access to health services. Yet none of the PRSPs reviewed make this link.
- In Mozambique and Burkina Faso, there are plans to expand the mining industry, in Ghana to boost manufacturing, and in Bolivia to create emergency employment programmes. There is no mention in any of these countries of occupational health issues or of the importance of a healthy workforce to the success of these activities.
- In Bolivia, there are important cross-sectoral initiatives to improve children's health through child-care centres, and in Mozambique and Tanzania there are plans for HIV/AIDS education through schools. However, school-based health programmes are

¹⁴The paper by the Oxford Management Group comments: "[In PRSPs], sections on health tend to omit the role of agriculture in influencing health outcomes both positively (food security) and negatively (health and safety risks to labourers and consumers)" Thin, N *et al*, *Op. Cit.*

missing from all other PRSPs in WHO's review, despite strong evidence that healthy children have a better attendance record and greater cognitive capacity.



4. The Health Sector Content of PRSPs

This section looks at health sector activities outlined in PRSPs (i.e. those activities under the jurisdiction of ministries of health. Other determinants of health are discussed in part 3, above). It begins by looking at how 'pro-poor' the health sector components of PRSPs are – that is, whether they prioritise actions to improve the health status of the poor. It goes on to look at the monitoring and evaluation indicators used to measure progress towards health targets.

Are the health components of PRSPs pro-poor?

Investing in health is not the same as investing in poverty reduction – health sector policies (as in other sectors) must be explicitly pro-poor if they are to benefit the poorest groups. WHO has identified six areas of action within the health sector that constitute the basis of a pro-poor health policy, and critiqued each PRSP to see if it contains action on these areas (see appendix 3).¹⁵ The six categories are:

- reducing the financial burden of health-care use on the poor;
- reallocating resources in favour of poorer regions;
- combating the diseases of the poor;
- reproductive and child health;
- HIV/AIDS;
- improving the impact of public health services.

We acknowledge that these are not the only components of a pro-poor health sector policy, but we believe that together they provide a broad overview of poverty focus.

The majority of countries reviewed have plans to: target resources to the most deprived areas and population groups; protect the poor from the impoverishing costs of health care; and tackle health staffing problems in remote areas – policies which should all benefit the poor.

However, most PRSPs do not contain specific goals to improve the health status of the poor (as oppose to improving average indicators). Nor do they provide evidence linking

¹⁵ Five of the six categories were developed for a WHO study on pro-poor content of health policy pre-dating PRSPs: *Study of National Policies on Health and Poverty Reduction*, WHO (forthcoming). HIV/AIDS has been added.

interventions to needs. PRSPs provide a variety of health status and system indicators, but they do not make use of the increasingly available Burden of Disease and cost-effectiveness data, to identify the priority health problems of the poor, and to determine the best interventions to use as the means of addressing them.¹⁶

It is also important to stress the considerable differences in the depth and detail of the health components PRSPs. At one extreme lies Vietnam, which contains only a paragraph on health activities, and Tanzania, with only one page. Both these countries outline statements of intent rather than actual strategies. At the other extreme lies Bolivia, Burkina Faso, Ghana and Mozambique, which all contain comprehensive plans with detailed sub-sections and associated targets.

Even with the most detailed PRSPs, there are a number of unresolved issues and problems. First, the issue of access to care. Most countries have some plans to expand and improve health infrastructure in poor areas or remote areas (the latter is likely to reach the poor, but will not necessarily do so). However there is very little discussion of other barriers to accessing care, such as insensitivity to gender and culture, and discrimination by health staff against the poor.¹⁷ In particular, no country except Bolivia includes mention of the specific barriers to care faced by indigenous peoples or ethnic minorities.

Second, the issue of financial barriers to health care. Six of the PRSPs in the review noted the need to subsidize specific services (e.g. chronic communicable disease, mother and child health), and or provide waivers or exemptions for the poor.¹⁸ In none of these countries is there detailed discussion of the well-known problems associated with fee exemption programmes, or an indication on how such problems will be tackled. Cambodia is the only country to even refer to the issue, noting that the poor are less likely to benefit from exemptions than the better off. Yet its PRSP fails to say how these problems will be addressed.

A related issue is the indirect cost of health care – such as unofficial fees or bribes. Such governance problems exist in most developing countries, yet none of the PRSPs reviewed tackle the issue.

Third, the issue of decentralisation. All ten countries reviewed are involved in some process of decentralisation of health provision. Experience suggests that this approach can easily lead to poor levels of service in poor districts unless institutional capacity is also improved, yet no countries reviewed by WHO tackle this issue in detail.

Monitoring and Evaluation

In the same way that most PRSPs do not contain goals to improve the health status of poorest groups, so most do not include explicit plans to measure progress towards health objectives in poor versus non-poor groups. As some countries already measure some health indicators by income quintile, it may be that this will continue, but the majority have only one or two such indicators. This is a crucial omission: improvements in average health indicators

¹⁶ However, many of the PRSPs reviewed noted the intention to develop a package of essential health services, and perhaps the selection of services would be driven by BOD/CE considerations.

¹⁷ A joint World Bank-WHO study has identified the attitudes of health staff towards the poor as a key barrier preventing the poor from using care. *Dying for Change – poor people's experience of health and ill-health* (forthcoming).

¹⁸ Burkina Faso, Cambodia, Ghana, Mauritania, Tanzania, Uganda.

will not necessarily benefit the poor – indeed, indicators for the poor may decline while the average improves.¹⁹

Summary point

Many PRSPs include plans to reallocate resources to poorer geographical regions, and to protect the poor from the financial costs of seeking treatment – policies which should benefit the poor. However, in most cases there are no specific pro-poor goals in the health sector components of PRSPs, no evidence that interventions are reaching the poor, and no plans to measure the impact on poorest groups.

In addition to monitoring the impact of PRSPs on the health of the poor, it is important that PRSP monitoring processes involve the poor themselves. This will not only provide valuable information about the problems facing poor people, thereby helping to ensure that projects are appropriate, but also, and more fundamentally, it will help to empower the poor and alleviate feelings of shame and isolation – themselves causes of ill-health.

5. Coherence between PRSPs and other planning frameworks

This section reviews the relationship between PRSPs and (1) other poverty reduction frameworks and (2) the national health plan/strategy.²⁰ It looks at how much in the PRSP is genuinely new, and how much a re-iteration of previous policies and strategies.

Nicaragua is the only country in the review not to have a previous poverty reduction framework. For example: Burkina Faso's PRSP is based on the *Letter of Intent for Sustainable Human Development*, a comprehensive development framework covering human, environmental, political and health security. Mozambique's PRSP is based on the *Lines of Action for the Eradication of Absolute Poverty*, and Tanzania's on the *National Poverty Eradication Strategy*.

Similarly, in all but one of the countries in WHO's review, the health component of the PRSP is based on existing health strategies. It appears that many countries "wrote" the health components of PRSPs by inserting those sections of their existing health plan that were pro-poor. In some countries, such as Nicaragua and Burkina Faso, some additional pro-poor health activities have been developed, but in these countries and in others it appears that the bulk of the PRSP health component reflects existing strategies.

The exception to this trend is Ghana, which began the process of developing its full-PRSP soon after the Ministry of Health had completed a review of its performance in country. This review identified many poverty and health issues, and thus Ghana approached its PRSP at the same time that it began preparing a new, poverty-focused health strategy. In contrast, Ghana's interim-PRSP simply quoted the existing Ministry of Health five-year programme of work, and designated all expenditure on district health services as "pro-poor".

¹⁹ Gwatkin, D. R., Guillot M *The Burden of Disease among the Global Poor – current situation, future trends and implications for strategy* World Bank 2000

²⁰ The short timeframe of this review has meant that it was not possible to look at coherence between a country's PRSP and its UNDAF (UN Development Assistance Framework) and SWAP (Sector Wide Approach). It is acknowledged that, ideally, both should reflect and push forward the main thrusts of the PRSP.

It is too early to say how PRSPs will affect existing poverty frameworks and national health plans. Some observers have warned that the development of PRSPs may lead to the marginalisation, or even abandonment, of national health plans.²¹ Similarly, observers in Cambodia and Vietnam have both commented that the World Bank-IMF largely ignored pre-existing poverty reduction strategies during the preparation of interim-PRSPs. Others have stressed the opposite, that PRSPs simply incorporate existing health strategies without adding a poverty dimension to them.

6. Financing the health sector content of PRSPs

It is not possible to carry out a detailed analysis of how PRSPs will affect financing of health and health-related sectors, as the information available in PRSPs is too limited. However, it is clear that, even with planned increases over the coming years, per capita health spending will remain well below the minimum of \$30-\$40 per capita that WHO research shows is needed to finance a minimally adequate set of interventions and the infrastructure that is needed for these to reach poor people.²² Four other important financing issues are discussed below.

First, it is not clear whether through the PRSP governments have decided to allocate funds for health activities over and above what was already in their 5-year plans. Of the 10 countries reviewed, seven provide sufficient information on health spending to estimate the per cent of total government spending which will be allocated to health over the 5-year PRSP period.²³ Of the seven, all except Mozambique suggest that health spending as a per cent of government spending will increase.²⁴ However, the net effects of real GDP growth rates and the change in total government expenditure as a percentage of GDP need to be reviewed to determine if there is a real increase in government expenditure for health. The following table provides estimates of real increases in per capita health spending in four countries over at least three years under their PRSPs.²⁵

	Total real % increase in health expenditure	Per annum increase
Burkina Faso (1999-03)	20.6	6.5
Mozambique (1999-03)	53.3	15.3
Uganda (1999/00-02/3)	57.8	16.4
Tanzania (1999-02)	241.6	34.2

In percentage terms, the increases are significant: from 20 per cent to 240 per cent over a four year period. However, looking at the dollar amounts (see table, Appendix 3), the largest per cent increase, in Tanzania, only increases public expenditure for health per capita from \$0.85 to \$3.02. Even a 53% change in Mozambique only takes government expenditure per capita to \$10.32. These results suggest that governments are making an effort to increase expenditure, but that their resources are insufficient to provide for minimal health expenditures for basic essential services.

It is not clear whether these planned increases reflect existing government spending plans, or additional spending resulting from the PRSP process or HIPC debt relief. The very large

²¹ WHO/AFRO Memorandum Comments on UNDG Guidance Note on UN Support to the PRSP process

²² Commission on Macroeconomics and Health *Investing in health for economic development* (preliminary draft) 2001

²³ Bolivia, Burkina Faso, Ghana, Mauritania, Mozambique, Tanzania and Uganda

²⁴ In Mozambique, health spending is already a relatively high share of government expenditure, consuming 12% of the government budget, compared to 2% in Tanzania

²⁵ The table gives estimates based on figures for planned government health expenditure (excluding donor resources) and forecast inflation provided in the PRSPs.

increases in Tanzania suggest that that it is likely to be a one-off jump, but the biggest increases occurs between 1999-00 (184%), and the PRSP was not submitted until October 2000. This suggests that, at least in Tanzania, the planned increase in health expenditure is not a result of the PRSP process.

Only Burkina Faso makes a distinction between their planned spending in their investment budget, and additional planned spending under the PRSP. However, in Burkina Faso it is not clear from what source the total projected inter-year differences in planned health sector expenditure will be covered, from HIPC funds and/or other sources. When comparing the health sector allocation to the budgeted inter-year differences for the sector over the period of the PRSP program, the HIPC allocation for health was greater than the inter-year differences, suggesting that HIPC funds will partly replace rather than be fully additive to government funds for the health sector. It was not possible with the data in the other PRSPs to evaluate whether this was the case in other countries.

Second, it is questionable whether these increases can be realised. In all but two cases (Uganda and Vietnam), the PRSPs reviewed project rates of economic growth for the next 3-5 years above rates which occurred during the 1990s. Should real growth rates reflect the recent experience of the 1990s, or be even lower due to the depressed global economy, then the projected increases in health spending may not be achievable. In Burkina Faso, the size of government spending as a percentage of GDP is set to decrease, which means that health spending will be a larger slice of a smaller government spending pie – thus it is unclear whether the government will be able to meet its health spending targets.

Third, the distribution of health expenditure is rarely provided according to geographic area, or by sub-sector (hospitals, primary care, etc.) Thus it is not possible to determine whether there will be any change in resource allocation to benefit the poor, i.e., away from the hospital sector (where it is currently concentrated) towards preventive and primary care, and away from urban centres to rural and remote areas (as promised in many PRSPs). The lack of information on government financing for preventive and primary health care services (including family planning, reproductive health, and HIV/AIDS) seems a major short-coming of the PRSPs. Similarly, estimation of the additional recurrent costs associated with expanding infrastructure and staff in rural and remote areas, and quantitative analysis of how these may be financed, are not discussed by PRSPs.

Fourth, decentralization does not receive sufficient discussion in PRSPs. Fiscal decentralization may have consequences for the allocation, use, and monitoring of PRSP and HIPC funding, and this needs to be taken into account.

The lack of information and analysis on health sector financing in PRSPs is particularly striking as all ten countries reviewed have health-related financial analyses in Public Expenditure Reviews, and/or National Health Accounts. The failure of the PRSPs to include such information may reflect the dominant role taken by Ministries of Planning and/or Finance in the preparation of the PRSP.

Summary Points

In PRSP countries, per capita health spending will remain well below the minimum of \$30-\$40 per capita needed to provide decent health care, even after increases in the health sector spending over the PRSP period.

It is not clear whether planned increases are a result of the PRSP process and debt relief under HIPC, or a reflection of pre-existing spending plans.

No PRSP indicates whether or how it will overcome the inherent anti-poor bias reflected in current health resource allocation (in which primary and preventive care, and rural and remote areas, are under-funded). This is crucial to improving the health of the poor.

Conclusions and Recommendations

The links between ill health and poverty, and good health and economic growth, are now firmly established. The PRSPs reviewed in this paper recognise this link, but do not reflect it in their strategies.

Rather, PRSPs reflect traditional definitions of health as a social sector, and health spending as consumption rather than investment. This suggests that within the PRSP framework health will continue to be under-resourced and marginalised, as it has been in the past. This in turn means that opportunities to reduce poverty through improving health will be missed.

This gap is the result of the overall approach taken by PRSPs, which characterise health and other social sectors as non-productive, and therefore of less importance than productive sectors. Health is regarded as an “ends” of economic growth (i.e., improved health outcomes are regarded as by-products to improvements in overall economic performance), rather than a “means” of achieving it.

This thinking needs to be turned on its head. First, the way that we conceptualise ‘health’ must change. It should be acknowledged that health is a key asset of the poor which is central to improving their capabilities and livelihoods. In short, improved health outcomes must be acknowledged as central to the achievement of poverty reduction objectives.

Second, it is important to distinguish improved health outcomes from provision of health services – all too often ‘health’ is equated with the latter. A more strategic approach to protecting health status and improving health outcomes is needed. In addition to ensuring that health and public health services reach the poor, the approach should include:

- Reducing the burden of diseases and conditions which adversely address the poor
- Building synergy between health and sectors which affect health (including agriculture, environment, trade, education) by building health objectives into these sectors, fostering cross-sectoral action, and where necessary drawing-up legislation to ensure that health is protected
- Ensuring that the costs of using health services do not cause further impoverishment for the poor.

As very little work has been done in this area, a synthesis of good practice which provides broad guidance on ‘a strategic approach to improving the health of the poor’ could be developed.

Third, Ministries of Health need to be more active in the PRSP process. This requires building capacity within the health ministry, and building awareness in other parts of government of health's potential contribution to poverty reduction. Overall, the leading role taken by the World Bank in driving the development of interim-PRSPs needs to be replaced by a stronger government role in full PRSPs.

Equally, one of the most important aspects of PRSPs is that they include a consultation with the poor and their representatives. This process was beyond the scope of WHO's review; nevertheless, WHO believes that this should be a genuine process that it involves real partnership, not simply consultation.

Fourth, the impact of PRSPs on the poorest groups needs to be systematically monitored. To this end, a common set of impact evaluation measures should be developed, which assess health-related policies and programmatic activities with regard to impact on health and poverty. Crucially, the impact on poor and non-poor groups must be distinguished, and the perspectives of the poor themselves should be sought.

Fifth, a huge gap remains between the resources needed to finance a minimum set of health interventions and the infrastructure needed for these to reach the poor, and the resources available. Donors, governments and the International Financial Institutions must work together to bridge this gap. At present, it is not clear whether PRSPs are resulting in additional resources for health, or having any impact on the anti-poor resource allocation within health budgets.

There is growing international consensus on what needs to be done to create a health strategy for poverty reduction. This needs to be adapted and integrated into future PRSPs and other poverty reduction strategies. There are also significant gaps, which need to be filled. WHO is ready to support capacity building, both within countries and international institutions to ensure that the poverty reduction process reflects the complexity of the new health agenda.

APPENDICES

FRAMEWORK FOR PRELIMINARY ANALYSIS THE HEALTH COMPONENT OF PRSPS

PROCESS

1. What has been the process for developing the overall PRSPs?

- How did the PRSP process start? (Is it a totally new process, imposed as part of HIPC II criteria? Or is truly nationally driven?)
- Which ministries are leading the PRSP process? Was an inter-ministry body set up for the PRSP process? If yes, where is it institutionally located?
- Which international partners are providing advice? In which form?
- What are the roles of the ministries of Finance, Planning, and Local Government?
- Is civil society consulted on the overall PRSP process?
- Is the MoH consulted on the overall PRSP, or only the health component?
- Has a formal mechanism for consultation between the MoH and the lead PRSP-ministries been established?

2. What has been the process for the developing the health component

2.1 Consultation

- Who is consulted within government (other ministries besides health? at what level?)
- Which international partners are providing advice and in which form?
- Which civil society groups (if any) have been consulted in the PRSP process? Who do they represent?
- What concerns have emerged from civil society groups?

2.2 Resources

- What is the level of technical expertise on health in poverty reduction in the MoH ?
- What resources from within the MoH (people, money) are devoted to PRSP development?
- What external resources, if any, does the MoH draw on?
- How are the MoH's technical assistance needs determined?
- Has the MoH contracted any consultant or institution to facilitate its preparation of the health component?

CONTENT

3. Coherence with other planning frameworks, instruments and budgets

3.1 Does the PRSP build on other national planning frameworks, e.g. the National Development Plan, previous National Poverty Reduction Strategies?

3.2 Is there coherence between the health component of the PRSP and sector instruments of health policy, e.g. the National Health Plan, Health Sector reform?

3.3 Are there any institutional conflicts in the management of various different Health programmes (between Donors, Ministries, NGOs, etc.) – AMIN, NOT CLEAR WHAT THIS MEANS...

3.4 Is there coherence between the PRSP budget and the MTEF?

- To what extent does the PRSPs envisage changes in social sector/health spending?
- Is there any evidence that these changes have been realised in terms of additional disbursements?

4. Substance

4.1 How well 'developed' is the health components of the PRSP "*most countries have not clearly designed or even identified those interventions to be funded*" - AFRO

- What are the sub-sections of the health component?
- Is there any diagnosis of the current situation?
- How the targets are set, quantitative and qualitative?
- Is there any costing of activities, programmes and technical support?

4.2 Is there a pro-poor focus?

- Does the PRSP define poverty – and say who the poor are, and where they are?
- Are the main components of a pro-poor health policy included? These are defined as: reducing the financial burden of health care utilisation on the poor; reallocating resources in favour of poorer geographical regions; targeting service delivery on poor people; combating the diseases of the poor; improving the impact of public health services, such as water and sanitation, tobacco control?
- How is the issue of HIV/AIDS handled in the PRSP?
- Are there strategies to reach the poorest of the poor?
- Does the PRSP propose mechanism for measuring the health of the poor separately from the rest of the population, or do such mechanisms already exist? (eg, distinguishing changes in IMR, CMR, MMR among the poor in addition to national level .

4.3 Are the broad determinants of health reflected?

- Have any health goals been incorporated into the overall policies of related sectors? In particular education; rural development; environment?
- Have any cross-sectoral interventions been included?

4.4 Is the role of health in poverty reduction understood and established with valid evidence?

- Does the PRSP acknowledge that improving health is a means of poverty reduction?
- Are investments in health linked to economic growth?
- Does the PRSP's macro-economic analysis include an analysis of the importance/role of health in determining macro-economic performance?

4.5 Monitoring and evaluation

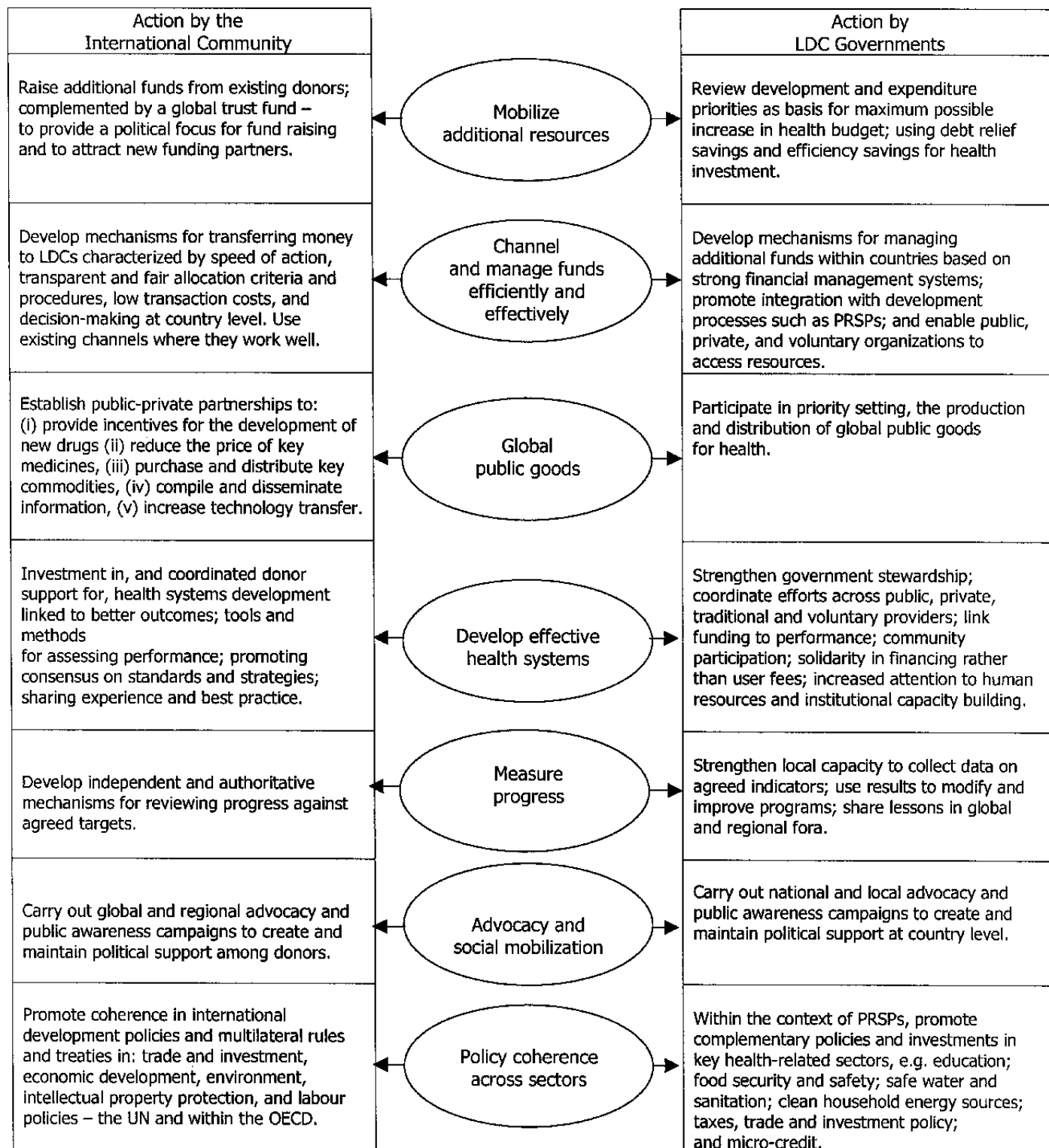
- Are mechanisms for monitoring and evaluating the impact of the PRSP on health and poverty included?
- What indicators are used?

4.6 From I-PRSP to F-PRSP:

- How did the evaluation of the I-PRSP help to elaborate the F-PRSP?
- Is there any review, joint assessment (IMF /WB) or external evaluation of the I-PRSP?

Promoting Health in LDCs

a framework for action



How pro-poor is the public health content of PRSPs? Review of key strategies in select countries

	Reducing the financial burden of health care use on the poor	Reallocating resources in favour of poorer regions*	Combating the diseases of the poor	Reproductive and child health**	HIV/AIDS	Improving the impact of public health services, such as water and sanitation
Bolivia	Expand health insurance	Remote areas given priority in Human Resources	Communicable disease control	Programme to improve women's access to and use of health care		Housing, water and sanitation, child nutrition
Burkina Faso	Mutual health insurance associations established	Improving health infrastructure in remote regions;	EPI**; Control of TB, malaria, leprosy	Promotion of women's health; nutrition	HIV/AIDS and STDs programme	Water, sanitation and housing
Cambodia	A cost recovery system with exemptions for the poor	Target under-served areas in the provision of health services	Communicable disease control	Promote women and child health	HIV/AIDS and STDs programme	Water (also cost recovery)
Ghana (DRAFT, July 2001)	A cost recovery system with exemptions for the poor	Programme to reduce USMR and MMR in 3 poor regions. Equitable distribution of health facilities and availability of staff in "deprived regions"	EPI**; malaria eradicated; other communicable diseases tackled.	Improve quality of care in maternal clinics. Nutrition.	HIV/AIDS and STDs programme	Water and Sanitation
Mauritania	A cost recovery system with safety nets for the poor	Expansion of HP and HC in poor areas; and corresponding staff recruitment programme.		Nutrition.	HIV/AIDS programme	Water (also cost recovery)
Mozambique	Health sector spending to favour poorer geographical regions.	Combating epidemics	A primary health care package on women and child health		HIV/AIDS programme	Water, sanitation, housing.
Nicaragua	A social protection network in 5 poor municipalities	Rehabilitation of health infrastructure in targeted poor areas	Increasing quality coverage of repro-ductive and child health services		???	???
Tanzania			Re-enforcement of reproductive health services; nutrition; strengthening IMCI		HIV/AIDS	Water
Vietnam***		Prevent epidemics; Continue EPI**		Improved access to family planning.		
Uganda	Cost recovery scheme with exemptions for the poor	The Poverty Action fund (PAF) is available for activities in poor areas.		HIV/AIDS activities in all sectors and plans		Water and Sanitation

Five of the six 'pro-poor' areas reviewed in this paper were first selected as indicators of a pro-poor health plan by the *Study of National Policies on Health and Poverty Reduction*, WHO (forthcoming).

* Many PRSPs mention plans to expand infrastructure and/or improve staffing in "rural areas". If there are no specific plans to target the poorest parts of rural areas, such activities have been excluded from this table. Plans to expand and improve services in "remote" areas have been included, as these are more likely to include poor people.

**EPI = Expanded Programme of Immunisation

*** The Vietnam health strategy is covered in one paragraph; no detailed plans are included.

**** This is actually a sub-component of "combating the diseases of the poor", but for ease of layout it has been included separately.

Health in Government Expenditure

	Bolivia	Burkina Faso	Cambodia	Ghana	Mauritania	Mozambq	Nicaragua	Tanzania	Uganda	Vietnam
GDP - Current Estimates	Boliv bill	FCFA bill	US\$ bill		UM bill	Metic. bill	US\$ bill	US\$ bill	U.Shill bill	US\$ bill
1999	51.5	1,591	3.1		200.9	52,079	2.3	7.8	8,589	26.1
2000	54.2	1,724	3.4		223.4	60,102	2.6	8.2	9,712	27.7
2001	59.8	1,889	3.8		242.6	70,178	3.0	8.8	10,954	29.8
2002	66.2	2,091	4.2		266.0	81,900	3.3	9.7	12,345	
2003	76.2	2,305	4.6		290.4	124,029	3.6	10.6		
Govt Budget as % of GDP 1/										
1999			15.9%	26.2%		22.9%		16.9%	21.0%	22.1%
2000	36.3%	28.8%	17.0%	28.0%		27.7%	31.8%	16.5%	21.4%	21.9%
2001	32.1%	27.3%	17.8%	31.5%	27.3%	35.4%	33.6%	17.3%	20.4%	21.4%
2002	30.7%	26.2%	18.1%	30.0%	28.0%	29.6%	31.6%	16.8%	20.0%	
2003		25.4%	18.2%	29.0%	28.1%	27.1%	33.1%			
Health % Govt										7.0%
1998										
1999	3.1%	11.8%		4.8%		12.5%		2.1%	6.5%	
2000	3.4%	12.5%		3.9%		11.6%		6.0%	7.1%	
2001		13.1%		4.8%		9.3%		6.0%	7.8%	
2002		13.8%		5.9%	3.9%	12.7%		6.6%	8.6%	
2003		14.0%			4.6%	9.8%				
Govt Hlth		FCFA bill				Metic bill		US\$ bill	U Shill bill	
1999						1,493.2		0.03	117.2	
2000	0.67	62.06				1,934.7		0.08	147.6	
2001		67.56				2,302.8		0.09	174.3	
2002		75.60			2.90	3,069.8		0.11	212.3	
2003		81.97			3.72	3,305.0				
		32.1%			28.2%	121.3%		288.6%	81.1%	

	Bolivia	Burkina Faso	Cambodia	Ghana	Mauritania	Mozambq	Nicaragua	Tanzania	Uganda	Vietnam
Population (millions)										
1999		11.0				17.0		33.0	21.0	
2000		11.3				17.3		34.0	21.6	
2001		11.5				17.7		34.9	22.3	
2002		11.8				18.0		36.0	22.9	
2003		12.1				18.4		37.0	23.6	
Govt Hlth/Capita (nominal)		FCFA				Meticals		US\$	U. Shill	
1999						87835.29		0.85	5582.85	
2000		5,509.94				111574.39		2.41	6822.20	
2001		5,856.97				130198.79		2.60	7823.55	
2002		6,400.91				170161.24		3.02	9253.13	
2003		6,777.04				179606.42				
Govt Hlth/Capita (nominal)		US\$				US\$		US\$	US\$	
1999						5.05		0.85	3.17	
2000		7.88				6.41		2.41	3.88	
2001		8.38				7.48		2.60	4.45	
2002		9.15				9.78		3.02	5.26	
2003		9.69				10.32				
% 4 Yr Change Per Capita		23.0%				61.0%		255.3%	65.7%	
Govt Hlth/Capita (real, adj by CPI)		FCFA				Meticals		US\$	U. Shill	
1999						87835.29		0.85	5582.85	
2000		5,509.94				111574.39		2.41	6497.33	
2001		5,742.13				123998.85		2.49	7451.00	
2002		6,275.40				162058.33		2.90	8812.50	
2003		6,644.16				171053.73				
Govt Hlth/Capita (real est.)		Burkina				Mozambq		Tanzania	US\$	Uganda
1999		Ann Chg				Ann Chg		Ann Chg	0.85	3.17
2000						27.0%		183.5%	2.41	3.69
2001		4.2%	7.88			11.1%		3.2%	2.49	16.4%
2002		9.3%	8.21			30.7%		16.7%	2.90	14.7%
2003		5.9%	8.97			5.6%			5.01	18.3%
% 4 Yr Change Per Capita		20.6%	9.50			53.3%		241.6%	57.8%	