



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

Volume II: Civil Society Organizations and Individual Contributions

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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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on the Joint Bank/Fund Staff
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Civil Society Organizations

Inclusive Circles Lost in Exclusive Cycles

An ActionAid contribution to the first Global Poverty Reduction Strategies Comprehensive Review

Based on experiences of ActionAid staff and partners
in Haiti, Kenya, Malawi, Nepal, Rwanda, Uganda and Vietnam¹

actionaid

25th January 2002

"There is broad consensus among our civil society sources in Ghana, Malawi, Mozambique, Tanzania, Zambia and Bolivia that their coalitions have been totally unable to influence macro-economic policy or even engage governments in dialogue about it."

McGee R. Assessing Participation in Poverty Reduction Strategy Papers: A Desk-Based Synthesis of Experience in sub-Saharan Africa, IDS-Sussex, 2002

"We don't wish to second guess the Fund. We prefer to give them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – i.e. we believe in structural adjustment"

*Finance Minister quoted anonymously in Cheru F. Human rights assessment of the Poverty Reduction Strategy Papers (PRSP)
UN Commission for Human Rights, 2001*

"The government owns the reform program but the program is based on IMF-World Bank conditionality rather than local participation.

*Interview with Uganda Debt Network and Uganda Manufacturing Association, Kampala 1999 in
Devarajan S. and Dollar D. etal Aid and Reform in Africa, 2001.*

Letters confirming Kenya's commitment to reform - supposedly written by top government officials - were actually drafted by the donors and then handed to him (the Minister of Finance) to sign. Mr. Okemo said the arrangement was "an open secret" and that the minister was told "to sign along the dotted line as an ultimatum." And he asked: "Is this not coercion?" "There is a clear need to reduce the intrusiveness of our development partners in domestic policy-making. We should not allow donors to micro-manage our economies through conditionalities," he said in a speech read by his deputy, Mr. Christopher Lomada.

Reported in The Daily Nation, October 26, 2001, Nairobi, Kenya

"PPAs and other consultative exercises, such as the PRSP, have created a lot of opportunities for government participants to learn more about the causes of poverty. This has led to national plans becoming more people-centered and pro-poor."

ActionAid Vietnam, December 2001

¹This brief is drawn from a seven-country review of ActionAid engagement of World Bank/International Monetary Fund policies with particular focus on Poverty Reduction Strategies (PRS) written by Mishka Zaman, ActionAidUSA Associate and a written presentation on PRGF conditionality and the PRSP during the International Conference on Poverty Reduction Strategies made by Irungu Houghton, January 2001. The larger review document analyses the extent to which AA country offices and partners were able to facilitate the participation and involvement of marginalized and vulnerable groups in the PRS debate, the impact this engagement has had on social, economic and political rights, pro-poor policy-making and budgetary allocation (national, bi-lateral, multi-lateral) within the seven selected countries.

The review interviewed in-country ActionAid staff and partners (all of whom nationals) and reviewed extensive secondary literature. While primarily an assessment of senior AA policy analysts in these countries and ActionAid USA, the reviewers drew important lessons from the insights of the Malawian Economic Justice Network, the Haitian Popular Alliance for Development (PAPDA) and the Ugandan NGO Forum among other sources. We would like to acknowledge their primary role alongside other national umbrella groups in Rwanda, Vietnam and Nepal in enabling citizens participation and oversight in these countries.

The re-introduction of poverty reduction as a major thrust of the World Bank and International Monetary Fund policies in 1999 responded to a number of critical accelerating pressures namely; popular demands for an end to the economic and social damage of structural adjustment programmes, a global movement for an end to the debt burden, internal demands for Bank decentralization to country offices and a willingness by a critical mass of Bank/Fund staff and Board for reform, greater information disclosure and public participation.²

Since 1999, a number of ActionAid offices have actively embraced the potential of new space around processes that had been largely unaccountable and closed in the previous policy framework papers and related loans documents and processes. With field and operational presence among over five million working poor people in thirty of the world's poorest countries, the renewed emphasis on poverty provided clear rationale for ActionAid to get involved.

The seven countries selected for this review reflect a diversity in terms of the intensity of ActionAid direct engagement, degree of democratic space/policy environment, size of Bank/Fund portfolio and lastly, blend of HIPC/ non-HIPC and IPRS/PRS. Of the seven countries, Uganda's PRS is the only one to have been "approved" by the Boards. The Kenyan and Malawian PRSs are now complete and await Bank and Fund Board consideration. Malawi's PRS has yet to be made public. Vietnam on the other hand, is in an interesting position having not completed its PRS but already having negotiated the PRSC.

Four Major Findings and Six Recommendations

The range of comments (some contained above) and plethora of papers and assessments show mixed reviews of the early experience of WB/IMF sponsored Poverty Reduction Strategies (PRSs). Based on our findings, we suggest that on the whole, space for public participation in policy formulation has indeed opened up in Kenya, Nepal, Malawi, Rwanda, Uganda, and Vietnam. In the case of Haiti, World Bank ambivalence (in the context of an almost complete donor embargo) on whether to constructively engage the Haitian Government or the voluntary sector has prevented a participatory strategy for developing a PRS from emerging.³

National, regional and district level PRS consultations have enabled a variety of voices and perspectives to be heard. These inclusive circles have, in varied degrees, allowed for frank exchange. On the other hand, our findings (detailed below) show frustration with three critical barriers in the comprehensive policy cycle that the PRS is intended to initiate. If left unattended, these barriers will continue to render the circles of inclusion impotent and ineffective.

² Very briefly, PRSs are documents whose preparation is mandatory for countries wishing to be considered for concessional lending and debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative. The Bretton Woods institutions have adopted the PRS as the primary tool for policy dialogue for *all* countries applying for concessional lending. Intended to cover a multi-year or three-year time frame, the PRS has replaced the "Policy Framework Paper" as the guiding instrument for policy setting and resource allocation. Launched two years ago in response to allay the stinging criticism received courtesy of the Structural Adjustment Programs, some 33 countries have completed the Interim Poverty Reduction Strategies (I-PRS) whereas 9 have prepared full PRSs by October 2001. In total, some 70 countries across the world are expected to develop national PRSs as a pre-requisite to qualify for concessional lending. The significance of PRSs for low income countries can further be gauged from the fact that July 2002 onwards, all World Bank Country Assistance Strategies (CAS) and Poverty Reduction Support Credits (PRSCs) as well as IMF Poverty Reduction and Growth Facility (PRGF) in International Development Association (IDA) countries will be based on a PRS.

³ PAPDA's comments from Haiti: "Our June 2001 seminar was part of an effort to influence the emergence of a consensus within civil society. Unfortunately, the political crisis and the freezing of external funding have prevented us from taking advantage of the momentum we had succeeded in creating"

Firstly, while enlarging the circle of civic participation, there is insufficient space for discussion and approval by parliaments and endorsement by interest groups on the content of the final PRSs. In this way, it is unclear what Governments have omitted or included in the drafting and the reasons for this. This lack of feed-back on the final PRSs has short-circuited the principle of "country-driven" ownership. Malawian groups have expressed concern on the lack of transparency towards the end of the PRS formulation process.

Secondly, our findings also suggest an inverse relationship between the degree of domestic public accountability during the formulation process and the negotiation process with the World Bank and International Monetary Fund. The closer the document gets to finalisation and discussion with multilateral and bilateral institutions, the more it recedes into the opaque board-rooms of these institutions.⁴

Public accountability and participation in all seven countries (with the limited experience of Uganda where some attempt has been made) starts to collapse with development of the core loan instruments namely World Bank Country Assistance Strategies, the Government Letter of Intent, the IMF Poverty Reduction Growth Facility Arrangements, the Memorandum of the World Bank President and the Poverty Reduction Support Credits. By contrast, the formulation of national budgets preliminarily seem to show moderately higher levels of voluntary sector oversight and engagement.

In this context, more "process conditionality" on the part of the Bretton Woods Institutions and donor community will undermine an already fragile domestic process.

Lastly, with regards the content of the three PRSs (Uganda, Kenya and Malawi) and the three IPRSs (Nepal, Vietnam and Rwanda), the findings have been mixed. The quality and scope of poverty diagnostics appear to have improved particularly in Uganda, Kenya and Rwanda. This has led to changes in the social sectors most notably in health and education. Disappointingly however, core macro-economic and structural adjustment policies have largely been retained in the "post adjustment phase".

It would seem from our findings that the following changes would be critical to **improving the content of policies and programmes flowing from the Poverty Reduction Strategies and the power relationships and process of formulating and realizing policy targets and public obligations;**

1. **Poverty Assessments have a stronger focus on impoverishment and wealth generation rather than poverty per se.** They identify the poverty and social inequity impact of past policies and outline alternative options and implications for enshrining certain basic entitlements and rights for all citizens. These can be considered for discussions around trade-offs. A starting point for this would be the elimination of indirect and direct fees for primary education, basic healthcare and water.
2. **Public action choices contained in PRSs are drawn up by a process of consultation, joint drafting and endorsement by national and local organized interests.**
3. **IPRSs and PRSs are no longer approved by World Bank and International Monetary Fund boards.** Instead, the Boards are informed of their contents and utilize them to approve Country Assistance Strategies and attendant policy processes.

⁴ ActionAid welcomes the steps taken by the World Bank to revise its Information Disclosure Policy in late 2001 but notes that this Policy has not been promoted and supported actively by the Country Offices. In this way, PRS consultations remain uninformed by the new information and resources available to citizens groups.

4. **Participation Action plans and route maps in IPRSs are publicly negotiated and endorsed** by key apex and umbrella associations in each of the countries rather than simply being drawn up by Governments. These action plans outline standards for sharing of information publicly, consultative mechanisms, sequencing of processes and procedures for endorsement.
5. **CAS, PRGF, PRSC and any other external loan negotiation processes are discussed by country representative structures** with particular emphasis on the mechanisms developed by the process that nurtured the PRS and Parliament. Joint Boards approve these policies **after satisfactory and iterative public in-country discussions** of public expenditure and adjustment performance experience.
6. **The Fund should continue to scale back its interventions to external debt and balance of payments management strategies.** This suggests fewer areas but underpinned by social analysis of the costs and benefits of recommendations and advice being offered to Governments
7. **Donor assistance strategies are subjected to the growing ownership that has emerged around the PRS process** and address the poverty reduction strategies of Government and key organized groups with reduced emphasis on project based grant support.
8. Supported by the Fund, **donors should provide resources for the building capacity** in key institutions both within states and in wider societies to develop scenario and trade off analysis options

What has changed in the content of PRSs?

Significantly, in most cases it was reported that a shift had taken in the national government's understanding of the causes of poverty. For example, ActionAid Kenya perceived a change in the *"general understanding of the multi-dimensional nature of poverty and the need for multi-stakeholder and multi-sectoral approach to eradicating it"*. This was not uniform with all. For Malawi, ActionAid Malawi felt *"the official definition of poverty is still related to access to resources rather than to issues of rights and inequity"*.

For this reason, we would expect that the solutions to poverty would also reflect a clearer departure from previous development strategies. Tracing the inclusion of civil society originated demands in the PRSs and subsequent national policies and budgets, suggests that despite the fact that no civil society representatives were members of PRS drafting teams, there has been a higher degree of voluntary organisation-led demands being included in PRSs than other national policy-making experiences. This has been more apparent in the area of social services more generally and health and education sectoral reform.

Unfortunately, our study does not dispel the common findings of several external assessments that query the inclusion of precise qualitative and quantitative indicators for trade liberalisation and privatisation that were not subjected to public discussion or worse still, introduced publicly (Ghana, Tanzania and Honduras).

The findings suggest that Vietnam and Rwanda saw most of their policy demands taken up for consideration within the PRSs, Malawi reported some inclusion of demands whereas Kenya reported a very poor response in this regard. All respondents were of the opinion that greater advocacy engagement and enhanced involvement and capacity of voluntary organisations and the poor may lead to more demands being taken up in future PRSs. In a number of these countries the fruit of demanding for the collective rights of people with disabilities (Kenya), peoples with HIV/AIDS (Malawi), rural

peasant producers (Vietnam, Rwanda), pastoralists (Kenya) and women (Malawi, Kenya and Uganda) was realized with important affirmative policies built into the PRSs.

However many of the recommendations that sought to subject the impact of previous macro-economic policies to poverty analysis (social and livelihoods impact assessments of trade liberalization, patenting of plants and herbal medicine for instance, retrenchment of rural agricultural extension civil servants) fell on deaf ears. Calls for legalisation of organized labor, even white collar workers, to enable their organized participation in discussions on privatization and retrenchment were largely ignored. Demands for a progressive tax structure in the IPRS that would generate resources in ways that would not hurt the working poor was responded to in the case of Kenya with one of the harshest VAT policies in recent Kenyan history in the 2000/2001 National Budget.

Moreover, since national budget-making is viewed as a strictly government-only exercise, very few civil society demands saw substantive change in the national budgets. Little attempt has been made by Governments to make the linkages between the PRS and the national budget. On the part of voluntary organizations, there seems to be few examples apart from Uganda and Malawi of a sustained campaign to follow where the money goes. In this regard, Governments, donors, and citizens must ensure the talk on poverty eradication is matched by the monetary allocations.

Has the paradigm of the Washington Consensus shifted?

Despite recent changes, the World Bank and International Monetary Fund continue to operate in disregard for international human rights law and standards.⁵ Both national governments and the Bretton Woods institutions continue to demonstrate skepticism to a rights and entitlements framework for the IPRSs and PRSs.

Calls for enshrining rights to essential services and assets such as land in Malawi, Kenya and Rwanda were not carried through the drafting process. In Kenya, attempts to include "The Charter for Social Integration", a proposed bill for operationalising the right to education, health and public information under the already approved National Poverty Eradication Plan, was rejected.

The Bank has made public pronouncements on its obligations to support the framework of International Development Goals most notably in the area of "Education for All". Between December 2000 and September 2001, the Bank issued statements on their reconsideration of education, water and health direct or indirect user fees as conditionality for loans.

Yet, even in the case of education where commitment seems strongest, this has yet to be translated into operational directives and change at country levels. Consequently, it is has fallen to voluntary agencies in Washington and selected countries to publicly keep the Bank to this commitment.⁶

Rather than a reconsideration of longstanding privatisation and liberalization policies, the development of a **Private Sector Development strategy** within the Bank and the content of the Bank/Fund approved IPRSs and PRSs clearly show that the old paradigm is alive and well.

The Fund has been quick to claim their streamlining of conditionality. While welcome, it is important to note that this is not reducing the overall package of conditionality that Governments and their citizens have to face. A number of the structural conditionality has not been eliminated, it simply moved across

⁵ The promise of the publication of the 1996 Human Rights booklet by the World Bank has failed to yield substantive change in most areas of the Bank's work. Only perhaps in the recent HIV-AIDs strategy has there been a clear step to enshrine the rights of people within HIV/AIDs.

⁶ This was the case of the Tanzanian PRSP and the controversy around the Ghana PRGF in 2000.

the street to the World Bank. Greater coordination between the two has inevitably led to a tighter system of “cross conditionality”.

The increasing tendency to include criteria that must be completed prior to tranche releases “prior actions” has increased the pressure on deficit managing Governments to reduce debate that might produce alternative options and implement in a centralist manner.

Looking at trends within the bilateral and multi-lateral community most notably in the recommendations by the European Commission and the WTO/GATT international policy conditionality on regulations, the tendency towards “fewer conditionalities” becomes even more marked in their uniformity. The EC now proposes two key conditionality for countries namely; signature and satisfactory progress against IMF programmes and progress against PRSP goals and processes. It is unclear why these should be separated unless the EC does in fact see them as separate and distinct, thus reinforcing the concept of separate policy frameworks.

In this context, it is unclear at the beginning of 2002, that streamlining of IMF conditionality matters much for countries interested in pursuing macro-economic and fiscal debate of options. For instance, would there be a difference if the conditionalities were further streamlined to three; deregulate, privatise and liberalise?

What has been the experience of participation and process?

As per Bank and IMF guidelines, PRSs are intended to be country-driven, results-oriented, comprehensive, prioritized, partnership-oriented and based on a long-term perspective for poverty reduction.⁷

The Bank describes participation as “the process through which stakeholders influence and share control over priority setting, policy-making, resource allocations and access to public goods and services.” It believes participation increases transparency of decision-making, promotes governmental accountability, and thereby increases overall economic and governance efficiency.⁸ Participation is also understood to be a more meaningful, proactive, and results-oriented engagement whose key elements should include information-sharing, consultation, joint decision-making and lastly, initiation and control by stakeholders.⁹

The review reveals that robust participation in policy making depends on the political will of government to engage, the capacities of government, donors, and civil society to develop and implement an acceptable framework for participation, and the strength and vibrancy of the national civil society movement. Despite the fact that the guiding principle of the PRS is broad and meaningful participation, CSOs have had to devote immense effort to ensure civil society and the poor participated in national PRS exercises.

ActionAid’s experience in the context of participation in PRSs points to the fact that the only key element among the four listed above that was followed effectively was consultation. The remaining three were not followed with any level of consistency by national governments and WB/IMF in the seven countries under review. Civil society was not involved in **any systematic way in laying out the framework for PRSs formulation or made a part of key decision-making.**

⁷ *Introduction to Poverty Reduction Strategies and PRSs*, World Bank website, December, 2001.

⁸ *Poverty Reduction Source Book*, Volume 1, World Bank, December 2001.

⁹ *Participation in Poverty Reduction Strategies: A Synthesis of Experiences with Participatory Approaches to Policy Design, Implementation, and Monitoring*, Rosemary McGee and Andy Norton, IDS Working Paper 109.

Civil society involvement was visible at the level of thematic and/or sectoral consultations, grassroots dialogues, and meetings with visiting WB/IMF missions. However, in all cases under review, while civil society membership was welcomed at the level of thematic/sectoral working groups, the final drafting committee was considered exclusively as the domain of national governments assisted by WB/IMF appointed consultants.

In the case of **Kenya**, it is telling that the civil servants leading the IPRS process were in most cases either former World Bank employees or continued to receive salaries provided by the WB to the GoK while working on these processes. This group was dropped soon after the delivery of the IPRS. In December 2000, the Finance Minister found himself out of office after a series of public statements which alleged that the IMF and the World Bank were forcing the Government to undertake unwanted changes. This in itself throws interesting light on the debate around "country ownership".

With the exception of **Rwanda**, all other country programs reported a lack of adequate prior notice regarding meetings and consultations. Many were informed only 2 or 3 days in advance, and in the case of **Nepal**, a 24 hour prior notice was given on one occasion. With the exception of **Rwanda**, all country programs felt such last minute notification prevented them from preparing adequately for PRS consultations; lengthy reports and documents could not be commented upon and the views of community partners could not be sought.

Since the process was not initiated or controlled by all stakeholders, the immensely important task of consensus-building and joint decision-making on the part of voluntary organisations was grossly undermined. In the case of **Vietnam** and **Nepal**, ActionAid itself took the initiative to contact the relevant ministry within the government to express a desire to be part of the PRS process. Staff in a few countries were painfully aware that the space accorded to ActionAid was in some cases due to the perception of the agency as an international NGO and a donor.

With the exception of **Kenya** and **Rwanda**, none of the remaining five country programs reported the direct involvement of associations of the poor in PRS deliberations. Hence it would seem that whereas considerable effort has been made by NGOs to facilitate the participation of marginalized groups or to put forward their concerns in PRS consultations, very little emphasis seems to have been put on ensuring that poor people represent themselves through their own organizations. Governments appear to be far more comfortable with voluntary organisations playing the traditional role of "implementers" than of them providing policy solutions and options particularly on fiscal and macro-economic targets and goals. To them, the utility of voluntary organisations lies in their outreach and ability to organize grassroots consultations on the basic needs of the working poor and excluded groups. In many ways, despite the participation route-map, the logical next step of inviting associations of the poor to negotiating tables has not yet occurred.

With the exception of **Haiti**, all country programs were only moderately satisfied with the level of information sharing *vis a vis* the PRSs and CASs. Initial attempts at outreach by the World Bank around the CAS formulation in **Kenya** recently suggests an over-reliance on international NGOs rather than utilization of PRS thematic and geographical working groups.

Information-sharing in relation to PRSCs, PRGFs and national budgets remains highly unsatisfactory. Linked to the issue of information disclosure, the PRSs have clearly re-positioned the World Bank and International Monetary Fund as honest brokers at a country level. While this is a significant change from the past, it has obscured the significant role played by the World Bank and International Monetary Fund in the process itself.

With the exception of Rwanda and Vietnam, the review found that in the other five cases national government and the World Bank were only somewhat transparent when it came to decision-making around PRSs. The case of Kenya indicates both IMF and World Bank to be very secretive whereas in Malawi, the IMF was fairly secretive in its PRS related decision-making.

This is worrying as it is the case in all seven countries that **both the IMF and the World Bank continue to have direct influence and control** over the process and content of the PRSs and related policy processes. It is our position that this influence continues to manifest in the tight qualitative and quantitative loan conditions.¹⁰ It is disappointing and a betrayal of the vision of the PRS that the first generation of PRSs, PRGFs and PRSCs do not reflect a departure from their elder siblings, the PFPs, ESAF and Adjustment loans.

Tackling this reality takes us beyond the topical debate of “**conditionality versus country ownership**”. That the largely discredited adjustment instruments and targets have reappeared in the context of PRSs opens the PRS to the charge of new form, same substance and we might add, same impact on the working poor and excluded.

There is a startling lack of a framework within which democratic, popular and public debate can be facilitated around which policy options could be pursued, who will bear the costs of this burden, for how long and with what short and long-term benefits. The legacy of closed discussions between the IMF and Ministry of Finance staff, which was so pronounced in the Policy Framework Papers, continues to have major impact on the PRS, PRGF and PRSC phase.

From the submissions to the PRS review it is clear that important constituencies are being excluded through the consultation design or their own lack of capacity. This as led to a) cynicism that PRS are SAPs by other parallel means b) space for Government officials to hide behind the shadow IFIs when challenged c) a disconnect between realisable resources and goals to be addressed and d) the Fund and Bank to retreat back into past prescriptions without subordinating them to the new poverty and growth goals.

In this sense, the derogatory use of the term of “**wish lists**” usually heard by our staff and partners by budget specialists is a double-edged critique. While challenging the lack of prioritisation within available and anticipated resources, it also reflects the inability of budget specialists to generate informed debate.

All cases interestingly, with the exception of Haiti, highlight the poor institutional capacity on the part of government, donors, and voluntary organizations. Capacity should be seen in terms of knowledge, expertise and skills, prior experience, outreach, and relationships. For instance, ActionAid Nepal reported that “*not all NGOs in and outside of Kathmandu are at the same stage of clarity and analytical ability*” and that there exists a “*lack of clarity in the Government, perhaps, on the ways in which they could link up with development organizations that have closer ties with rural communities*”.¹¹

The lack of capacity was further compounded by the fact that adequate time was seldom given to voluntary organisations to prepare and consult with their constituencies on draft documents, or to develop their own perspectives.

¹⁰In the case of the former are the prescriptions of cutting budget deficits, tariff reduction, privatization of public assets, promotion of export agriculture, nature of tax reform and in the latter are the plethora of fiscal targets (deficits, inflation, international reserves, domestic financing and government revenue).

¹¹ Questionnaire: ActionAid Nepal

Has country ownership emerged?

The PRSs have their origins in the lending frameworks of the World Bank and IMF, having been developed as an alternative to the Policy Framework Papers (PFPs). They were externally developed and, in most cases, have been driven by the promise of external resources. Although there is little disagreement with the concept of a locally generated poverty reduction strategy and plan, there is scant evidence to suggest PRSs have generated any substantive in-country ownership except perhaps among the bureaucracies that implement them.

Many voluntary organisations continue to view the process as conditional for successful loan negotiation and yet another sign of donor dependence. Policy analysts and activists in **Vietnam, Rwanda, Kenya, Malawi and Nepal** believed the PRS process had taken an inordinate amount of their effort and time. They were of the opinion that even more time would have to be devoted to the process to ensure worthy participation of the poor. Vietnam believed *“the process should be simplified to make it more relevant to the actual condition and more importantly to fit better the capacity of local staff and people. The process must be owned by the people who are affected most by the PRS itself.”*¹²

Besides WB/IMF officials and consultants, government bureaucrats connected with the PRS process appear to be the only well-informed actors in this process.¹³ Civil society and the poor are not engaged at the level where they can claim ownership. While there may be a semblance of government-ownership of PRSs, one cannot presently claim country-ownership for the process itself. This is particularly true in **Rwanda, Nepal and Vietnam** where the presence of autonomously organized, resourced and informed citizens groups is limited.

The concept of ownership is further skewed by the fact that nationally determined priorities for funding are subject to scrutiny and change at the hands of Joint Staff Assessments of the WB/IMF before these are put before their respective Boards for yet another round of assessing whether a certain “national PRS” may be funded as demanded. This hierarchy of approval pulls off the final disguise from the rhetoric of “country ownership” and reveals the PRS for what it is, yet another conditionality.

 For further elaboration of this contribution to the review of World Bank and International Monetary Fund Poverty Reduction strategies please contact:

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¹² Questionnaire: ActionAid Vietnam.

¹³ This is particularly significant given the shuffling of key Ministry of Finance staff and the Ministers over the last two months in Kenya and Malawi. High turnover of critical staff and politicians in the context of PRSs makes the need for broadened ownership more apparent.

**Enhancing the Private Sector's Role:
Summary Comments for the IMF/World Bank Joint PRSP Evaluation**

**Submitted by Gary Kleiman
Senior Partner, Kleiman International Consultants, Inc.
On Behalf of:
The Bretton Woods Committee,
Group to Assist Private Sector Development in Poor Countries**

Introduction

The link between poverty reduction and private sector development has been recognized but insufficiently harnessed in bilateral and multilateral aid programs and individual country strategies featuring the PRSP process. Reviews of the recent international conference and selected interim and final PRSPs suggest deficiencies in general business and financial community dialogue and involvement, and specific policy applications and details that may hamper efforts to raise living standards and meet basic human needs. The World Bank, in its new proposed Private Sector Strategy, documents the importance of incorporating investment climate analysis and improvement, and complementary efficient social and public service delivery, in an overall pro-poor approach lacking among other elements in the papers to date.

Participation

The joint Bank-Fund issues release acknowledges the modest engagement of business organizations and other representatives in the approximately 50 PRSPs so far. The meager outreach is dominated by the formal sector, despite the weight of the informal one in most economies. At the regional forums, only Africa had a sizeable corporate delegation. At the worldwide summit in mid-January the absence of local actors and international partners was almost complete. A major barrier may be funding and resource constraints, and the opportunity cost of work separation and lost earnings which dedicated cofinancing could mitigate, but an additional obstacle often cited is the scant attention toward private savings and investment mobilization as distinctly elaborated priority anti-poverty actions.

Content

To the extent they are covered, plans tend to refer to private sector growth and trade as a necessary component and broadly address initiatives to accelerate privatization of state banks and enterprises and related legal and regulatory modernization. Concrete delineation, sequencing, and timetables, and supplementary innovations, are routinely neglected. Financial services may suffer in particular from a dearth of clarity and exploration. Deepening access to credit by the poor is regularly adopted in principle and defined as promoting micro-lending schemes. An alternative systematic emphasis, for example, on building securities markets and contractual savings institutions can embrace

mainstream private intermediaries. Enlarging the scope for supporting entrepreneurs, diverting underground money, channeling long-term funding into education, health and infrastructure, and reinforcing insurance and pension provisions could be articulated with this focus and held to practical near-term operational and statistical benchmarks. From a macro-economic perspective, opening these multiple outlets could facilitate debt sustainability that drives the underlying HIPC rationale.

Conclusion

Since its launch in late 1999, the PRSP methodology and procedure despite original goals may be geared disproportionately toward government and civil society organization interaction and decision making which may not correspond with business concerns generating essential jobs and income. Over the next two years a deliberate heightened attempt, as recommended in the Bank's Private Sector Strategy, will be required to redress the imbalance and spur wealth and productivity gains. Toward this outcome, and in a year that will see a landmark UN Financing For Development Conference and G-7 Summit concentrating on Africa, the joint assessment team should appeal to the board to immediately convene a series of regional and global private sector roundtables on poverty that can work to overcome the glaring gaps in existing PRSPs.

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REVIEW OF THE POVERTY REDUCTION STRATEGY PAPER INITIATIVE

**Based upon the Experiences and Comments of CRS
Partners in Bolivia, Honduras, Zambia and Cameroon**

Contribution to the PRSP Comprehensive Review

by Catholic Relief Services

December 2001

Introduction

Catholic Relief Services, the relief and development agency of the US Conference of Catholic Bishops, is pleased to have an opportunity to contribute to the review of the Poverty Reduction Strategy Paper. Since its introduction in September 1999, we have recognized the PRSP as a significant innovation that responds in concept to many of the concerns and recommendations that we have made over several years throughout the course of our work on debt and related issues. In particular, we have insisted that debt reduction lead directly to improvements in the lives of the poor, and that civil society groups in indebted countries actively participate in determining the priorities and conditions for debt relief as well as foreign loans. Our ultimate objective is to increase the participation of people in decisions about the nature and direction of the national and international economy, and to ensure that decisions serve the common good, with particular concern for the poorest members of society.

As a result, we have worked through our offices in a number of countries in Africa, Latin America, and more recently in Eastern Europe to assist partners who have chosen to engage in PRSP processes. We provide not only financial assistance, but also share information, materials, help to develop strategy, and act in solidarity with them to bring their experience and perspective to the attention of policy officials in the United States and in international institutions. Furthermore, we have collaborated with a dozen other Catholic development agencies that are members of CIDSE (International Cooperation for Development and Solidarity) and Caritas Internationalis to review and analyze the PRSP framework and to produce resources for our partners overseas. Earlier this year, CIDSE-Caritas International produced a publication "From Debt to Poverty Reduction," which examined the PRSP through the lens of Catholic Social Teaching and offered guidance for effective participation in the PRSP.

We believe that the PRSP continues to have considerable potential for reorienting development planning and resources on the part of both donors and developing countries toward the overarching goal of poverty reduction, and with broad public participation. At the same time, we are concerned that, in practice, the PRSP has fallen far short of this potential. We believe that the immediate and significant improvements to the PRSP framework and to its implementation should be made in order to prevent the initiative from being relegated to failure.

In the following pages, we provide answers to some of the questions generated by the World Bank and the IMF for the PRSP Review. Our answers deliberately draw as much as possible on the direct experience of church and civil society partners in four countries where we have directly supported involvement in PRSP processes, rather than on extensive other analyses and studies that have been widely circulated. These countries are Bolivia, Honduras, Cameroon and Zambia. Clearly, this small sample does not allow us to draw conclusions about the record of PRSPs overall, but it does offer some perspective on some common issues and experiences across borders and across continents.

Please note that the answers will necessarily reflect the perspective and interest of our civil society partners in those countries, rather than the government. Furthermore, where we had insufficient information to answer a review question, the question was not included.

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

Nearly all of our partners expressed strong appreciation for the important engagement among civil society, the government and the international financial institutions as a result of the PRSP. Despite some significant limitations in the process (outlined in more detail below), most partners valued the spirit of participation and transparency that characterized the formulation of the national development priorities and strategies outlined in PRSP, in some cases involving impoverished sectors of the population. This positive assessment comes despite some serious reservations that partners have about the PRSP itself, especially the role of the IMF and World Bank.

Our Bolivian partners, in particular, have expressed appreciation that the respect and legitimacy given to the role of civil society in public administration did not stop with the development of the PRSP. To an important degree, it was institutionalized through a "social control mechanism" established in Bolivian law in July 2001. Furthermore, in general, our partners have affirmed the central emphasis given to poverty reduction in the dialogue with the government and partners. As our Zambian partners in the Catholic Commission for Justice and Peace have commented, "the PRSP has provided the opportunity for poverty reduction to be tackled in the mainstream in planning and resource allocation."¹ However, they also called upon the government to apply the same spirit of participation and transparency that infused the PRSP process to the annual budget process, and to ensure that the PRSP priorities were reflected in the 2002 budget. Partners in Honduras, too, have expressed strong fears that the positive dialogue would not continue into the future, and that civil society's roles in national development will not be institutionalized.

Yet we are growing increasingly concerned that the practice of the PRSP is far from fulfilling the principles that it states. A number of major challenges remain, including:

- Strengthening the participatory process, which is too often plagued by inadequate time for thorough participation, insufficient dissemination of information in advance, in local languages and in forms accessible to the majority of the population, exclusion of key social groups and local communities from participation, exclusion of civil society representatives in PRSP drafting as well as other decision-making roles, and inadequate technical and organizational capacity among civil society organizations for effective participation.*
- Reducing the role of the World Bank and IMF in directly or indirectly influencing the content of strategies, which serves to stifle broader national ownership and a fuller examination of economic policy approaches for reducing poverty as well as excludes the important perspective and contribution of other donor agencies.*
- Subsuming loans from the IMF and World Bank to the goals, indicators and strategies outlined in the PRSPs.*

¹ "From Structural Adjustment Programme to Poverty Reduction: Lessons Learnt and the Way Forward – Zambia" by Mulima Kufekisa Akapelwa, presented to the Economic Association of Zambia, October 2001.

- *Broadening the approach to poverty reduction, which has tended to overemphasize social services and a limited number of income-generating programs, without a thorough review of the poverty-reducing impact of economic growth strategies promoted through macroeconomic and structural adjustment policies. Furthermore, in some cases PRSPs did not fully address the need to strengthen democratic processes as an essential element of poverty reduction.*
- *Overcoming serious capacity weaknesses on the part of civil society organizations as well as governments to analyze and propose poverty reduction strategies, especially in the areas of data collection and analysis, evaluation of past and current economic and development policies, and methods for presenting and analyzing alternative policy options.*

2. 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 developmental impact?

Based upon our analysis of the experiences described in more detail in subsequent pages, we recommend the following modifications to the PRSP approach

- a) ***Delink the PRSP and HIPC initiative.*** *Though the HIPC initiative gave rise to the PRSP, we believe that it is now important to separate the two initiatives. The continuing linkage is only serving to speed up the process of PRSP formulation, at the cost of fuller participation, and to cause confusion among various stakeholders about whether the scope of the PRSP pertains to HIPC debt relief, all World Bank and IMF aid, all donor aid or all domestic and aid resources. Moreover, we believe that the PRSP is too weighty a requirement to attach to the limited resources provided through the HIPC initiative, and should instead be unambiguously linked to future external development aid resources.*

*In order to qualify for HIPC debt reduction, countries should merely be required to: 1) produce a roadmap to the **process** of developing a full PRSP, and allow civil society to have a voice in that roadmap; and 2) specify a transparent mechanism to use HIPC funds for previously identified poverty reduction needs.*

At a minimum, we urge the World Bank and IMF to eliminate the Interim PRSP, which has been ineffective as a solution to the problem of the tension between the need for immediate debt reduction and the time needed to develop a quality PRSP.

- b) ***Improve the quality of civil society participation*** *by developing guidelines for participation that would encourage government to:*
- *Disseminate key documents with adequate lead time and in local languages*
 - *Give sufficient notice for meetings*
 - *Involve the broad range of civil society organizations, with particular emphasis on women, who are often excluded*

- *Include civil society representatives in the PRSP drafting process*
- *Ensure an ongoing role for civil society in the implementation, monitoring and evaluation of the PRSP.*

Furthermore, we urge the World Bank and IMF to publicly disclose all information about the amount and schedule of funds released through the HIPC initiative, as soon as a country qualifies for HIPC debt reduction.

- c) ***Increase accountability to civil society input.*** *The World Bank, IMF and other donors should increase their accountability to civil society's perspective on the PRSP by inviting civil society groups to comment on the process of developing the PRSPs as well as the substance of the final document, and to include this comment as an annex in a PRSP or as a separate document, to be made available to the members of the boards of the IMF and World Bank. This would allow members of the boards— and other donors – to receive civil society's perspective directly, rather than have it be filtered through the Joint Staff Assessment, which tends to rely primarily on the judgment of governments.*

Similarly, governments should increase their accountability by adopting feedback mechanisms that would document civil society recommendations, and provide an explanation for why these recommendations were either accepted or rejected.

- d) ***Ensure much greater coherence between PRSPs and loans or other aid.*** *It is essential that the PRSP lead to substantive changes in the loans and lending practices of the World Bank, IMF and other donors. We believe that the following steps should be taken to ensure greater coherence between the two.*

- *In order to ensure that loans support the PRSP, loan negotiations and documents must be made transparent and subject to democratic processes. The World Bank and IMF, together with borrowing governments, should publish complete information about proposed loans, including the amounts, purposes and conditions, and encourage borrowing countries to conduct public review before loan agreements are finalized.*
- *All external loans should state an explicit rationale for how it will fulfill the goals and be measured by the indicators set out in the PRSP. In the event that loans are concluded prior to the completion of the PRSP, they should be considered interim and subject to review and modification following the adoption of the PRSP. A summary of the loan agreements and documents concluded before completion of the PRSP should be included in PRSP document.*
- *The World Bank and IMF should adopt social and environmental impact assessments of proposed macroeconomic policy measures, which will examine the likely micro-level impacts of macro-level policies, as a standard procedure in loans and PRSPs. They should prioritize the development of such methodology, employing participatory research*

methods, carried out by mixed teams of researchers drawing upon economic as well as other social science expertise, and familiar with the country context.

- *The lessons from the joint World Bank-civil society Structural Adjustment Participatory Review Initiative conducted over the past four years should be carefully examined and integrated into this Comprehensive Poverty Reduction Strategy Review process.*

- e) ***Broaden donor acceptance of the PRSP beyond the World Bank and IMF.*** *To foster true stronger donor coordination with PRSPs, the IMF and World Bank should surrender the sole power to "endorse" the PRSP. Instead, both institutions should accept equal status with a broader set of official donors, including United Nations development agencies and bilateral donors, in the decision whether or not to support PRSPs through finance, through a forum similar to consultative groups. Donors should consider not only the substance of the PRSP but also the quality of the participatory process in formulating it.*

The above summary assessment and recommendations flow from the detailed response to the questions of the review which follow.

Key questions

Ownership and Participation

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

Although we have incomplete information about the extent of involvement in the PRSP process by various sectors of government and the behavior of the staff of international financial institutions, the information that we do have raises questions over the extent to which ownership over the strategies has genuinely been transferred to the country level. For example, we were disturbed to learn that Honduran government officials presented their draft PRSP to international financial institutions in April, even before making it available to their own national legislature and to Honduran civil society groups. This action suggests that the government had greater concern with meeting the expectations of the IFIs than those of their own people.² We also understand that candidates in Honduras' recent presidential election were also not informed about the content of the PRSP, raising considerable doubts about whether the PRSP will be accepted by the new political leadership.³

Indeed, our partners in Honduras questioned the degree of genuine commitment to the strategy by the departing government, speculating that the Honduran government viewed PRSP as a simple hurdle to overcome to receive debt relief. "The GOH may not be embracing with full conviction the idea that an anti-poverty strategy is essential in and of itself, whether or not the carrot of debt relief were offered,"⁴ they noted. They also expressed frustration over what they perceived to be a double standard by officials of the international financial institutions, who "knew, for example, that the consultation process was flawed but lavish it with praise publicly; they know that corruption is a huge issue but give the impression that huge advances in this area are taking place."⁵

In Bolivia, our partners note that political parties participating in the Political Agenda of the National Dialogue (one of three fora established to inform the PRSP, and mandated to address issues such as democracy, corruption and the political system) failed to conclude their dialogue, and therefore failed to act upon the civil society proposals for certain political reforms. They see this as a sign of lack of commitment on the part of politicians to the reforms necessary for poverty reduction, with the corresponding risk that a change in governments will result in rejection of or revisions in the Poverty Reduction Strategy.⁶

In Zambia, Members of Parliament were marginalized from the decisions surrounding HIPC and PRSP. One independent Member of Parliament in Zambia noted,

² "Process and Experience for the Preparation of a PRSP in Honduras," Social Forum of External Debt and Development of Honduras (FOSDEH), Tegucigalpa, October 2001.

³ Internal memo from Country Director, Catholic Relief Services/Honduras, September 26, 2001, and visits of Father German Calix and Gilberto Rios, Caritas Honduras, October 2001.

⁴ Internal memo from, Catholic Relief Services/Honduras, op cit.

⁵ Ibid

⁶ "Posición Respecto al Proceso de Elaboración de la Estrategia Boliviana de Reducción de la Pobreza," memo from Pastoral Social Caritas Bolivia to CRS, November 23, 2001.

*“At present, there is no role for Parliament in Zambia regarding the HIPC initiative. This matter has never been debated in the House or at committee level. As a Member of Parliament, I am not aware of the specific amounts or the conditionalities involved in the initiative. I am sure not even the government itself can state with certainty how this country will benefit from its HIPC status....”*⁷

In general, we continue to question the degree to which true ownership of the PRSP can be transferred to the country level as long as the final endorsement rests exclusively with the international financial institutions, and as long as countries are so heavily dependent on this endorsement to receive debt reduction as well as new loans. We also question the appropriateness and ability of the IMF to judge a country’s poverty reduction strategy.

4. To what extent have governments been preparing and implementing PRSPs in an open and participatory way?

Our partners in Caritas Honduras remarked that the PRSP was the first government strategy in which priority was given to the comments of civil society. It also opened the door for future collaboration between the government of Honduras and civil society during the monitoring and implementation phases of the PRSP. They also report that by leading 19 consultations on the PRSP that included broad sectors of civil society, the government set an unprecedented example of open government planning. Nevertheless, they also voiced the consistent complaint that time and space for deeper dialogue and a full commitment to arrive at consensus did not take place. Indeed, they believed that approximately one more year of dialogue consultation was necessary in order to gain national consensus around key issues of the national debate, including economic growth vs. distribution of wealth, the approach to rural poverty; fiscal reform, the ecological/environmental vulnerability issues; and mechanisms that would turn the ERP effort into a long-term plan.⁸ Indeed, tensions arose between the government and civil society over the failure to reach consensus, with the government accusing some sectors of civil society of failure to cooperate.

In Bolivia, our partners believe that the National Dialogue carried out by the government to inform the PRSP permitted greater citizen input than a similar process did three years ago, by including sectors that had been ignored earlier. In Zambia, our partner praised the mobilization of a wide spectrum of civil society group and the energetic leadership of selected civil society leaders.

Nevertheless, in virtually all countries where we supported partners, there were limitations that prevented participation from reaching its full potential. For example, there appeared to be varying understandings of what constitutes adequate civil society participation. In several countries, it was limited chiefly to consultation, without a clearly defined role for civil society in decision-making, especially in the drafting process. As our Zambian partners noted, “The PRSP consultation process needs to go further than

⁷Hon R. Sichinga, MP and former chairman of the Public Accounts Committee in the National Assembly of Zambia, interview of 30 May 2001, in *Social and Economic Implications of HIPC*, by Jubilee 2000 Zambia, and Oxfam Zambia, June 2001.

⁸ Internal memo from Country Director, CRS-Honduras, op. cit.

the formal 'workshop' type of consultation to more participatory ones.⁹ Furthermore, partners in Zambia as well as Honduras expressed strong apprehension that the positive civil society involvement in the formulation of the PRSP – despite the limitations elaborated below – would not be sustained in the long-term. Not only would this fail to build upon positive opening created by the PRSP, but it would disappoint citizens whose expectations for participation had been raised. "Having participated in a consultative process, citizens would expect a more open and accountable government than is the case now. Alienated people are a dangerous people!" assert our Zambian partners.¹⁰

Other specific shortcomings of the participatory process that were common in several of the countries included:

- **Access to information.** In several cases, civil society even had difficulty obtaining a copy of the draft or final PRSP document. In Bolivia, civil society groups were compelled to obtain a copy of the draft PRSP from a European development cooperation agency, when they could not succeed in obtaining it from their own government. In Honduras, civil society did not receive the final document until late September 2001 – three weeks before the IMF and WB Board decision. This did not leave adequate time to review the document, compare the earlier drafts, and examine how civil society input was (or was not) incorporated into the document, much less to reach consensus over whether to endorse or reject the document. Furthermore, they were disturbed to discover that the final document included a chapter on macroeconomics that had not appeared in the penultimate draft.¹¹ Such practices undermine the very spirit of openness and participation that the PRSP is supposed to promote.

Zambian NGOs expressed concern that they did not receive all key documents and information necessary for effective participation in PRSP formulation, even information as basic as the amount of interim debt reduction they had received under the HIPC initiative since qualifying for the initiative in December 2000. "Benefits from the debt relief proposed by HIPC still remain a mystery, indeed a myth. In the last six months, different sources – IMF and World Bank, government, and our partners here and outside Zambia – have given us different figures as to expected debt stock reductions and expected debt servicing in the future. Moreover, we do not know how much actual savings in cash will be realized in the process, when it would come, how it would be allocated, how its disbursement would be monitored, etc." Jubilee-Zambia and Oxfam-Zambia wrote in a joint report.¹²

Furthermore, Zambian partners who have an extensive local-level network have called for simpler, more accessible information on the PRSP to be developed and disseminated, in order to permit greater participation at the grassroots level. Indeed, the government's efforts at broad dissemination of PRSP information and documents have often been lacking. In Bolivia, the government posted the draft PRSP on the

⁹ "From Structural Adjustment Programme to Poverty Reduction: Lessons Learnt and the Way Forward," op. cit.

¹⁰ Ibid.

¹¹ Internal memo from Country Director, CRS Honduras, op. cit.

¹² *Social and Economic Implications of HIPC*, by Jubilee 2000 Zambia, and Oxfam Zambia, June 2001.

Internet for comment, failing to recognize that the vast majority of Bolivians do not have access to the Internet.

- **Inadequate notice and rushed timeframe.** *In Honduras, civil society did succeed in lengthening the timeframe for consultations on the PRSP for several more months. Still, consultations at the local level were only one day, civil society did not receive the documents until two days before meetings, and meetings were mainly dedicated to GOH presentation of the document. Our partners in Cameroon also complain that they are often notified about meetings with only a day's notice, and with insufficient preparatory information or material. Similarly, in Bolivia, civil society organizations were often invited to meetings at the last minute, documents were made available at short notice, and the technical language of documents and discussions often made it difficult for civil society representatives to participate effectively.*
- **Limitations on civil society participation.** *In Bolivia, the government planning team announced that the National Dialogue organized to develop the PRSP would be divided into three separate events -- the Social Agenda, the Economic Agenda, and the Political Agenda -- and then proceeded to select participants for these three fora. Civil society organizations tended to be concentrated in the Social Agenda, while business leaders made up most of the participants in the Economic Agenda, and representatives of political parties and the government made up those in the Political Agenda. In the view of our partners, this prevented a more holistic analysis of the interrelated dimensions of poverty reduction, and precluded civil society from sharing its views and recommendations on crucial economic and political issues.*

In Cameroon, the government originally handpicked participants in civil society consultations, bypassing major institutions such as the Catholic Church.

- **Insufficient civil society representation and authority.** *Upon qualifying for HIPC relief, the government in Cameroon convened a committee of 19 members of government, donors, civil society and churches to oversee the allocation of interim HIPC relief. Yet, there was no consultation over the composition of the committee, with the result that government representatives comprise fully half of the members. Of even greater concern is the fact that, under time pressure from the IMF, government officials made decisions about allocating HIPC funds, rendering the committee effectively powerless.*
- **Exclusion from the PRSP drafting process.** *A recurring complaint among nearly all of our partners was the exclusion of civil society from the government committees charged with conducting the drafting of the strategy. This was the case among our partners in Zambia, Honduras and Bolivia.*

In Bolivia, citizen participation in the PRSP drafting process was severely limited. Instead, a small circle of government economists undertook drafting of the PRSP plan for more than four months without including or even informing civil society organizations that had participated in the National Dialogue. Bolivian organizations tried repeatedly to pressure the government to be more inclusive, even appealing to international donors and the World Bank and IMF, but to no avail.

In Zambia, civil society organizations have been denied representation on the Technical Committee for drafting the PRSP, despite a large and active coalition of groups organized to coordinate input into the PRSP. Their exclusion has led to the question the ultimate value of their participation, if they have no involvement in the most critical decision-making forum.

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

This has probably been the most disappointing aspect of the PRSP processes in many countries. Despite some positive and real openings for dialogue between government and civil society, there has been little noticeable impact on the content of PRSPs.

Our partners in Bolivia assert that the final PRSP in important respects did not reflect the conclusions of the civil society-led consultation process known as Foro Jubileo 2000, or even the government-led National Dialogue process. Instead, the PRSP continued to promote traditional approaches to economic growth as the primary strategy for reducing poverty, ignoring the sectoral policies as well as the policies for redistribution of income prioritized during the respective consultation processes.¹³ The strategy did not recognize that Bolivia had experienced steady economic growth for a number of years, and yet poverty had not decreased.

In many cases, there has been a marked lack of accountability to civil society input. In Bolivia, after excluding civil society from drafting process, the government did hold a meeting to solicit civil society comments to the draft PRSP, but participation in this meeting was limited to a small circle of civil society representatives based in the capital city of La Paz. Furthermore discussions during this session revealed strong and widespread civil society disapproval of the draft PRSP and government officials agreed to take these concerns into consideration in the final version. Nevertheless, according to CRS partners, the final PRSP contains few substantial changes from the contents of the draft version. It fails to include a series of agreements reached through the government-led National Dialogue. Neither does the PRSP respect agreements reached between civil society and the government during the periods of social conflict in 2000. In general, partners in Bolivia are concerned that the government technical team charged with drafting the PRSP failed to grasp the essence of civil society proposals and distorted them in the process of their inclusion.

However, although they were disappointed with the final document, they did see the agreement to legally establish a "social control mechanism," or a citizen watchdog mechanism, as an important step forward. They ultimately decided not to reject the PRSP and to rely on this mechanism in order to influence the way in which the strategy is implemented.

In Honduras, civil society groups were successful in lengthening the timeline for civil society consultation from December 2000 to March 2001 and in expanding the

¹³ "Posición Respect al Proceso de Elaboración de la Estrategia Boliviana de Reducción de la Pobreza," Foro Jubileo 2000, November 23, 2001.

consultation from 7 to 19 cities. However, it is less clear that they were able to influence the content of the strategy. They asked specifically and repeatedly for the government to present a matrix showing the areas of agreement, disagreement and the shortcomings of the process, as well as list of issues to be revisited in a year's time. But the government never responded to this request for such feedback.¹⁴

As a result, some civil society organizations express a strong concern that their participation in PRSPs that they will be used to legitimize a strategy that they haven't really influenced. This could serve to undermine the trust and relationship established through the civil society-government dialogue on the PRSP.

6. Have countries drawn on existing strategies and integrated the preparation and implementation of their PRSPs with their core processes for policy making and program implementation, including annual budget cycles and medium-term expenditure frameworks?

Although we do not have information on existing poverty reduction strategies for all countries, we know that in Zambia, the National Poverty Reduction Action Plan preceded the PRSP. This consisted of an ambitious plan to cut poverty from 73 percent to 50 percent in three years. Yet copies of the Action Plan were not made available to the PRSP working groups even though the document, according to some analysts, could serve as a very useful baseline to build upon when drawing up the PRSP.¹⁵

Content of Strategies

7. To what extent do poverty reduction strategies represent an improvement over previous development strategies?

In general, the effort to place poverty reduction at the center of the development agenda, and the increased effort to establish measurable poverty outcomes is a welcome improvement over past development planning exercises. It does appear that the PRSPs are in many cases leading to increased attention to expenditures on social services and improvement in the quality of social services. This is clearly quite necessary, but it is insufficient as a solution to poverty. Too often, PRSPs fail to reflect a broader approach to poverty reduction that fully addresses dimensions related to security or empowerment as essential ingredients for poverty reduction. For example, Bolivian partners noted that the PRSP focused heavily on programs to expand economic opportunities and to expand primary education, primary health and infrastructure, with scant attention to programs to protect or provide opportunities for vulnerable groups (including programs for the protection for children and others against exploitation or abuse) as well as to promote citizen participation and government accountability.¹⁶

¹⁴ Process and Experience for the Preparation of a PRSP in Honduras," op. cit.

¹⁵ *What good can Debt Relief and PRSP Do? The Case of Zambia*, Bread for the World, Debt and Development Dossier, #5, April 2001.

¹⁶ CRS letter to World Bank and IMF Executive Directors on Bolivian PRSP, May 25, 2001.

As elaborated below, we believe that one of the major failings of the PRSPs is the fact that the macroeconomic and adjustment conditions have either been left out of the discussions or are simply uncritically included.

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

Our partners in Pastoral Social Caritas Bolivia have suggested that the indicators are both too general, failing to take particularities of Bolivian context into account, and too technically complex for civil society groups to monitor easily. Furthermore, they maintain that the “social control mechanism” formally established in law as result of civil society demands to institutionalize an oversight role for civil society role in the implementation of the PRSP will fail unless it has a sustainable source of financing. To date, the government and international donors have not guaranteed financing for this mechanism.¹⁷

Donor Assistance and Partnerships

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 PRSPs?

We are deeply concerned that the IMF and World Bank continue to negotiate agreements and loans with HIPC-PRSP countries in secret, in contradiction to the spirit of openness and participation which is supposed to characterize the PRSP and without regard to how the policies and conditions included in these loans will affect the country’s ability to pursue its poverty reduction goals. Instead, loans and conditions are negotiated parallel to and independent of the PRSP process.

Our partners in Honduras noted their fear that the PRSP presents a “business as usual social compensation set of measures with the real game being played out in the structural adjustment policy set. There is, therefore, a need to see these two elements working in tandem toward a single objective.”¹⁸ Indeed, the Honduran government concluded agreements and PRGF loans with the IMF in June 2000 and again in September 2001, without public participation or even prior public disclosure. Yet such agreements committed the government to policies and actions on issues such as privatization of the electricity and telecommunications sectors, pension reform, and civil service wage reform – all of which will certainly have some impact upon poor people.

Similarly, in Zambia, partners questioned the country’s flexibility to design a Poverty Reduction Strategy given the fact that the government has committed to certain economic reforms through its Letter of Intent and PRGF loan.

¹⁷ “Posición Respecto al Proceso de Elaboración de la Estrategia Boliviana de Reducción de la Pobreza,” op. cit.

¹⁸ Internal memo from CRS Country Director, CRS-Honduras, op cit.

Below we have produced a table for the four countries where we have supported partners' involvement in PRSP processes. It demonstrates that IMF Letters of Intent and PRGF loans, which are negotiated in secret, almost always preceded the completion of PRSPs and I-PRSPs, although in principle the PRGF is supposed to be derived from the PRSP. The outlines of the agreements are publicly disclosed only after they have been signed. Although they might report on the progress made toward completing the PRSP, they rarely examine the impact of the macroeconomic policies on the goals of poverty reduction, nor do they recognize how they might constrain the policy choices available to the country in designing its PRSP. Neither is there any indication that these loan agreements are subject to modification following the completion of the PRSP.

	Date of IMF Letter of Intent	Date of PRGF Loan	Date of I-PRSP	Date of PRSP
Bolivia	Dec. 20, 1999	Feb. 7, 2000	Jan. 13, 2000	May 21, 2001
Honduras	March 10, 1999 Sept. 20, 2001	Dec. 8, 1999 June 7, 2000	April 13, 2000	August 31, 2001
Cameroon	May 23, 2000 Dec. 6, 2000 June 28, 2001	Dec. 22, 2000 July 16, 2001	August 23, 2000	2002
Zambia	June 30, 2000 March 29, 2001 Oct. 15, 2001	July 27, 2000 April 17, 2001 Nov. 8, 2001	July 7, 2000	Early 2002

Source: IMF Website

Furthermore, it does appear that there has been change in the content of loans and policy. The IMF itself has promised that the core objective of the PRGF is "to arrive at policies that are more clearly focused on growth and poverty reduction, in which the poverty reduction and macro-economic elements of the program are fully integrated."¹⁹ Yet we see scant evidence of this in the Letters of Intent or the descriptions of PRGFs, which continue to focus heavily upon issues such as control of inflation, deficit reduction and fiscal prudence, taxation, civil service reform, financial sector reform, privatization, and other standard macroeconomic policies. Although there is some greater attention to social sector expenditure, there is no attempt to define an approach to growth that examine the distribution, or to look at the impact of specific macroeconomic or structural reform policies on particular sectors of poor people. For example, Jubilee 2000 and Oxfam Zambia found that the macroeconomic conditions tied to HIPC debt relief largely mirror resemble the ones earlier, with a focus on privatization of electricity, banking and copper companies. The important exception was the demand to increase social sector expenditure.²⁰ This highlights the importance of developing and using tools to assess the impact on people and on the environment of macro- and structural policies in order to ensure that loans are consistent with poverty reduction and sustainable development objectives.

We would like to express our disappointment that the joint civil society-World Bank exercise known as SAPRI, the "Structural Adjustment Participatory Research Initiative,"

¹⁹ "Key Features of IMF Poverty Reduction and Growth Facility Supported Programs," prepared by the IMF Development and Review Department, August 2000.

²⁰ "Social and Economic Implications of HIPC in Zambia," Jubilee Zambia and Oxfam Zambia, June 2001.

has been largely disconnected from the PRSP initiative. We believe that the research could provide numerous lessons about the poverty-reducing impact of macroeconomic and adjustment policies that could inform policy choices for the PRSP, yet these lessons have been ignored.

Finally, we question the degree to which donors beyond the World Bank and IMF have accepted the PRSP as an organizing vehicle for their aid programs. We were pleased to learn that bilateral donors engaged strongly in government-led working groups to develop the PRSP in Zambia. Nevertheless, some bilateral donors have highlighted the lack of willingness of World Bank staff to cooperate with them on aid to address HIV/AIDS.²¹

Constraints

15. 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?

Clearly, capacity weaknesses on the part of both government and civil society groups circumscribe the potential for achieving the larger goals of the PRSP. We have been particularly concerned about the burden participation in the PRSP places on the time, resources, and organizational capacity of civil society organizations. Furthermore, civil society groups have identified the need for improved expertise on economic analyses and policy formulation. Some donors such as UNDP have invested resources in capacity building, but much greater resources and technical assistance are needed in this area.

17. To what extent have external factors affected timing of PRSP preparation?

We believe that the I-PRSP, which was created as a device to address the tension between the demand for quick debt reduction and that time required for developing a thorough PRSP, has created more problems than it has solved. It caused considerable confusion among various stakeholders as to the scope, detail, and process entailed in producing this document. Civil society organizations rightly expect a voice and role in the interim process, yet are generally not included. Furthermore, a number of Interim PRSPs are long on substance, reflecting little more than a regurgitation of existing policies, yet quite short on the "roadmap" for developing the full PRSP. Civil society groups express legitimate concerns that the I-PRSP will end up prescribing many of the policy directions for the full PRSP before there has been a chance for full public dialogue.

There is also a tendency to hurry the process in order to reach HIPC completion point. As mentioned earlier, although our partners in Honduras succeeded in lengthening the time-frame for developing the PRSP by several months, they believed that as much as one more year was needed in order to reach genuine national consensus over a series of specific development items.

²¹ "Whose Poverty Reduction Strategies – Developing Countries or External Donors?" by Jean Somers, *Development Review*, Trocaire, Dublin (forthcoming).

Key Questions for Review of the PRSP Approach

Christian Aid and a number of its partner organisations¹ released a report in October 2001 entitled “Ignoring the experts: Poor people’s exclusion from poverty reduction strategies”. This looked at the quality of participation in PRSPs and transference of ownership, using evidence drawn from partner organisations in developing countries. The report used evidence from a range of PRSP countries, but utilised fuller case studies of Bolivia and Mozambique.²

In response to the World Bank and IMF’s questionnaire to review the PRSP approach, Christian Aid’s work enables us to contribute answers to the overarching questions (1-2), those relating to ownership and participation (3-6), and questions 15 & 16. Content issues were not the prime focus of this recent report and so we will defer comment to civil society groups in country. We would be happy to provide contact details, and/or forward the questionnaire to partner organisations.

Overarching Questions

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

Christian Aid’s partners have commented on a number of positive outcomes of the PRSP approach. Civil society organisations, in some cases for the first time, have been offered the opportunity to influence (or at least voice an opinion on) national policy making on both sectoral issues and over-arching development plans. Rarely before has the role of civil society been formally legitimised in this way, or been accorded such high profile.

In response, civil society groups have diversified and coordinated their activities, and have also developed skills at a staggering rate. (In the case of Rwanda for example, local groups had previously rarely ventured into advocacy work, particularly on economic issues, but have begun to do so around the PRSP). Networks have been established between governments, civil society and business, which could act as foundations for future dialogue and policy making. And PRSPs have started to contribute to a shift in relationships between IFIs, governments and their peoples. This has been underpinned by increased popular debate and media coverage on economic, poverty reduction and participation issues in PRSP countries.

¹ “Ignoring the Experts” was produced in partnership with INESC and Rede Brasil from Brazil, Mozambique Debt Group and LINK from Mozambique, and CEDLA and UNITAS from Bolivia.

² This report was also based on a survey of 17 of its partner organisations working on PRSPs, conducted in May 2001.

Effective participation, and the transference of ownership to ensure long term sustainability of development efforts, will undoubtedly take time and practice. But as yet, many of our partners tell us that their participation has been limited or superficial. Even where they have had the opportunity to voice opinions, these have rarely been reflected in policy. Real participation and influence would imply that some power is ceded by those who have been making policy up to now – both governments and the Bank / Fund – but this has not happened. Many of our partners feel that they have been 'consulted' to merely legitimise policy decisions that would have been made in any case.

Some of the limitations to date reflect the limited resources and capacity of both government and civil society actors. Many groups are still not aware that they have the right to participate in policy making. However, it is often the basics that mitigate against inclusive processes – invitations sent out late, and to selective urban groups; documents not available in local languages; the location, format and atmosphere of meetings not conducive to obtaining the views of women or of minority groups; or consultations too hurried, because of the urgency of accessing debt relief.

The issues on which participation has been invited have also been selective. Our partners have rarely had the opportunity to discuss or challenge the underlying economic assumptions or policies underpinning their country's development efforts. A key challenge here is one of economic literacy, or the 'tools of participation', to enable civil society groups and poor people themselves to enter informed debate on economic options.

Ultimately the fundamental paradox of the PRSP approach is that effective participation and the extent to which ownership can be transferred to PRSP countries will be limited because they are externally mandated processes. The power imbalance between international actors and PRSP countries itself remains an obstacle to genuine participation.

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 developmental impact?

Christian Aid and its partners recommend a number of changes to improve the quality of participation as a first step:

- *Participants should be involved in PRSP process from the outset – in setting policy priorities, the agenda for consultations and benchmarks by which these processes will be assessed – rather than simply being asked to comment on draft documents.*
- *Invitations to participate should be sent out widely and with enough time to prepare and allow for this involvement to be effective.*
- *Civil society participants should not be expected to be united and speak with one voice, but specific efforts made to maintain diversity.*
- *Proactive efforts are needed to reach out to marginalised and discriminated groups, paying particular attention to incorporate the rural perspective and gender issues.*

- *Participants should receive feedback on their contributions and explanations as to why they were or were not included in the final document. And the final PRSP should also reflect the parameters of the in-country debate on each issue.*
- *Multi-stakeholder committees should monitor the implementation of PRSPs and continue to influence their revision at a sectoral and an over-arching level: ‘...there is a need to institutionalise consultation and participation of CSOs in the decision-making process concerning macroeconomic policy and monitoring of debt and poverty at all levels’³.*
- *Any criticisms of the process and content which are stated by local groups should be published as a preface to the PRSP document.*

People also need the ‘tools’ to participate:

- *Development is a complex process – not least in its political, institutional, and social dimensions, but also importantly in the economic choices that must be made and their implications. In order to participate in economic policy formation, people need to have access to information and training to inform the choices they make about policy. This in itself has implications. We could not expect every citizen to be informed about markets and processes that lead to equitable and sustained growth, jobs, and improved standards of living. Therefore participation in some forms of dialogue will necessarily be more limited. However, this must not detract from the principle that poor people should be supported to articulate the priorities and needs they wish economic forces to serve.*

Support from the World Bank and IMF:

- *Donors and governments should ensure that sufficient grant resources are available to facilitate deep and representative participation.*
- *National civil society groups should be broadly satisfied with their involvement in and influence over PRSPs in order for them to be endorsed. The World Bank and IMF should not lend against PRSPs that have not been truly participatory in nature.*
- *Mechanisms for approving PRSPs should not solely depend on the capacity or interests of the Joint Staff Assessment, but rather should incorporate the views of local groups*
- *Staff management systems of the IFIs should support this consideration by rewarding progress towards poverty reduction outcomes. These should override the incentives for maintaining or increasing loan portfolios.*

Ultimately:

- *Countries should have the freedom to articulate and implement whichever policies are required to reduce poverty in their specific context. If poor people and their representatives are genuinely allowed to ‘share control over the priority setting,*

³ Tanzanian Coalition on Debt and Development 2000: 15

policy-making, (and) resource allocations⁴ (as articulated in the World Bank's definition of participation) they may well not identify the same policy prescriptions as those favoured by the IFIs in their PRSP Sourcebook. At the very least they may choose to adopt different components at different times, with more safeguards for those who will be directly or indirectly affected. In the past, World Bank policy conditions have weakened governance capacity in some countries.

Key Questions

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

Preparation of PRSPs has, for the most part, been country led. But the paradox of country ownership of externally initiated processes is a fundamental limitation. This is especially pertinent where existing national strategies to alleviate poverty were already in place. For example in Mozambique many in government viewed the PRSP as an imposition because they had already prepared their PARPA⁵ for the period 2000-04.

And where governments have assumed full leadership this has sometimes restricted the diversity of actors involved in the process. UNITAS in Bolivia claims that the Dialogue process (focussing on the PRSP) was more like a conversation between national and local government rather than one which reached out to civil society organisations and poor communities.

It is important to emphasise the distinction between a country led and government led process. The former should involve a broad range of actors including parliamentarians, local government, civil society, commerce etc. Very few PRSPs have been discussed in parliaments - often parliamentarians have low awareness of PRSP processes, lack the skills to engage in the debate, or are not invited into the process by government. In many cases even other government Ministries have not been that informed or involved in PRSP formulation, as it has been closely led by Ministries of Finance or Planning. Additionally, PRSP formulation processes are fundamentally political, and negotiations over resources and priorities between government Ministries reflect the power imbalances between them. For example, in Bolivia, gender critics observe that the PRSP failed to prioritise gender issues because of the lack of political power of the Vice Ministry of Gender.

It needs to be acknowledged that even where governments may design and lead the process of PRSP formulation, international actors still have a huge influence on it. Both bilateral and multilateral donors still exert enormous influence over country levels processes, both through technical assistance, financing and more explicit conditions on co-operation assistance. This factor is prohibitive to total country ownership.

⁴ <http://www.worldbank.org/poverty/strategies/chapters/particip/orgpart.htm>, accessed on 23/07/01

⁵ Plano de Accao para a Reducao de Pobreza Absoluta (PARPA)

4. To what extent have governments been preparing and implementing PRSPs in an open and participatory way?

In Bolivia, the Dialogue process has been heavily criticised by civil society groups on a number of fronts:

- *the PRSP was written by UDAPE, a government economic think tank, and was seen as a closed door process;*
- *it was felt that the outcomes of the participation process were not permitted to influence policies;*
- *documents were initially only provided in English (meaning that most participants were unable to read them), then in Spanish, but never in local indigenous languages spoken by the majority of the population;*
- *CSOs were not permitted the same level of access to information as official actors (which put them at an immediate disadvantage);*
- *the time frame was too short to permit genuine participation by poor, rural groups and also meant that meetings were frequently organised at the last minute;*
- *participants were selected by government and were felt not to be fully representative of society;*
- *while civil society participants had been promised the opportunity to view and approve the final PRSP at the end of the Dialogue, this opportunity never arose⁶.*

In Mozambique, the PRSP process has also been criticised on a number of counts:

- *it was co-ordinated centrally, rural communities and northern districts were far less involved than Maputo-based organisations;*
- *as in the case of Bolivia, civil society organisations were often invited to consultation meetings at the last minute, documents were made available at short notice or not at all, and the technical language of documents and discussions often made it difficult for civil society representatives to follow;*
- *The time constraint of the whole process compromised the quality of the participation: 'the consultation process was driven inordinately by a deadline for the completion of the PRSP, which even with good faith on the part of the government, provided inadequate time to carry out a comprehensive consultation process'⁷*

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

This has been one of the most disappointing aspects of the PRSP approach thus far. Civil society groups in a broad range of countries have been angered by the similarities between previous structural adjustment programmes and PRSPs. Many feel that the

⁶ Aguirre and Luna (CEDLA-UNITAS) 2000

⁷ Mozambique Debt Group 2001, **Civil Society Participation in the Poverty Reduction Strategy** (translated from Portuguese), prepared by Mulhavo, W.A. and S.M. Gomes, unpublished paper

policy recommendations of participatory processes have been marginalised and no feedback given to participants as to why these choices have been made.

In Bolivia, civil society groups have complained that they were only invited to discuss social issues, whereas they view the macro-economic model as absolutely fundamental to both poverty generation and its reduction. Pablo Solon, of Fundacion Solon (a Christian Aid partner organisation) says "The EBRP (PRSP) is framed within the same neo-liberal model as structural adjustment. This will not address poverty because it doesn't address the causes of poverty." Many claim that these policies were a contradiction of the recommendations of the National Dialogue.

In Mozambique, civil society participants felt they were unable to influence the identification or prioritisation of issues covered in the PRSP because they were not invited into the process until these had already been identified. Ultimately they were left feeling that they had been invited into the process simply in order to legitimise the PARPA document in the eyes of the IFIs, and not to actually contribute to its content.

6. Have countries drawn on existing strategies and integrated the preparation and implementation of their PRSPs with their core processes for policy-making and program implementation, including annual budget cycles and medium-term expenditure frameworks?
-
15. 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?

Government:

1. *Lack of pro-active planning on the side of government to involve civil society to participate in designing consultation process, lack of adequate time to prepare for meetings and consultations, information circulated prior to meetings insufficient, too technical, limited invitations often excluding grassroots organisations;*
2. *The entire process is too rushed due to its tie-in to HIPC funding;*
3. *Lack of capacity in local government capacity to consult and engage on a continuous basis with civil society.*

Civil society:

1. *Lack of capacity (time and resources) to analyse and formulate pro-active positions on government policies;*
2. *Networks still weak and often do not reach community or rural-based organisations;*
3. *Many organisations and groups have not been given the opportunity before to participate, and it will take a few years to build up their capacity to engage with government policies in a meaningful way;*

4. Among development NGOs there is generally little capacity to analyse macro-economic policy options through impact studies of the implications of these policies on the communities they work with: it will take some time to develop this capacity.

17. To what extent have external factors affected timing of PRSP preparation?

The desire to reach completion point in the HIPC process and to access concessional finance continues to be a key driving force in the PRSP process. Consequently, unrealistic time-frames for policy development and consultation processes have been set. Christian Aid therefore calls for faster tranches of debt relief to be granted from the time of the publication of the interim PRSP.

Christian Aid policy briefing

**Ignoring the experts:
Poor people's exclusion from
poverty reduction strategies**

*Prepared in partnership with INESC, Rede Brasil, Mozambique
Debt Group, LINK, CEDLA, UNITAS*

October 2001

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Summary

'We must never stop reminding ourselves that it is up to government and its people to decide what their priorities should be. We should never stop reminding ourselves that we cannot and should not impose development by fiat from above'

James Wolfensohn, President, World Bank.

People's participation in decision making is in crisis. In both rich and poor countries, hundreds of thousands of people are taking to the streets to protest against policies set by global institutions and powerful governments. It is in poor countries in particular that millions of people, whose lives are affected most by these policies, have little voice.

While World Bank and International Monetary Fund (IMF) officials discuss ways of opening up dialogue with poor people, large protests have taken place outside their meetings in recent years. Christian Aid believes the sentiments of many of those protestors echo those of people in poor countries who have to live with the impact of decisions made by global institutions.

Two years ago the World Bank and IMF introduced Poverty Reduction Strategy Papers (PRSPs). Poor countries must now complete PRSPs in order to qualify for debt relief and further loans. In order to write their PRSPs, governments are required to consult with poor people.

The real picture of participation in PRSPs is now becoming clearer. Thirty seven countries have produced an interim PRSP, and five countries a full one. These have been endorsed by the boards of the World Bank and IMF. But research from Christian Aid, in consultation with partner organisations in poor countries, shows that the involvement of poor people in drawing up policies and writing PRSPs has been minimal and superficial.

- **The experts on poverty issues are still being ignored.** The overriding concern of many Christian Aid partners is that, in many cases, the PRSP is being put forward by governments as a *fait accompli*. Despite the rhetoric, poor people are still not being involved in decision making.
- **Poor people's views are invited on some things, but not on everything.** The PRSP has no influence on the broader package of economic reforms still being promoted by the World Bank and IMF. 'One size fits all' packages, which do not take full account of the poverty situation in each country, are still in evidence. At the same time, poor people or their representatives need to be supported in developing 'tools for participation', especially training about how they can inform choices in economic policy making.
- **As a result, poor people are being used to 'rubber stamp' PRSPs.** Many Christian Aid partners felt they had been brought in to add legitimacy to PRSPs that had already been decided upon. In many cases they were asked to support policies with which they fundamentally disagreed.
- **The rhetoric is not being backed up by the requisite support.** The World Bank and IMF are failing to provide countries with enough technical support to match the

complexity of the task. Moreover, they are failing to support local groups that have strong disagreements with the process and content of PRSPs.

- **English is the language of participation.** Christian Aid partner organisations in several countries have reported consultation papers being circulated in English only. Some have discovered they were not given access to all of the PRSP paperwork.

In their current review of PRSPs Christian Aid is urging the World Bank and IMF to:

- **Review the PRSP process in the light of research on participation.** Clearly many, including Christian Aid, believe efforts to consult poor people are failing because of lack of will on the part of both governments and the World Bank and IMF.
- **Involve poor people in discussions from the outset.** Poor people should not be considered an additional extra in the fight against poverty. They should be at the heart of the process, setting the priorities and the agenda for debate.
- **Invest in participation to ensure the transfer of ownership.** Adequate time and resources need to be set aside if the views of the experts are truly to be sought. True participation is a complex process. And local groups need support from the international financial institutions (IFIs) (the World Bank and IMF) when governments do not take their views into account.
- **Use PRSPs to inform a more flexible approach to poor countries.** There is little point in asking poor people for their views if they will not be listened to. The World Bank and IMF must abandon 'one size fits all' policies in favour of a flexible approach that is informed by PRSPs.

1. Introduction

It is clear that at both national and international levels people feel disenfranchised and excluded from systems of governance. The protests that have accompanied World Bank and other international meetings over the past two years demonstrate an increasing dissatisfaction with the way that decisions are being made by both international actors and governments. These protests have been mirrored by protests in developing countries. The international financial institutions (IFIs) stand accused of being unresponsive to the voices and interests of poor people, and favouring the demands of globalisation and big business.

Low levels of participation in recent national elections in Europe and the US suggest a growing apathy and loss of faith in traditional national governance and political parties. Non-traditional actors, such as non-governmental organisations (NGOs), command increasing voice and attention. The huge momentum behind global campaigns on debt, human rights and the environment are a powerful sign that people want a better, and more accountable, international system. In Birmingham, London, Cologne and Genoa, Christian Aid supporters peacefully mobilised in huge numbers to express their anger at the continuation of the international debt crisis. Many of these people had never before taken part in popular protest, but felt that this was the only way of getting their message across to governments and the IFIs.

Set within this broader governance context, this report will focus on national Poverty Reduction Strategies (PRSPs) in developing countries. These are flagship examples of policy processes that, in theory, have people's participation and poverty reduction at their heart. Although PRSPs are national processes, they sit at the interface of national and international governance issues, making the need for popular participation all the more pertinent. Two years on from their launch, this report provides a critical view of how far PRSPs have facilitated real, empowering and policy-changing participation by the people affected by these policies. It is hoped that it will contribute to the review of PRSPs that the World Bank and IMF will be conducting at the end of 2001.

2. Why should poor people participate?

Christian Aid believes that participation is first and foremost a right. When effective, participation can also result in resource allocations that are more responsive to the needs and aspirations of poor people.

To these ends, poor people should be permitted a central role in decision-making on policies that affect them. Political systems must involve people at all levels and mechanisms are needed to ensure that leaders remain responsive to people's voices, in particular those of the most vulnerable groups. It is not sufficient for poor people to simply receive information about policies, nor to merely be consulted on proposals already formulated by government and other actors. Genuine participation must make poor people central to policy making – in choosing priorities, debating policy options, and in the articulation, implementation, monitoring and review of processes and policies.

It is not enough merely to seek the views of poor people: their views must also be taken seriously and permitted the authority to influence and shape emerging policies. Participation should open up space for power sharing. As such, it must be recognised that

participation is a political act. The empowerment of poor and marginalised groups means that other groups in society must relinquish some power. The term participation is frequently used as a bland and non-threatening term but, if carried through to its natural conclusion of shared decision making, it can be deeply challenging to vested interests.

Finally, poor people or their representatives need to be supported in acquiring the ‘tools of participation’, especially on the economic content of policy. Otherwise no effective dialogue on resource allocation in particular, or the best way to achieve sustained equitable growth, can be achieved.

An estimated one and a half billion people around the world are affected by PRSPs¹. As poor people are those who are most vulnerable to the changes induced by new approaches to poverty reduction, it is they who are the primary stakeholders in PRSPs. However, these are also the people who are often most marginalized from political systems and whose voices are least likely to be heard in policy making arenas. Their voices must be proactively sought, therefore, if their right to representation is to be fulfilled. In the words of the UN Human Rights Commission: ‘...democracy is based on the freely expressed will of people to determine their own political, economic, social and cultural systems and their full participation in all aspects of their lives’². Not only does genuine participation by poor people in national policy making respect and protect this democratic right, but it should also improve the quality, appropriateness and sustainability of poverty eradication efforts. As the UN says:

‘...development can only be sustainable on a long-term basis if development policies are responsive to people’s needs and ensure people’s participation both in their design and implementation...the persistence of extreme poverty inhibits the full and effective enjoyment of human rights and participation of all citizens in the democratic processes in every society, and that the full participation of everyone in democratic societies fosters and enhances the struggle against poverty.’³

In this age of globalisation, decisions affecting a country’s policies are frequently made beyond its borders. Divisions between national and international forces are increasingly meaningless. The World Bank and IMF have been setting the parameters for development policies within poor countries for over five decades, despite the recent shift in rhetoric towards increasing country ownership of policy. Public debates in low-income countries continue to be usurped by decisions made between finance ministers and the IMF. These exclude civil society, parliamentary agencies, or even other government departments. This devalues and undermines any efforts to facilitate ordinary people’s involvement in governance processes⁴.

Despite their concern with ‘good governance’ at a national level, and their international influence over billions of people’s lives, the IFIs’ own institutional structures and cultures are scandalously undemocratic. Voting at the World Bank and IMF is proportional to share holding, meaning that the G7 countries, which have 12% of the world’s population, hold 57% of the votes⁵. Conversely, 43 African countries are represented by just two people with under 5% of the voting share. Despite the new efforts to broaden

¹ WDM 2001: 5

² United Nations 2001a: 1

³ United Nations 2001b: 1

⁴ Jordan, L. 2000: 1

⁵ Alexander, T. 2000: 2

participation by civil society many of the IFI's most important documents remain confidential and closed to public scrutiny⁶. And even with the shift towards PRSPs, the content of each paper is still audited jointly by the IFI boards.

Problems of participation and accountability also exist within countries. Many developing countries have recently strengthened democratic systems and moved away from those based on patronage – but these have yet to be entrenched. And, even here, poverty and inequality themselves act as barriers to participation. Genuine efforts need to be made to break this cycle, efforts to strengthen democratic systems, facilitate empowerment, and tackle poverty.

In order for policy making to become more democratic, decision making within the IFIs and within developing countries must be transformed, so that the people who are affected by their policies are able to shape them. The national and global levels of governance are fundamentally linked through the PRSP process and so neither should be dealt with in isolation.

3. PRSPs: an opportunity for participation?

During the 1990s the World Bank talked increasingly about participation by civil society groups in national policy making. This has been set within the broader stated objectives of the Bank: national ownership, downward accountability, good governance, democratisation, and improving the quality, relevance and poverty focus of development co-operation. In his speech to the 1998 IFI Annual Meetings, World Bank President James Wolfensohn asserted:

but as the key to long-term sustainability and leverage. We must never stop reminding ourselves that it is up to the government and its people to decide what their priorities should be. We should never stop reminding ourselves that we cannot and should not impose development by fiat from above.⁷

Such words suggest a shift away from the 'one size fits all' approach of structural adjustment, where the same development model was imposed on countries despite their economic, social, governance and environmental peculiarities.

The Bank's own definition of participation clearly states that it should permit genuine influence by poor people: 'Participation is the process through which stakeholders influence and share control over the priority setting, policy-making, resource allocations and access to public goods and services.'⁸

Two years ago the World Bank and IMF formalised their approach to poverty and participation through the introduction of new instruments. Both organisations stated that they would henceforth place poverty reduction at the heart of their national programmes – and debt relief efforts – for the world's poorest countries. The IMF would replace traditional Enhanced Structural Adjustment Facilities (ESAF) with Poverty Reduction and Growth Facilities (PRGF), and the World Bank would support countries' Poverty

⁶ See Bank Information Centre 2001

⁷ Ayrigg 1998: 1

⁸ <http://www.worldbank.org/poverty/strategies/chapters/particip/orgpart.htm>, accessed on 23/07/01

Reduction Strategy Papers (PRSP). Cross-conditionality, and a joint assessment of the strategy and programme by the Boards of the IFIs would strengthen the link to poverty reduction. The Heavily Indebted Poor Countries (HIPC) process would also ensure that debt relief funds were focused on poor people's needs. Each of the countries hoping to access debt relief and concessional loans would have to produce a PRSP articulating how they intended to use these funds to target poverty.

The PRSP initiative was founded on the following stated principles:

- *Country-driven*: governments would lead the process and there would be broad-based participation in determining the content of the strategy;
- *Results-oriented*: desired outcomes and indicators would be clearly identified and agreed upon;
- *Comprehensive*: strategies would take a multi-dimensional view of poverty;
- *Long-term*: the depth and complexity of the required changes would necessitate long term commitment by donors and governments;
- *Based on partnership*: between governments and other actors in civil society, the private sector and the donor community.

Each national strategy was to be co-ordinated by government, but based on a broad participatory process involving a wide range of development actors. Civil society, the private sector and in particular the poor themselves were meant to fully participate in formulating the PRSP. The IMF publicly emphasised the importance of popular participation, stating that full PRSPs should 'reflect the outcomes of an open and participatory process involving governments, civil society and relevant international institutions and donors'⁹.

At first PRSPs appeared to some to be an exciting new development. Non-governmental groups in many countries were (in some cases for the first time) being offered the opportunity to influence national policy-making on both sectoral issues and the over-arching development plan. Never before had the involvement of civil society groups in national policy making been formally legitimised in this way, nor had it been so high profile.

Learning from previous experiences: Country Assistance Strategies

Prior to the introduction of PRSPs in September 1999 some progress had been made in opening up policy processes to civic actors, although since then the pace has accelerated and it has become far higher profile. However, the World Bank's Country Assistance Strategies (CAS) illustrate how hard it has been to open up policy discussions between governments and the World Bank to scrutiny by national populations. The benefits of broader participation in the CAS, more informed development priorities and better co-ordination of development co-operation efforts, have been recognised by some actors in the World Bank¹⁰. The Bank had also become increasingly proud of what it calls 'Participatory CASs'¹¹. But civil society groups have still had to fight for CAS documents even to be made available in the national language.

⁹ IMF 1999

¹⁰ Aycrigg 1998

¹¹ A CAS is the World Bank's programmatic agreement with a national government, detailing loans and programmes to be provided. CAS's have traditionally been highly secretive, although in the light of recent demands for transparency and participation they are now sometimes published. See Bain, K. and E. Gacitua-

Brazilian civil society wins access to the CAS

Although the IFIs and Brazilian government became more amenable to participation by civil society in socio-environmental projects during the 1990s, the same did not apply to structural adjustment programmes or infrastructure projects. The CAS in Brazil has been a secret document, only available to the Executive Director's office in the World Bank and a small group within the government's Executive Branch. Despite the fact that the document has a direct impact on the federal budget, and needed authorisation by the Senate, it was previously not made available to Senate representatives. Municipal and state level authorities had no access to the CAS either, despite the fact that it affects state level policies.

Civil society organisations tried repeatedly to gain access to the CAS during the 1990s with no success. The Brazilian government and the World Bank both passed responsibility for its authorisation to the other. In 1997 however, the civil society network on the IFIs, Rede Brasil¹², managed to get hold of a copy, had it partially translated and distributed it to Civil Society Organisations (CSOs) and legislators. Then, in April 1998, Rede Brasil published the CAS in Portuguese. It was the first CAS to be published. The Bank was furious and accused Rede Brasil of document theft in a national newspaper.

The 2000 CAS was then published and it seems that greater transparency has been established. Despite this progress, however, there are still no mechanisms through which people's groups are able to affect the content of the CAS prior to its finalisation, and there is still no obligation for a draft document to be sent for scrutiny to the Senate. Civil society groups are now calling for sub-national discussion of the CAS, public hearings by parliament, and proactive dissemination of the CAS throughout the country.

While advocating on the CAS, Brazilian CSOs collaborated with each other and worked closely with key Congress members in order to push for transparency from the World Bank and the Executive Branch of the Brazilian federal government. 'For the first time, a CAS was made public due to a national (not international) initiative, and legislators in a borrowing country searched for ways to control lending operations, setting precedents for similar processes elsewhere.'¹³ The challenge for southern CSOs is to develop national constituencies to mobilise around international issues affecting their countries.

The case of the Brazilian CAS is a good example of civil society groups and the Congress working together for greater transparency within government and IFI processes. But it is also a good example of how the practice of the IFIs has not caught up with their rhetoric on participation – something we are seeing again with the PRSPs.

4. What's really happening in PRSP processes?

Manio 1999, 'Promoting a Participatory Country Assistance Strategy: Lessons Learned from Colombia, El Salvador and Peru', in Piester, K. (ed.) **Thinking Out Loud: Innovative Case Studies on Participatory Instruments**, World Bank Group: Washington DC

¹² Rede Brasil is comprised of 56 organisations including NGOs, social movements and labour unions, which are concerned about the influence of the IFIs in Brazil. Rede Brasil is a partner organisation of Christian Aid.

¹³ Vianna, A. 2000: 10

The reality of participation processes in PRSPs thus far has clearly not lived up to the optimistic rhetoric. Earlier this year, consultants to the UK government's Department for International Development (DFID), SGTS and Associates, identified that: 'In the majority of countries, participation by civil society in the PRSP has, as yet, been limited and superficial'¹⁴. Even where space has been provided for civil society groups to voice their opinions, these have not had an impact on resulting policies. The behaviour of both the IFIs and national governments is currently preventing the full potential of the PRSP process from being realised.

Some positive outcomes have resulted. PRSPs have begun to contribute to a shift in relationships between the IFIs, national governments and their peoples. In some countries new opportunities have emerged for citizens to at least voice an opinion on public policy, although this has rarely taken the form of genuine power sharing over decisions. Civil society groups have seized opportunities to engage with PRSP processes - diversifying and co-ordinating their activities, and developing their skills at a staggering rate. In the case of Rwanda, civil society organisations had previously rarely ventured into advocacy work, particularly on economic issues, but have now begun to do so around the PRSP.

Popular debate and media coverage has increased on economic, poverty reduction and participation issues in PRSP countries, in some places for the first time. Perhaps most importantly, networks have been established between government, the private sector and civil society, which could act as foundations for future dialogue. As the PRSPs are intended to be part of an iterative process, better networks could serve to strengthen civil society participation in future PRSP documents and policy formulation.

Despite these forward steps, many groups remain ill informed and are still not aware that they have the right to participate in policy making. Empowering people's participation in national policy processes undoubtedly takes time and practice to develop. Even in the world's oldest democracies popular participation in national policy-making is practically non-existent. In low-income PRSP countries the added limitations of restricted resources and capacity of both government and non-governmental actors has hindered effective participation. We outline below some of the main limitations to real participation in PRSPs so far.

It should be noted that, although the opportunities offered through PRSP processes are to be welcomed, progress in terms of real participation can only be limited through externally mandated processes. The power imbalance between the World Bank/IMF and country governments, and between these governments and poor people in their societies is an obstacle to genuine participation. Currently, development initiatives including the PRSP are devised and implemented in a top-down way. This needs to be transformed and turned on its head.

Fundamentally, pro-poor development must be owned and implemented by affected peoples themselves, and their initiatives should feed the thinking and policy development of governments and IFIs. PRSPs are a welcome entry point for broader participation, but their transforming impact can only be limited as long as they operate in this top-down manner.

¹⁴ SGTS and Associates 2001, 'Strengthening Civil Society Participation in Poverty Reduction Strategy Papers (PRSPs)', report to DFID, page 3

THE MAIN LIMITATIONS OF PRSPS

4.1 Rubber stamp 'participation'

It is clear that some governments consider civil society participation to be an external condition, which they have to fulfil merely to satisfy donors. Many of Christian Aid's southern partners tell us that they have 'participated' in their national PRSP processes, but often this has only meant receiving information from government, or very superficial consultation. Participating groups frequently claim their involvement has been used to legitimise processes but that they have not been permitted to influence policy.

In the case of Mali, CSOs were not given sufficient time to prepare for meetings, and claim that they were invited to take part simply in order to legitimise the government's process in the eyes of the World Bank. In Uganda, the Uganda Debt Network observed that participating civil society groups:

'...complain that submissions made to government were used selectively, with key issues they raised ignored in the final document. This was in contrast to the...Government invitation...(and) has led some to wonder whether Civil Society Organisations are invited to the table simply to legitimise what the Government wants to write'¹⁵.

There is clearly a fundamental difference between civil society groups being invited to participate in the design of a poverty reduction strategy and simply being consulted on an already formulated proposed strategy. Too often consultation takes place once the draft PRSP document has already been produced by government (with the 'advice' of IMF and World Bank staff) and civil society participants are not able to influence the initial agenda or issue prioritisation. Participation is not real unless participants are free to affect policy outcomes, without being pre-empted.

'The dilemma most agencies face is that different aspects of participation are both needed and feared. Agencies need people's participation and support, but fear that their wider involvement is less controllable, less precise and so likely to slow down planning and control processes. ... Furthermore, good participation must challenge structures and systems that perpetuate poverty.... Those with too much power cannot engender participation without ceding some of that power.' (Warren Nyamugasira, Uganda Debt Network¹⁶)

More recent attempts to pilot Social Impact Analyses should serve to share information on the poverty impact of prospective policies, which, in turn and through their involvement of civil society, may offer greater scope for influence. But the evidence from PRSPs so far demonstrates that the institutions involved are not willing for participation to challenge these structures and systems, nor even to open space for real policy influence.

4.2 We invite your views, but not on everything

¹⁵ Nyamugasira, W. 2001: 4

¹⁶ Nyamugasira, W. 2001: 4

The issues on which civil society's views are sought have been selective. For example Angolan CSOs, who met in June 2001 to organise their input to the government's interim PRSP, have complained that government seemed reticent to organise a consultation and that the only workshop was confined to social matters:¹⁷

‘NGOs consistently report that there were two parallel processes, with ‘social’ issues discussed in the context of PRSP – with some participation – and ‘macro’ issues discussed in the context of PRGF – with no participation.’ (EURODAD¹⁸)

This has often meant that civil society ‘participants’ have been given no space in which to discuss the package of adjustment policies that still dominate their national PRSP and PRGF. In Bolivia CEDLA complained that the economic model was ‘a given’ and they were only permitted to tinker around the edges of a model with which they fundamentally disagreed and considered to be actually exacerbating poverty. They claim that the IMF representative stated that the recommendations of the alternative dialogue process, managed by the Catholic Church, would only be permitted to influence the allocation of HIPC debt funds. Macroeconomic targets and strategies were not open to change¹⁹.

This situation arises partly because of the perceived responsibilities of the Bank (PRSP) and Fund (PRGF) and the sporadic co-ordination between the two. It also arises because these are complex issues – it’s much easier for the IFIs not to open up a can of worms by beginning discussion of economic models. Limited economic literacy within poor communities means that conversations about national policy-making can be extremely difficult, and rarely move beyond being wish lists to become realistic alternative policy proposals. But the implications of these choices are so important that they must be brought out into the open. Closed options make a mockery of the stated importance of participation.

4.3 which leads to the same policy packages

One indicator of whether real participation is taking place should be the make-up of the policy packages reflected in the PRSP and PRGF. If diverse groups in a broad range of countries are influencing them and strategies are truly country owned, one would expect PRSPs to contain a variety of policies, evidenced by a movement away from the traditional policies seen under structural adjustment. At the very least one would expect a number of different emphases within some traditional policies – emphases that explicitly recognise who gains or loses out from each policy. But this is not happening. Christian Aid partners from a number of countries²⁰ identify that the old pattern of policy prescription by the IFIs is continuing under this first round of poverty reduction strategies. They include:

- policies of cost recovery in the provision of health and water services, which directly threaten countries’ ability to achieve the IDTs;
- indiscriminate privatisation policies without proper investigation of the long-term poverty impacts;

¹⁷ Thomet, N. 2001a

¹⁸ EURODAD 2000: 1

¹⁹ World Development Movement 2001

²⁰ For example, Tanzania, Zambia, Bolivia, Kenya, Mozambique and Lesotho

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- measures of trade liberalisation which again are not based on an evaluation of the country specific poverty context.

Similarly, a survey of 12 southern civil society groups undertaken by the organisation Globalisation Challenge Initiative concludes that:

‘For many southern civil society organisations, the core problem lies in the obstacles to genuine national ownership of development plans when the IMF’s ‘seal of approval’ will, in all likelihood, remain conditional upon a country’s acceptance of a certain set of standard macroeconomic and structural adjustment policies’²¹.

It would be wrong to conclude that some of the aspirations of macroeconomic policy or reform are wrong in principle. Inflation tends to hurt poor people more than rich people because of the share of assets they hold in cash. But fiscal restraint in order to achieve macroeconomic stability and low inflation must not compromise the ability of a country to meet the basic needs and rights of its people, especially in the provision of basic services. This may also have implications for ceilings on the proportion of credit being diverted to the public sector – a traditional component of any IMF programme. A more pragmatic and flexible approach is sought to accommodate individual countries’ needs, and their peoples’ aspirations.

While it cannot be expected that all civil society contributions be incorporated as policy into final documents (not least because different actors within civil society hold different views), there is consistent evidence that civil society contributions have actually had very little impact on the documents. There is rarely any indication of diversity of opinion. As a result, civil society groups have already started to opt out of PRSP processes²².

4.4 *Minority access*

At a workshop organised by Christian Aid and the Irish NGO Trocaire, with their Rwandan partner organisations in October 2000 – the same month as the country’s interim PRSP was published – only one out of 30 participants from leading national NGOs and churches had even heard of the PRSP. Christian Aid hears the same story from partners in many other countries. The problem is that involvement has been confined to national level NGOs. Even churches and other prominent civil society groups have generally had limited information on these policy processes. Genuine engagement of grassroots communities in the PRSP has been practically non-existent in most countries.

More effort needs to be made by those involved in the PRSP – including facilitation by the IFIs – to make sure that a broader and more representative group of citizens are invited to participate. More effort needs to be made to ensure that the voices of smaller and less powerful groups, who often live in rural areas, are heard as loudly as those who live in the capital. Part of this will mean support to smaller groups to build capacity to dialogue with state actors on national policy, but the location, format and atmosphere of meetings will also be crucial.

²¹ http://www.challengeglobalization.org/html/prsp_may2000.shtml (accessed on 02/08/01)

²² For example, see the Kampala declaration of Jubilee South

4.5 *Hurried processes*

‘...in essence the speed with which Interim and full PRSPs have to be developed (for HIPC countries) militates against meaningful participation particularly by civil society actors’. (AFRODAD 2001: 2)

Developing a PRSP is the key condition for being able to access debt relief under the HIPC initiative. As governments of indebted countries are understandably keen to see debt relief implemented quickly, many are forced into unrealistically short time frames for developing their PRSP. In some countries there has been less than six months between the publication of the interim and full PRSP. In this time the following steps should ideally be followed: a full data collection process; the preparation of sectoral plans; consultations with all relevant line ministries and donors; the design and negotiation of economic models with the IFIs, as well as a thorough grassroots participatory process set up to debate the proposed policy options.

In the case of Ghana, Siapha Kamara of the SEND Foundation points out that: ‘Given the economic difficulties of the country the whole process is being fast-tracked to meet the timeline’²³. The Tanzanian Coalition on Debt and Development also confirmed that the very restricted time frame resulting from the HIPC process was a serious constraint to the consultation process there.

In this context, the reality is that participation by CSOs and grassroots communities is often a low priority for government PRSP teams. And so it is afforded much less attention and effort than required, with the primary stakeholders losing out as a result. This has sometimes placed lobbying groups in a difficult position, as they have had to weigh up the danger of delaying debt relief against the importance of genuine participation. Malawian lobbyists, however, decided in April 2001 that it was more important to have a reasonable level of participation in the PRSP formulation, and so they successfully lobbied for an extension of the timeframe by six months²⁴. But in Mozambique, faced with the same dilemma, civil society lobbyists opted to keep the proposed timetable and forgo a deep participation process in favour of quick debt relief. It seems that the link between HIPC and PRSPs has created an either-or situation.

4.6 *Participatory processes – the basics*

How can we expect participation to work when sometimes even the basic building blocks are not in place? Often it is very simple things, such as the language in which the document is published, or the lack of information about what a PRSP is, that prevent real and effective involvement of local groups.

- Documents are often not produced in national, let alone local languages. In Bolivia some PRSP documents were initially only produced in English. A Spanish version followed but documents were never translated into local languages such as Aymara, Quechwa or Guaraní.
- Invitations to meetings and background papers are frequently only sent to civil society participants at the last minute.

²³ E-mail communication with Siapha Kamara, SEND Foundation, Ghana, 31 May 2001

²⁴ See Malawi Economic Justice Network 2001, **The Malawi PRSP – Making the Case for a Genuine Process**

- Consultation meetings are frequently information-giving sessions rather than proactive efforts by government to elicit the views of CSOs. In Rwanda, for example, a national level meeting to discuss the Interim PRSP (including only international NGOs rather than Rwandan civil society groups) consisted of the government making a long presentation of its plans for the PRSP, rather than hearing the participants' views on the analysis and policies proposed.
- Agendas/ issues to be discussed are not formulated in a participatory way.
- The government selects civil society participants, so organisations more critical of current policies are less likely to be chosen. In the case of Bolivia, some civil society participants feel that the government's selection of participants for the National Dialogue was not completely neutral.
- After making their contributions to consultation meetings, CSOs often do not get feedback on which of their recommendations will and will not be included in PRSP documents. This can leave them feeling that their contributions have not been taken seriously.

The term 'participation' is frequently used in PRSP literature and very little distinction is made between different levels of involvement. It has been used too broadly to include events and processes that are mere consultations or information-sharing sessions, rather than permitting genuine influence by stakeholders. This has made it particularly difficult for civil society groups to be clear about the level of involvement that is expected from them. The Tanzanian Coalition on Debt and Development identified 'a lack of clarity on the side of government as to their understanding of what a consultative process entails, which has led to lack of access to relevant documents'²⁵. Clearer parameters need to be set at the outset of participatory processes.

In some cases even information provision by government and IFIs has been inadequate. At a Christian Aid workshop on civil society participation in national development programming in April 2000, Mozambican and Bolivian representatives stated that in these countries even the minimal requirement of good information flows has not been met. In the case of Haiti civil society groups have struggled to elicit even the most basic information about the PRSP, such as which government ministry is leading the process and the timeline for its formulation. Also, the national budget is not publicly available in Haiti, which severely hinders any attempts to influence government policy.

4.7 Gender and women's representation

The majority of the world's poor are women. Poor women often carry the additional burden of discrimination and oppressive cultures, which leave them even further disenfranchised. The model of participation articulated through PRSPs is currently failing to involve poor women and the specific measures needed to facilitate their involvement have not been implemented. This failure means that participation can potentially lead to a reinforcement of existing gender inequalities, as men are far more likely to be literate, in leadership positions, and have the confidence and cultural acceptability to speak out. Poor women therefore continue to be excluded. Not only is this a democratic failure, but it also means that PRSPs are less likely to bring a sustainable solution to poverty, as the poorest and most vulnerable groups are not involved in their formulation or implementation.

²⁵ TCDD/PRSP Drafting Committee 2000: 2

In the hurry to co-ordinate and appear professional to government and IFIs, civil society groups have often tried to speak with one voice. Geraldine Terry of the Gender and Development Network (UK) points out the implications of this for women's organisations, which may be marginalized within civil society:

‘Male-dominated NGOs, trade unions or professional associations are unlikely to prioritise the gender interests of poor women. Instead, it is likely that ‘speaking with a single voice’ would mean subordinating women’s gender interests to men’s.’²⁶

Unsurprisingly, PRSP documents have been largely silent on gender, apart from a few broad platitudes. Even where poverty assessments are separated under gender headings, and women are given particular mention in PRSP documents, there have been few efforts to tackle the root causes of gender disparities in development. Indeed many of the International Development Targets – which the international community and national governments have pledged to reach by 2015 – include explicit gender dimensions, and therefore need to be more strongly reflected in PRSP documents.

4.8 Support for participation from the IFIs

The IFIs have taken a somewhat back-seat approach to supporting participation in PRSP countries. It is very convenient for them to point out that, in order for policies to be nationally owned, their role should be minimal. While this is true, it does not prevent them from providing the necessary support to make the rhetoric on participation real. As noted above, participation that works well, that enriches policy, and influences resource allocation is a difficult and long process. If the intention is that it does indeed work well, then governments and civil societies need to be able to access more resources to facilitate that participation, and develop skills and capacity among grassroots groups. Moreover they need to have ways of accessing that support through neutral third parties, to minimise the IFI's influence over national civil societies. The resources that are being provided so far do not match up to the complexity of the task. While the international rhetoric on the importance of participation is strong, it is not borne out by what happens on the ground.

- The IFIs should provide moral as well and financial support to participation processes.
- The World Bank and IMF should not lend against PRSPs that have not been truly participatory in nature.
- National civil society groups should be broadly satisfied with their involvement in and influence over PRSPs in order for them to be endorsed by the IFIs, and a stronger line should be taken when this is clearly not the case.
- Mechanisms for approving PRSPs should not solely depend on the capacity or interests of the Joint Staff Assessment, but rather incorporate the views of indigenous consultative groups.
- Finally, this consideration should override the incentives for maintaining or increasing loan portfolios, and be supported by staff management systems in the IFIs that reward progress towards poverty reduction outcomes.

²⁶ Terry 2000: 18

Bolivia's Estrategia Boliviana de Reduccion de la Pobreza (EBRP/PRSP)

Bolivia has frequently been cited as a progressive example of popular involvement in public policy making, and as such has been viewed in a good light by the IFIs²⁷. It has a relatively numerous and well-organised civil society, with a long history of advocacy towards government. Efforts have been made to institutionalise participation, through the 1995 Law of Popular Participation – which aimed to bring the national budgeting process to the municipal level – and the 1997 National Dialogue. These were considered to have paved the way for a participative PRSP process following Bolivia's acceptance into the HIPC initiative in February 2000. The government then designed a further National Dialogue process focusing on the PRSP. This was to be conducted during July and August 2000 through municipal authorities and also involving civil society and the private sector.

The 2000 Dialogue took place, however, against a backdrop of national political crisis. There was gridlock between the main political parties, and widespread popular protests and strikes during April and September/October. This meant that government time and effort was distracted away from the National Dialogue, as they sought to resolve the crisis and placate the protesters. Consequently, some issues raised by civic participants in the National Dialogue process dropped off the public agenda and remain unresolved.

Many civil society actors were quite cynical even at the outset of the Bolivian National Dialogue process, due to their earlier experiences of government consultations. Previous efforts such as the Law of Popular Participation and the 1997 National Dialogue had been fraught with problems. As a result, the confederation of *campesinos* and the trade unions refused to take part in the government's 2000 Dialogue, which immediately weakened it. Also, the Catholic Church, while remaining engaged with the process, declined the government's invitation to sit on the co-ordinating committee of the Dialogue and continued with its own already planned process of community consultations around the country. NGO networks responded to the government's invitation to take part in the dialogue by articulating and publicising a number of conditions for their engagement, and only accepting the invitation once the government had agreed to these.

Despite these setbacks, some progress was made in terms of participation in the 2000 National Dialogue: a popular discussion of national policies and the budget took place in the media; Bolivia's non-governmental sector mobilised and co-ordinated well; some advocacy successes were won, in particular on the issue of social control of debt relief funds: multi-stakeholder committees have been established to monitor the use of funds and the majority will now be allocated to the poorest municipalities.

However, despite this progress, the Dialogue process has been heavily criticised by civil society groups on a number of fronts:

- consultations were frequently organised at the last minute;
- documents were initially only provided in English (meaning that most participants were unable to read them);
- CSOs were not permitted the same level of access to information as official actors (which put them at an immediate disadvantage);

²⁷ <http://www.worldbank.org/participation/boliviacase.htm> (accessed 20/12/2000)

- the time frame was too short to permit genuine participation by poor, rural groups;
- participants were felt not to be fully representative of society²⁸;
- while civil society participants had been promised the opportunity to view and approve the final PRSP at the end of the Dialogue, this opportunity never arose.

The social upheavals of September 2000 were felt to be an illustration of the Dialogue's failure to address the concerns of people's groups. CEDLA and UNITAS reported:

'The social outburst of September (2000) highlighted the limited participation of civil society in the preparation of the PRSP. The representation at the National Dialogue and the demands expressed during the event do not reflect the needs of the poor. All social sectors must be incorporated into the process with efficiency and transparency, so that all demands may be heard and priorities established.'²⁹

CEDLA and UNITAS also argue that the dialogue process was top-down, operating as it did through government structures, and that it gave little regard to traditional forms of territory-based association. Hugo Fernandez of UNITAS claims that it was therefore more of a conversation between national and local government, rather than one which reached out to civil society organisations and poor communities.

Clearly in the case of Bolivia the internal political context was an obstacle to popular participation in the PRSP process. In such a poor country with a complex governance situation it is a difficult task to institutionalise participation, and in many respects Bolivia has made some brave attempts to do so. However the social protests of 2000 and the slow progress of the Law on Participation 'clearly show the difficulty of setting up democratic institutions that integrate the poor and excluded, and arrive at effective solutions to their basic problems'³⁰.

Any progress that has been made in terms of broader participation has been compromised by the failure of the Dialogue process to support an open discussion of the macro-economic development model. Civil society actors were only invited to discuss social issues and the outcomes of the Dialogue were not permitted to influence the macro-economic policies. Consequently Bolivian NGOs have been very critical of the resulting PRSP document. Their analysis is that the PRSP was based on unrealistic assumptions (such as an annual growth rate of 5%, whereas the currently projected growth rate for 2001 is 1.6%)³¹, and it failed to address severe social and economic inequalities.

Furthermore, structural adjustment measures have been resurrected and given greater legitimacy through the PRSP, with the specific motivation of satisfying the IFIs.

More than 100 Bolivian civic organisations stated their dissatisfaction with the policy content of the final document, and appealed to the Executive Directors of the IFIs in May 2001 not to approve it³². Their letter claimed that: 'what has taken place in Bolivia does

²⁸ Aguirre and Luna (CEDLA-UNITAS) 2000

²⁹ Aguirre and Luna (CEDLA-UNITAS) 2000: 6

³⁰ Aguirre and Luna (CEDLA-UNITAS) 2000: 1

³¹ Interview with Javier Gomez, CEDLA, 04/07/01

³² The networks who signed up to this letter were the Defence League for the Environment (LIDEMA), Co-ordinator for Women, Association of Finance for Rural Development institutions (FINRURAL), Rural Secretariat, Association of Educational and Promotional Institutions (AIPE), Radio Schools of Bolivia (ERBOL), Jubilee 2000 Forum, Bolivian Chapter for Human Rights, Democracy and Development,

not reflect a genuine concern for reducing poverty by means of participatory plans, programs and policies,' and that: 'in sum, the multilateral co-operation representatives are indifferent whether the (Bolivian PRSP) drafting process has been participatory or not'. Despite this plea, however, the IFIs endorsed the Bolivian PRSP in May 2001.

Mozambique's Plano de Accao para a Reducao de Pobreza Absoluta (PARPA/PRSP)

Mozambique is an enormous country with a dispersed rural population, and the capital city is more than 1,000 kilometres from its northern border. Communication is difficult and its infrastructure weak. It is also one of the poorest countries in the world and only emerged from a 26-year civil war in the early 1990s. In short, it is not the easiest place in the world to conduct an effective national consultation process.

Civil society's history of engaging with national government is very recent and is heavily dominated by NGOs and religious groups, with a much lesser role played by traditional authorities and community-based associations. The process of civic engagement is in its infancy and currently confronts a whole range of obstacles. Many groups do not see the relevance of national policy to their own activities and concerns, nor do they consider themselves to be crucial actors in it.

Mozambique became eligible for HIPC debt relief in 1996, but not until the introduction of HIPC II was it called upon to produce a PRSP document. Mozambique already had a poverty plan in the form of the Plano de Accao para a Reducao de Pobreza Absoluta (PARPA), for the period 2000-2004. The PARPA was only accepted as an Interim PRSP, though, as the IFIs felt it lacked sufficient adjustment measures and had not been designed through a broad participatory process. This obviously had direct implications for the 'ownership' of the participation process and understandably many in government viewed it as an imposition by the IFIs.

The Ministry of Planning and Finance led a series of provincial level seminars to discuss the draft PARPA, bringing together central government, provincial technicians, District Administrators, NGOs and other civil society actors. This process took place between April and December 2000 and included thematic meetings on sectoral issues at the national and regional level. The quality of these meetings varied between provinces. Civil society groups, such as the Mozambique Debt Group, organised additional multi-stakeholder meetings to discuss the PARPA, also including representatives from other African and Latin American countries to share their experiences of PRSPs. A number of NGOs made a proactive effort to raise awareness of the PARPA/PRSP and to facilitate their engagement in it by community groups.

The PARPA/PRSP process in Mozambique has the potential to increase participation in public management and policy making, to develop communication between government and civil society, and to increase transparency and accountability. Civil society groups broadly acknowledge that some progress has already been made, as new spaces have been opened up for dialogue on social and economic issues, and relationships between varied

National Union of Institutions of Labour and Social Action (UNITAS), Coalition for the Defence of Water and Life, Federation of Irrigation District Unions (FEDECOR)

actors have been forged. They have also recognised that ‘lately the Government has shown itself to be more receptive to the concept of dialogue’³³. However, the PRSP is not the only policy process through which participation can take place, and the lack of broad ownership of it creates a danger of distraction from indigenous approaches to participation³⁴.

The PRSP process has however been criticised by civil society groups on a number of counts. Firstly, as it was co-ordinated centrally, rural communities and northern districts were far less involved than Maputo-based organisations. Secondly, as in the case of Bolivia, civil society organisations were often invited to consultation meetings at the last minute, documents were made available at short notice or not at all, and the technical language of documents and discussions often made it difficult for civil society representatives to follow. McGee and Taimo point out that many civil society participants felt the ‘process carried out by Government was not a consultation process but a...presentation of information’³⁵. Civil society participants were not able to influence the identification or prioritisation of issues covered in the PRSP, as these had already been set out in the PARPA. CSOs were left feeling that they had been invited into the process simply in order to legitimise the PARPA document in the eyes of the IFIs, and not to actually contribute to its content.

The time constraint of the whole process compromised the quality of the participation: ‘the consultation process was driven inordinately by a deadline for the completion of the PRSP, which even with good faith on the part of the government, provided inadequate time to carry out a comprehensive consultation process’³⁶. The government also recognised ‘that the short duration of the PRSP preparation period has not left time for a high quality participatory process’³⁷. Civil society advocates faced the dilemma of whether to call for an extension to the time frame and delay debt relief, or to accept a sub-standard participation process and preserve the original timeframe. The latter option was chosen. Clearly this situation arose as the direct result of the link between HIPC and PRSPs, as determined by the IFIs.

The Mozambique Debt Group believes that the final PARPA/PRSP document contains all the structural adjustment measures that have been in place in Mozambique since 1987. They claim that because the document was to be ratified by the IFIs, the government had no choice other than to formulate the PARPA/PRSP on the basis of an adjustment and growth-oriented model: ‘In this way the PRSP made the struggle against poverty of lesser importance than the objectives of macroeconomic stabilisation and structural adjustment’³⁸.

The Mozambique Debt Group goes on to point out that the ‘restricted consultation process (has)...created a climate of despondency toward further participation by civil society, which had no wish to expend time and resources...with no guarantee that their contribution would affect a single line of the PRSP’³⁹. Once again, the Mozambican case re-iterates the need for participation to permit real influence by participants, and for the

³³ Mozambique Debt Group 2001: 8

³⁴ See McGee, R. and N. Taimo 2001

³⁵ McGee, R. and N. Taimo 2001: Executive Summary

³⁶ Bread for the World Institute 2001: 18

³⁷ McGee, R. and N. Taimo 2001, Executive Summary

³⁸ Mozambique Debt Group 2001: 3

³⁹ Mozambique Debt Group 2001: 8

IFIs to support genuine national design and ownership of the policies contained within PRSPs.

5. Conclusion and recommendations to the World Bank and IMF

Clearly a number of actors are involved in PRSP processes and each of these must bear some responsibility for the current failure to permit genuine participation by poor people. Civil society groups often lack the capacity or the will to fully engage. National governments have failed on many counts to run participation processes satisfactorily, to give up any measure of control to their people and to reach out to the most marginalized groups. However, Christian Aid believes that the IFIs, who designed and mandated PRSPs on a global level, must shoulder the greatest responsibility for the performance of the current system.

The pressure that arises from the linked HIPC / PRSP processes needs to be relieved in order to improve the quality of both processes, and to permit influence by poor people. Also, at the national level, World Bank and IMF practice often fails to live up to the ideals of the rhetoric from Washington. Christian Aid outlines here the fundamental improvements that need to be made in order for poor people and their representatives to genuinely participate in PRSP processes.

5.1 Make participation real

Participation needs to be brought back to basics:

RECOMMENDATION 1: The concept of participation used in PRSP literature should be reformulated so that it really does enable poor people to be at the centre and to share control over decision-making on public policies and practice affecting their lives. The World Bank's concept of participation is currently very technocratic. The term is used in bland and neutral way, ignoring the politics of genuine participation.

In order to permit empowerment by poor people, power must be given up by other interest groups. The politics needs to be put back into participation, otherwise it will remain a legitimising exercise, which further disenfranchises poor people.

Participation must be made real at all levels of decision-making and practice: at the national level through PRSPs, at the municipal and regional level, and at the global level, by substantial transformation of the way in which the IFIs and other global institutions currently operate. Accountability and transparency must be improved within the World Bank and IMF, and the voices of poor people listened to in a genuine and transforming way.

There are many examples of progressive efforts at broadening participation in policy which should be used to inform PRSP processes. Participatory Poverty Assessments (PPA) take as their foundation the need to include poor people in assessing what poverty means for them. These hold many useful lessons for PRSPs - in terms of policy analysis from a grassroots perspective, creating local capacity for popular engagement and

developing transferable participatory methodologies. In Mozambique, for example, the 1994-6 PPA was utilised during the PARPA/PRSP formulation process. Other interesting examples of pro-poor participatory planning are taking place at provincial, district and local levels in Mozambique beyond the PARPA/PRSP process. For example, the Conselho Cristiano Mo ambicano, a Christian Aid partner organisation, is working with communities and local government authorities in Malange District, Zambezia, to facilitate community influence over resource allocations.

Efforts to scale up participatory approaches have also met with some success in terms of their influence over policy. At the national level, the ‘Campana Terra’ mobilisation around Mozambique’s 1996 land policy was a good example of a populist campaign that was rooted in community consultations and involved a broad range of more than 150 civil rights organisations, farmer’s associations, women’s movements, church groups, trade unions and others. It achieved unprecedented success as a government consultation and in terms of policy change⁴⁰.

In some cases participation has been successfully institutionalised, as in Porto Alegre, Brazil, where local budgeting has been participatory since 1989. In Uganda, the Uganda Debt Network sought to apply the learning from previous participatory processes, to the Poverty Eradication Action Plan (Uganda’s PRSP) through a series of regional consultations held in 42 of Uganda’s 45 districts during April and March 2000⁴¹. This exercise showed that, despite its still limited scope, it was possible to utilise grassroots consultation methods to enrich national level policy.

RECOMMENDATION 2: People also need to have the tools to participate. Development is a complex process – not least in its political, institutional, and social dimensions – but also importantly in economic choices and implications. To enable participation in economic policy formation people need to have access to information and training to inform which policies they support and why. This in itself has implications. We could not expect every citizen to be informed about markets and processes that lead to equitable and sustained growth, jobs, and improved standards of living. And so participation in some forms of dialogue will be more limited. But this does not detract from the principle of poor people being able to articulate outcomes that are most important to them, and that they wish economic forces to serve.

5.2 Release HIPC debt relief funds faster

Many NGOs are currently calling for a de-linking of PRSPs and HIPC. While most are broadly supportive of the need for national poverty-focused strategies, the current system of making debt relief conditional on the completion of a PRSP has the double impact of delaying debt relief and lowering the quality of PRSPs. This has clearly been the case in Tanzania and Mozambique.

However, many of Christian Aid’s partners support the continuation of PRSPs as a condition of debt relief. They believe that if resources were to be freed up before appropriate mechanisms were in place to monitor how they were used, then they would not be used most effectively. The most important aspect of these mechanisms is to increase the involvement of local groups when determining what the PRSP might contain.

⁴⁰ For further information on Mozambique’s ‘Campana Terra’ see McGee 2000: 51-52

⁴¹ See Ugandan Civil Society Organisations Taskforce for PEAP Revision 2000

But participation by non-governmental actors requires far longer than the periods of between six months and a year that are currently permitted⁴². EURODAD estimates that to produce a PRSP through a comprehensive participation process will take more like five years or more⁴³.

RECOMMENDATION 3: Christian Aid therefore calls for faster tranches of debt relief to be granted from the time the interim PRSP is published. This has traditionally been used as the decision point where debt relief funds are committed but not provided. The interim strategy outlines how governments plan to draw local groups into the design and monitoring of the full PRSP.

Furthermore, Christian Aid believes that the mechanism for agreeing the size and release of tranches should include greater representation from civil society – not to block, but to provide an arena in which they can formally express their views about both process and content. This would reduce the likelihood of what happened in Bolivia: over 100 Bolivian civil society organisations wrote to the Executive Directors of the IFIs asking them not to approve the PRSP.

5.3 Participation requires investment

Adequate time and resources must be invested if people's participation is to really work. The lip service currently paid by the IFIs simply isn't enough. If the World Bank and IMF's emphasis on participation is to become more than rhetoric, it must be prepared to support southern governments and civil society groups to develop the required skills and capacity. It will take many years for appropriate and thorough mechanisms to be developed that successfully elicit the views of poor people and it will not happen without appropriate investment by all actors.

RECOMMENDATION 4: Christian Aid calls for significant and additional grant resources to be made available to facilitate real participation by, and capacity building of, local groups in PRSP processes. The IFIs should also support national civil society groups by refusing to accept PRSP documents that have not been truly participatory in their design.

The Executive Boards should not simply rubber-stamp assessments made by joint teams of World Bank and IFI staff (Joint Staff Assessments – JSAs). JSAs should evaluate whether PRSPs contain sufficient recognition of the diversity of in-country debates, especially where they diverge from traditional World Bank or IMF policy. To enable this, the views of civil society as regards process and content should be published within the PRSP – either as an annexe or preface – so that the JSA team and boards are explicitly aware of any limitations in its formulation.

5.4 Quality participation

RECOMMENDATION 5: To improve the quality of the participation process in the short-term by addressing the following key issues:

⁴² For other perspectives on the call for de-linking HIPC and PRSPs see AFRODAD 2000, BIC 2000, WDM 2001, Christian Aid 2000.

⁴³ EURODAD 2000: 3

- *Participants should be involved in PRSP process from the outset – in setting policy priorities, the agenda for consultations and benchmarks by which these processes will be assessed – rather than simply being asked to comment on draft documents.*
- *Civil society participants should not be expected to be united and speak with one voice, but specific efforts made to maintain diversity.*
- *Proactive efforts are needed to reach out to marginalised and discriminated groups, paying particular attention to the rural perspective and gender issues.*
- *Participants should receive feedback on their contributions and explanations as to why they were or were not included in the final document.*
- *Multi-stakeholder committees should monitor the implementation of PRSPs and continue to influence their revision at a sectoral and an over-arching level: ‘...there is a need to institutionalise consultation and participation of CSOs in the decision-making process concerning macroeconomic policy and monitoring of debt and poverty at all levels’⁴⁴.*
- *Any criticisms of the process and content which are stated by local groups should be published as a preface to the PRSP document.*

5.5 Genuine national ownership

RECOMMENDATION 6: Countries should have the freedom to articulate and implement whichever policies are required to reduce poverty in their specific context.

The World Bank and the IMF’s commitment to popular participation is useless if it is not accompanied by a more flexible approach to policy. Hitherto the only policies that have been acceptable are those often found in the traditional package of adjustment and growth-oriented measures such as trade liberalisation, privatisation, and policies that create an amenable environment for the private sector. Each in their own right may contribute to making some groups better off in some circumstances. But Christian Aid’s experience is that in many countries these policies make large groups of people worse off – while failing to stimulate pro-poor economic growth overall.

If poor people and their representatives are genuinely allowed to ‘share control over the priority setting, policy-making, (and) resource allocations’⁴⁵ (as defined in the World Bank’s definition of participation) they may well not identify the same policy prescriptions as those favoured by the IFIs in their PRSP Sourcebook. At the very least they may choose to adopt different components at different times, with more safeguards for those who will be directly or indirectly affected.

Conclusion

Participation processes must be improved, to genuinely involve grassroots communities in policy making and implementation. But this is a futile exercise unless they can have the power to actually influence the outcomes and shape the content of PRSPs. In order to be truly empowering, solutions to poverty must come from poor people themselves. And the poor must be supported in gaining the tools – especially in economic policy – that will enable them to participate. The limited opportunities opened up through PRSPs, are just

⁴⁴ Tanzanian Coalition on Debt and Development 2000: 15

⁴⁵ <http://www.worldbank.org/poverty/strategies/chapters/particip/orgpart.htm>, accessed on 23/07/01

the very beginning and must not be allowed to compromise other more home-grown approaches.

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Publisher's note: Christian Aid links directly with people living in poverty through local organisations. It supports programmes with the aim of strengthening the poor towards self-sufficiency. Christian Aid also seeks to address the root causes of poverty by spending around 10 per cent of its income on development education and campaigning at home.

Christian Aid is the official relief and development agency of 40 British and Irish churches. It works where the need is greatest in 60 countries worldwide and helps communities of all religions and those with none.

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EURODAD
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MANY DOLLARS, ANY CHANGE?

Part I: The Changing Nature of Development Co-operation: Building Ownership

October 2001

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Many Dollars, Any Change?

MANY DOLLARS, ANY CHANGE?

Introduction

The 'Poverty Reduction Strategies Papers' approach to development co-operation in low-income countries is now celebrating its second anniversary. Eurodad has been closely following the evolution of the PRSP process since its inception. Three areas have been of particular interest to us, corresponding to three of the major changes that the arrival of PRSPs heralded:

1. The unfolding of **participatory processes**, where NGOs, the private sector, faith-based groups and other stakeholders influence the analysis of poverty and the strategic solutions adopted.
2. The **changing roles of external donors and creditors**, and particularly of the need to take a step back from their dominant positions to ensure that **country ownership** of poverty reduction strategies is fostered.
3. The focusing of policies and reforms on **poverty reduction**, particularly in gearing macro-economic and structural policies to this end.

This briefing paper is in two separate parts. In the first part, we look at how the concept of 'ownership' has been recognised as being increasingly important for the success of development co-operation efforts. Yet there remain a range of obstacles, both inside and outside countries, that obstruct ownership from taking hold. We propose here a series of ways in which these obstacles might be overcome. They will require action from the full range of stakeholders involved in countries' development efforts, both internally and externally.

While the PRSP approach is the new 'wrapper' for IFI operations and processes in low-income countries (LICs), the actual contents of reform programmes have yet to show much change. In the second part, we focus on the impacts of structural adjustment reforms undertaken as part of Bank and Fund lending programmes in recent years, and in particular review civil society evidence of the impacts on poor people. Using case studies of reforms in two particular sectors – trade liberalisation and financial sector reforms – we identify some common lessons that emerge, which are equally applicable to structural adjustment reforms in other sectors.

The paper provides both background briefing material on the issues covered, as well as making concrete proposals for positive change.

MANY DOLLARS, ANY CHANGE?

PART I: THE CHANGING NATURE OF DEVELOPMENT CO-OPERATION: BUILDING OWNERSHIP

A. Ownership is Vital

Recent debates in development have stressed that 'country ownership' of strategies and programmes is key to ensuring successful outcomes.¹ This section briefly reviews the concept of ownership, noting that it is important because it makes for high quality poverty reduction strategies that are more likely to be sustainably implemented. However, because ownership is an inherently 'political' concept, external stakeholders face particular challenges when a country's government is not committed to poverty reduction.

What does 'ownership' actually mean: a useful concept?

As one commentator notes, ownership is a concept "slippery and unsatisfactory in many respects"². It is perhaps best seen as a 'label' for a broad concept whereby countries increasingly take the initiative in (as well as being responsible and accountable for) their efforts to reduce poverty through policy changes and reforms. Where ownership has taken hold, one might expect to see countries being responsible for formulating poverty reduction plans themselves, and for proactively commissioning and organising technical and donor input into them, rather than playing a passive role with external donors and creditors in the driving seat. The concept of 'ownership' is a relative one. It really only makes sense when seen in the context of what happened before, and thus ownership can be seen as moving away from the imposition of the content and process of structural adjustment programmes by outsiders.

Ownership is a concept that can be applied at many different levels. The move to take responsibility for formulating and implementing poverty strategies changes the relationship between national governments and a range of external stakeholders (IFIs, bilateral donors, UN and aid agencies etc.) and might be called 'external' ownership. Equally, ownership might be used to describe how governments' plans for poverty reduction have been drawn up within a country. This 'internal' ownership would reflect the degree to which internal stakeholders (parliaments, line ministries, private sector groups, local CSOs, unions, faith-based groups etc.) have been involved in the processes that result in a particular set of policies being adopted by the government. Internal ownership is thus closely bound up with participatory processes³.

Ownership has profound *political* implications. It means broadening debate on development priorities away from a coterie of technocrats in the national capital and Washington to a broader and more uncertain political context. Despite the nebulosity of the term, it is ultimately in this respect that ownership is nonetheless a vital concept. Ownership thus implies a move away from abstract, technical discussion of policy details to situating debates in the political context of a country's decision-making process. As one report puts it, 'politics matters' in development: "*Poverty reduction is, for better or worse, embedded in living political systems. This implies that the PRSP 'experiment' will work through the political systems and policy processes of the countries concerned, or it will not work at all.*"⁴

This does not just mean formal, political systems (indeed, as we point out below in Section C, the lack of involvement of parliaments in formulating countries' poverty strategies has been a cause for CSO concern in several countries). As the same report points out, "*the informal arrangements and understandings that determine policy and its implementation are also 'political', not merely technical.*"⁵ This recently enhanced awareness of the local political context in which development actually happens is thus a key component of the ownership discussion.

Is ownership more than soothing words?

Despite being a 'slippery' multi-faceted word, ownership is important because it has been shown that if country authorities are not committed to the reform plans that they have signed up to, then there is a significantly reduced chance of those reforms being implemented. A recent World Bank research report, *Aid and Reform in Africa*, points out how,

*"Economic policy is primarily driven by domestic politics, not by outside agents. The key to successful reform is a political movement for change, and donors cannot do very much to generate this...The ongoing use of conditionality disguises the true ownership of the reform program, takes up valuable government time, and limits the participation in the debate and decision-making about economic policy."*⁶

The point then is that moving to a point where the planning and decision-making for countries' poverty strategies might be described as 'owned' by the country authorities is vital for ensuring that those poverty strategies are successfully and sustainably implemented. Outsiders' money cannot 'buy' reform, if those

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reforms are not supported by the authorities in the country.

This has profound implications for the PRS process on which many countries are currently embarked, with the enthusiastic support of donors and creditors. If getting pro-poor reforms implemented on a sustainable basis is key to poverty reduction, then successfully fostering ownership will be vital to the success of the PRS concept (see Box 1).

It takes two to tango...

The fostering of ownership in development co-operation is not a panacea for alleviating poverty. More country ownership does not necessarily mean that country authorities will miraculously propose and implement perfect pro-poor strategies. As we noted in our previous PRS update⁷, many governments respond to powerful social forces and economic actors whose priorities are not poverty reduction. The political control in many societies lies with people who use the state for their narrow interests. Therefore some groups will do everything to ensure that the *status quo* is maintained⁸.

Outsiders' money cannot 'buy' reform, if those reforms are not supported by the authorities in the country.

This can be quite a hard lesson. Even proposed reforms that are demonstrably 'pro-poor' will be unimplementable if they threaten powerful vested interests who are set to lose out. In Kenya, for example, the PRS process was viewed as being a successful and 'owned' by a broad range of stakeholders. But progress in certain key poverty aspects - good governance in particular - was recently stopped when an older pattern of top-down presidential rule reasserted itself. One commentator notes that "*none of this necessarily means that the Kenyan PRSP will have no benefits; but it does serve as a reminder that the benefits will be constrained – but also enabled – by Kenya's particular realities.*"⁹ The move to greater ownership implies a shifting of responsibility from outsiders to governments. In a situation where the government shows little willingness to bear that responsibility, and little commitment to fighting poverty, there is very little that outsiders can do.

In short, ownership implies a move away from technocratic decision-making with the intimate involvement of Bank and Fund advisors. This does not necessarily make development planning and decision-making

more efficient; indeed it may imply the inverse. But it does imply that reforms might be successfully and sustainably implemented. Yet, as we show in the following sections, despite efforts at reform by the IFIs, this 'transfer of ownership' has not yet happened for a variety of reasons.

B. What Have Donors and IFIs Done to Adapt to This New Reality Of Development Co-operation?

This section briefly reviews recent and planned changes in donors and creditors' operations in low income countries, noting the initial efforts they have made to ensure greater ownership of poverty reduction strategies.

At a theoretical and rhetorical level, the international development community has picked up quickly on these themes. 'Participation' and 'ownership' are the new buzz-words, compulsory in all documents, if hazily defined.

The IMF, for example, is currently undertaking an assessment of how its Poverty Reduction and Growth Facility (PRGF) has changed the nature of its lending.¹² It has also instituted a wide-reaching review of conditionality in its lending programmes. The idea has been to cut back on the proliferating numbers of conditions attached to IMF lending programmes, so that only those parts of the programme that are deemed critical to achieving the goals of the programme have conditionality attached to them as a matter of course. Other parts of the programme that are 'macro-relevant' (that is, relevant to the macroeconomic aims of the programme), but not critical, will not always be subject to conditionality. Areas of IMF-supported programmes that are neither 'critical' nor 'macro-relevant', but which are nonetheless seen as important reforms, will not have conditionality attached. In addition, there is an effort to avoid imposing conditionality in areas that are not within the traditional Fund domain (though retaining the right to keep conditionality in 'non-Fund' areas if it is judged to be critical to success in the Fund-supported part of the programme) (see Figure 1).

Similarly, at the World Bank, there is a move to change the nature of adjustment lending. The Bank had undertaken a review of adjustment lending, with the aim of replacing its old 'operational directive' on adjustment lending and conditionality with a new 'operational policy'. Part of this process has been the creation of a new lending instrument, the Poverty Reduction Support Credit (PRSC), which intends to move away from traditional project-based lending to what will essentially be direct budget support, based on policies set out in the country poverty strategy and aligned with countries' own budget cycles. PRSCs are still at an early stage of development.

Box 1 : Participation, national ownership and poverty analysis: mutually exclusive concepts?

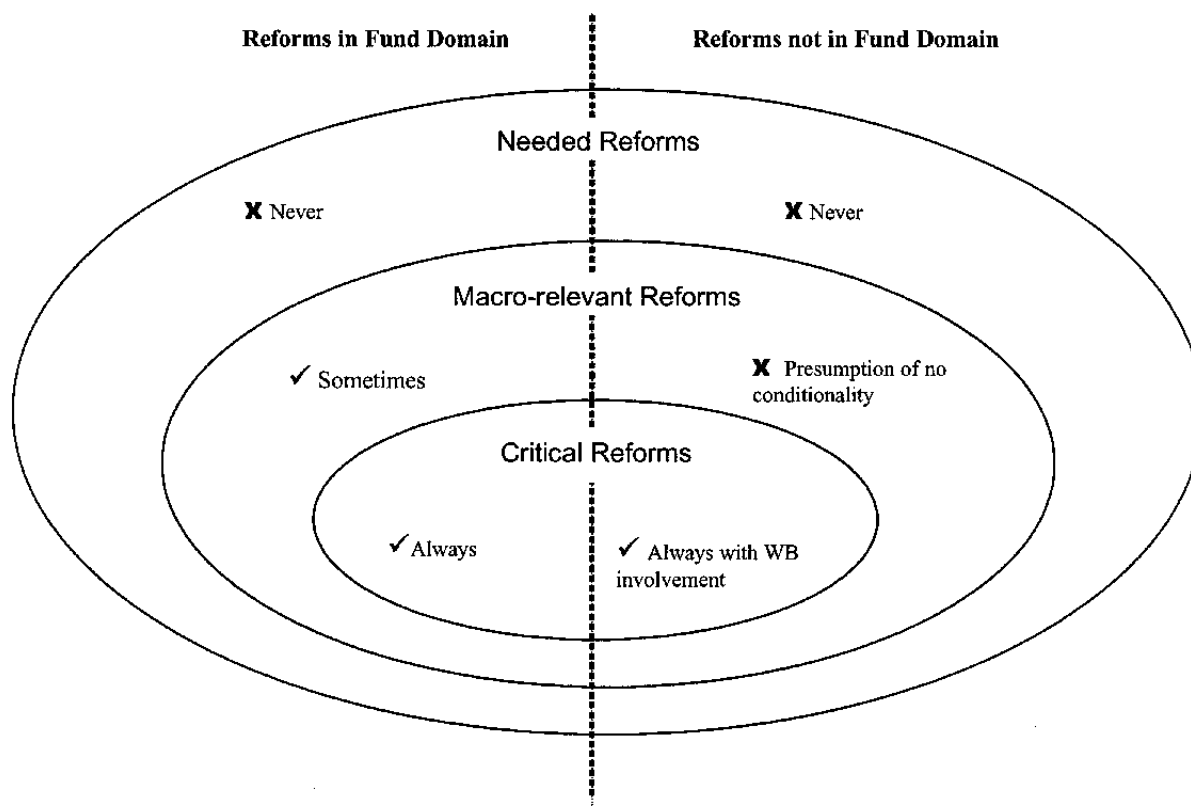
One would assume that internal ownership of countries' strategies for poverty reduction would be strengthened by the participation of civil society and other stakeholders in the process. Certainly the World Bank has pushed strongly the view that wide participation is key to analysing poverty and formulating proposals to attack it, and World Bank president Wolfensohn in particular deserves credit for that.

But some dispute this. They hold the view that encouraging participation of civil society actually goes against building ownership, by undermining due democratic processes. One prominent dissenter is Larry Summers: *"I am deeply troubled by the distance that the Bank has gone in democratic countries toward engagement with groups other than governments in designing projects...when there is an attempt to reach within society to develop Country Assistance Strategies, there is a real possibility, it seems to me, of significantly weakening democratically elected governments"*.¹⁰

Such thinking is based though on a 'zero-sum game' attitude: that more involvement by civil society means less democratic decision-making by governments. This need not be true; if participatory processes are to add value, then they must do so by adding to and complementing democratic decision-making, not detracting from them. Uganda and Kenya, for example, are cases where active participation by a range of CSO groups has led to a stronger role for parliaments in policy formulation.

Participation must not become an ideology. It is important because it makes for better country poverty strategies that are more likely to successfully identify the sources of poverty and the solutions to it. As a recent guide to participatory poverty analysis puts it, *"Attempts by policy analysts to identify causes of poverty should also benefit from an understanding of what people in poor communities see as the causes of poverty and deprivation."*¹¹ Participation by the full range of stakeholders – more than just the NGOs – is vital because it helps identify within a particular country the best solutions for attacking that particular country's poverty and fosters the ownership that allows successful implementation.

Figure 1: Overview of IMF proposals on where to maintain conditionality



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Bilateral donors have pledged to move away from a project-based approach, and are increasingly looking at co-ordinating their activities both with each other and with the country's poverty strategy. For example, at a recent meeting of donors and recipient governments, France, Germany and Japan, who had hitherto been most strongly associated with the 'flag-raising' project type of approach to development co-operation, all announced that they would move more closely to budget or at least sector-wide approaches.¹³

There is a risk of the wood not being seen for the trees –by focusing on changing internal processes, the bigger picture of a transfer of ownership is being missed

Many of these donor processes are at early stages. We do think that it should be recognised that significant changes in the stated objectives of the BWIs have occurred, and that efforts are underway to change their internal processes to take account of the new realities in development co-operation.

Yet, we maintain also that there is a risk of the wood not being seen for the trees – that by focusing on changing internal processes and loan instruments, the bigger picture of some of the structural impediments to a transfer of ownership is being missed. Small steps are better than none, but in Eurodad's view the current reforms should be considered the start of a longer reform process, rather than an end in their own right.

For example, it is clear that excessive conditionality in Fund programmes in the past has been a significant obstacle to ownership¹⁴. Participants at a recent IFI / Commonwealth Secretariat conference agreed that "conditionality as practiced in recent years had often been overly intrusive and had thus hindered ownership." The 'negotiation' of tens or even hundreds of conditions meant that a 'Fund-supported' programme was essentially a 'Fund-imposed' programme. The review of conditionality shows that there is an awareness of the problem. But simply cutting back on the numbers of conditions does not mean that the problem is solved. The link between ownership and conditionality is a complex one. There needs, for example, to be a deeper debate about the balance between the fact that conditionality does not appear to work in getting reforms achieved and the need for the Fund to safeguard its resources. We make in section D some suggestions on how this balance might be solved in a more fundamental way.

We see this concern about the linkage between IFI conditionality and ownership of programmes as one of a series of obstacles to increased ownership in coun-

tries' poverty strategies. It is one that the IFIs are now aware of and are attempting to rectify with some initial steps. The following section sets out what we see as some other significant obstacles to increased ownership that have not yet been addressed. In the same way that ownership needs to be fostered both 'externally' and 'internally', obstacles to ownership also occur at both these levels:

- 'External' obstacles impede greater country ownership in a 'top-down' fashion. They include the operations of IFIs and bilateral donors themselves.
- 'Internal' obstacles, particularly governments' actions (or inactions), prevent the emergence of successful participation and hence broad-based ownership of countries' poverty strategies.

These obstacles constitute in our view a critical 'credibility gap', which is threatening to undermine support for the PRS approach. The concluding section then sets out some proposals for how these structural obstacles might be overcome.

C: External and Internal Obstacles to Greater Country Ownership

Despite the changes in IFI rhetoric, true ownership in development co-operation has yet to be established. There is still a critical 'credibility gap', which is increasingly leading civil society groups in many Southern countries to question the value of their participation in PRS processes, and which thus threatens to undermine support for the new approach. In this section, we set out some of the external and internal obstacles that block greater ownership.

'External' obstacles to increased ownership

- **Dominance of the IFIs in agenda-setting and choices of reforms:** When a PRSP is completed, its first stop is neither a 'roadshow' in-country to win support for the government's plans, nor a presentation to the international community at large, but Washington DC. The staffs of the Bank and Fund write a 'Joint Staff Assessment' (JSA) of the PRSP, setting out the staffs' view of the paper. The document is then discussed by the Board, who decide whether or not they will 'endorse' it: that is, whether or not they see it as a sound basis for future Bank and Fund lending and debt relief.

Gaining this IFI seal of approval is vital to accessing not only IFI financing and debt relief, but also broader donor support. As a result, PRSPs are necessarily written with the aim of having them endorsed by the IFIs. There is in effect an implicit pressure on governments to constrain themselves to a certain set of policies that fit well into the tradi-

tional IFI development framework.

More worryingly, there are continuing reports of occasions where pressure to take a particular

There has been little coverage in PRSPs of issues which are more contentious or overtly 'political', yet which are key for development if 'politics matters'.

course of action has been rather more explicit, and where the influence of the IFIs is really shaping the whole process from the beginning. One example is the case of Ghana where "Necessarily put together in haste ... there was heavy World Bank involvement in its preparation and programmes included in it were drawn from the Bank's Country Assistance Strategy document."¹⁷ Another donor noted that in some cases the World Bank has taken a role in the actual drafting, or in the internal review of drafts, which they felt to be incompatible with the roles set out in internal guidance notes for IFI staff.

Bilateral donors have felt that the influence of the IFIs in the process of policy formulation has been such that even their own input is marginal. At one recent meeting, donors were said to be "nervous of the very small opportunity for input into the PRSP, the Bank being the main vehicle for any external assistance"¹⁸. In the case of Bolivia, bilateral donors set up an informal network in order to co-operate on the PRSP process. They found that even though their relationship with the World Bank was generally one of "co-ordination, mutual co-operation, and consultation", it was clear to them that "... there were instances where the World Bank felt threatened by the unified voice and position of the Network...".¹⁹ Their relationship with the IMF was more problematic: "it was clear to the network that, unlike the World Bank, the IMF was less interested in poverty related topics and in exchanging relevant views with the donor community."²⁰ The network felt that their presence helped surmount some of the obstacles that the Fund put in place: they "enabled the World Bank, in particular, to incorporate more easily certain issues that needed to be raised and that were not openly accepted by the IMF."²¹

- **A tendency to 'back-door' policy specification.** Another concern has been the additional specification of policies and reforms in documents other than the PRSP. This has come up as an issue in the first couple of World Bank PRSCs, where there has been a tendency to make up for the lack of

specification in the PRSP by adding additional details in the documentation for the PRSC, namely the Letter of Development Policy (LoDP).

Whilst the weaknesses in a country's strategy can be an understandable cause for concern for donors and NGOs alike, the appropriate answer is not to add extra policy specification via a back-door route. The LoDP is not usually a public document, and as such extra policy details will not ordinarily be a matter for public discussion. This will tend to reinforce perceptions that PRSPs are a Bank-owned process, excluding stakeholders other than the IFIs in the design of programmes.

A similar concern, but with IMF lending, was raised at a recent donor/academics seminar on conditionality and ownership: "Letters of intent, like PRSPs should be drafted by the countries rather than in Washington"²².

- **The umbilical linkage between PRSPs and the HIPC Initiative:** As we have documented before²³, civil society groups have reported time and again that governments are rushing PRS processes in order to achieve HIPC Initiative Decision or Completion Points. Donors too have complained that the rush has damaged the quality of PRSPs. Even IFI officials have admitted to us that the proposed solution to this tension, the I-PRSP has largely failed to mitigate the tension between 'speed' and 'quality'. As such, the HIPC Initiative-PRSP linkage has been a major structural obstacle to achieving high-quality country-owned strategies.
- **Lack of connection to broader international and national development processes:** We described in previous briefings the problem of the PRSP process 'steamrolling' previous country efforts to develop strategies for poverty reduction²⁴. Whilst most country PRS processes are now too far advanced for this issue to be redressed, a further structural obstacle to fostering country ownership is the relative 'isolation' of the preparation of PRSPs from broader development and political processes. This happens both at the international level (for example, the National Strategies for Sustainable Development adopted in the context of the Rio+10 process, or the EU's Cotonou process), and at the national level (for example, the disconnect between Honduras' PRSP and its 'Master Plan for Reconstruction and Transformation' after Hurricane Mitch, or between Chad's PRS process and its mechanism for managing oil revenues).
- PRSPs produced so far have tended to conform closely to the form envisaged in the IFI guidelines, which sets out what the IFIs' staff are looking for in the programmes in order to approve funding. There has been little coverage in PRSPs of issues

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which are more contentious or overtly 'political' (such as land reform, or the reform of political institutions), yet which are key for development if 'politics matters'. Whilst one can argue that it is up to the government what it wants to put into its development strategy, the fact remains that the IFI guidelines for PRSPs are affecting the scope of the final product, reinforcing the perception that PRSPs are primarily being written for the IFIs²⁵.

- Slow movement of donors to budget support.** The PRS approach requires significant changes in donor behaviour. If PRS processes are to result in a transfer of ownership, this implicitly implies a shift from project-based aid towards budgetary support, on the basis that budget support gives governments greater leeway to direct resources to the sectors prioritised in their strategies. As one commentator puts it, "...the PRSP movement has also been associated with a fairly aggressive assertion of the desirability of donors moving away from project-based aid in favour of general programme or budget support."²⁶ We noted above the commitments made by France, Germany and Japan to move in this direction, all of whom were hitherto laggards in this respect. They need to be followed by others such as the United States and Spain. This point applies equally to the multilateral development banks (the World Bank has made a start in this direction with the PRSC, as noted above, but implementation is slow) and to non-governmental aid agencies, who are still overwhelmingly focused on implementing projects.

Through a combination of these structural obstacles, the original aim of the PRSP to be the focus of all a country's efforts to combat poverty has not come to fruition. Although there is evidence that the PRS approach has succeeded in removing poverty reduction efforts from the 'social sector ghetto' and in tying expenditure decisions more closely to poverty priorities, the impression has nonetheless developed that PRSPs are somehow 'separate' and distinct from other aspects of a country's internal planning, and a product designed for the consumption of the IFIs. Unfortunately, the PRSP is already perceived by many groups in the South as a 'Washington thing'.

'Internal' obstacles to increased ownership

Structural impediments to increasing ownership in countries' development strategies are not just found at the 'external' level, relating to the presence of donors and creditors. One must also look at what the domestic - and especially governmental - impediments are in the process of preparing national poverty strategies.

- Lack of capacity:** A lack of economic policymak-

ing capacity in poor countries particularly in negotiations with IFIs and donors often lead to decisions that are not tailored to solving country-specific poverty problems. In a civil society report on the PRSP in Tanzania, it is questioned "... whether macroeconomic policies are carefully and critically analysed, reviewed and assessed as of their impact at the micro level, and on different stakeholders. As a result the government is not in a position to take a proactive stand vis-à-vis International Financial Institutions."²⁷ The same arguments also apply to civil society groups, who equally lack capacity to engage in what can be complex policy processes: as a Ugandan CSO puts it, "Many CSOs lack the adequate capacity to engage in quality dialogues with stakeholders such as the donors and even the government itself. A lot has to be done to enhance the capacity of CSOs in the decision-making process."²⁸

- Document access:** Making documentation available in a timely fashion and in local languages remains an obstacle to wider participation. For example, the recent Cambodian full PRSP was only made available in the local language, Khmer, in the final version and not in earlier drafts. The fact that the document had been prepared for the consumption of external donors in the first instance meant that the opportunity for widespread input was lost.
- Marginalisation of CSOs:** A continuing concern has been that governments marginalise civil society in the preparation process, particularly by leaving them out of the macro/structural reform debate in many cases, and by failing to make substantive use of civil society proposals. In Tanzania, for example, the government failed to catalyse substan-

A continuing concern has been that governments marginalise civil society in the preparation process, particularly by leaving them out of the macro/structural reform debate

tive CSO involvement in the recent Consultative Group process, by informing participants at very short notice, and furthermore by having two parallel processes with informal and formal meetings. In Nicaragua, there was a worrying pattern of the government questioning the legitimacy and representativity of CSOs, thus undermining their potential contribution. One NGO representative summed up the problem at a recent conference: "the poor are not participating, they are being participated." Donors can play a role here by insisting more forcefully on the importance of having a full range of CSOs involved in all aspects of the strategy for-

mulation, and by stressing that participation is not about public relations but about getting active input so that policies change.

- **Marginalisation of Parliaments:** *"PRSPs have tended not to involve parliaments, as institutions, in a major way...it would be unwise to allow parliaments to be as uninvolved as they have been until now"*³⁰. Whilst it is not likely that all parliaments are capable of playing a 'watch-dog' role, the lack of involvement of parliamentarians in countries' poverty strategies is a worrying development. This has been a recurring theme in Southern CSOs' analyses: in Malawi, for example, the NGO network comments that *"only 5 MPs are involved in the PRSP process...key sectors are operating without any parliamentary representation"*³¹. They conclude that, *"Political ownership is crucial, and this should involve more discussions with MPs... MPs need to be more involved. This is best achieved through the sectoral committees of Parliaments, as MPs are more likely to get involved if it is their area of interest."*³²

- **Institutions often inaccessible to the poor:** There has been increasing recognition in recent years that well-functioning institutions (courts, parliaments, the machinery of government, regulatory bodies and so forth) are a vital aspect of a successful poverty strategy. The latest World Bank *World Development Report* takes as its central theme the need to strengthen the institutions that support markets and private sector activity, including property rights, competition regulation and anti-corruption laws.³³

Yet making institutions work to the benefit of poor people is not as simple as just writing the right rule-book. Poor people have to be able to use the institutions – and if they are not accessible to them, then they are as good as useless: *"The quality of an institution... is dependent not only on how the institution itself is designed and structured, but also on the extent to which it is, or can be, utilized by people. Institutions should not be seen in isolation from the people who utilize or are supposed to utilize them... no matter how well-designed a legal system might be, if it is not applied or if only certain groups have access to it, that system is not a capable one in terms of the tasks which it was designed to perform."*³⁴ Surmounting the obstacles that prevent institutions from serving the poor is thus a key challenge to ownership.

- **A focus on budgets misses key inter-sectoral issues:** Many governments have convened working groups to draw up drafts for different parts of the country strategy, generally with the involvement of key stakeholders. They have tended to be organised, however, by 'spending sectors' that can

be linked directly to the budget (for example, 'health', 'environment', 'infrastructure' etc.). Whilst linking the strategy directly to the budget is vital for ensuring that spending is on the prioritised areas and is pro-poor, it appears in many cases that this has been done at the expense of addressing cross-sectoral issues: *"one problem ... is the failure of most groups to address cross-cutting themes."*³⁵

Poor people have to be able to use the institutions— if they are not accessible to them, they are as good as useless

Many of the most controversial reforms associated with IFI advice are, however, exactly along such cross-cutting themes. Cost-recovery, for example, might be addressed in the context of education, utilities or health. Yet most countries do not have PRS working groups focused explicitly on these types of structural reform. As a result, governments risk missing new thinking and debate in exactly the areas where it is most needed: the impact of structural adjustment on the poor.

- **Complementary 'administrative' changes needed:** One interesting donor comment on PRSPs is that *"PRSPs are unlikely to achieve very much on their own, but depend for their impact on the existence of parallel changes in government financial and staff management arrangements."*³⁶ A consensus has emerged that the countries where the poverty reduction strategy process is proceeding most successfully are where it is connected to ongoing public-sector reforms, particularly of public-finance management.

D. Proposals To Enhance Countries' Ownership of Their Poverty Strategies

This concluding section sets out a series of suggestions as to how to overcome the ownership obstacles that have remained despite the launch of the PRS approach to development co-operation. These address both the external 'top-down' problems posed by the actions of external stakeholders, but also things that country authorities themselves can do to produce their own tailored and effective plans for reducing poverty.

- **Move to a 'Consultative Group'-style endorsement of countries' strategies as a first step:** Moving country-donor interaction away from requiring a *priori* IFI endorsement before a poverty reduction strategy is implemented will be important

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for enhancing ownership. We propose moving instead to a Consultative Group-style type of endorsement as a first step, where the IFIs are not the *primi inter pares* amongst donors, and where the link can be made between discussion of countries' strategies and the financing that donors are prepared to put in.

This would not mean that the IFIs would no longer have an important role to play in providing policy advice. It would simply change the nature of their policy interventions in low-income countries. Rather than arriving in a country from Washington with a brief of policy positions to negotiate, it would instead be better for IFI staff (and this applies in particular to the IMF) to play a more impartial technical role by analysing objectively the advantages and disadvantages of the reforms that are being proposed by internal stakeholders. Alternatively, IFI missions could offer a series of options for reforms, with pros and cons clearly set out, rather than negotiate around a pre-set brief. Either approach would help prevent an undermining of ownership in the decision-making process, and prevent an overbearing influence from the IFIs in agenda-setting and choices of reforms.

The longer-term target, however, should be to move away from *ex-ante* donor approval of strategies to results-based financing. This would boost ownership by removing the constraints that force countries to propose only the policies that they know donors will finance. This idea is developed in the next point.

- **Reconsider the role of conditionality:** As we noted in section C above, the IFIs face the dilemma that conditionality has largely failed to achieve the policy results that were intended, yet they need at the same time to safeguard the use of their resources. The response so far has mostly been to reduce the numbers of conditions in programmes. Yet there needs to be more fundamental reflection of the link between ownership and conditionality. We would make two points:
 - While in our view conditionality is not *necessarily* antipathetic to ownership, conditionality would need to be 'self-imposed' for it to avoid compromising ownership.
 - There are other ways for the institutions to fulfil their fiduciary responsibilities other than through conditionality.

In our view, there will need to be more thought put into the role of results-based *ex-post* financing where access to IFI funds would be on the basis of results in achieving a country's poverty reduction goals. This would not strictly be conditionality in the traditional sense, but would both maintain country ownership of programmes, and give as good an assurance as traditional conditionality that IFI re-

sources were being used effectively. The focus on *end-results* achieved in reducing poverty is key.³⁷ The *means* of achieving results would be less important, and there would thus be less pressure to follow standard adjustment prescriptions in full. Such an approach would thus help to resolve the first obstacle identified in section C above, namely that countries are unlikely to follow a non-standard reform package because that endangers access to IFI funding.

The corollary of financing on the basis of results and outcomes would be what to do if results were not being achieved. What, for example, would be done in the event that policies adopted resulted in, for example, less pro-poor public expenditure, reduced pro-poor growth or serious economic imbalances? This would evidently not be a situation into which external financing would have any pro-poor return. There would be a need to introduce more selectivity in IFI financing, significantly reducing the amounts of resources available to some countries. This would be a serious dilemma, particularly where poor groups were suffering most from poor economic governance.³⁸

All plans and proposed reforms must be in the public, country owned document

Such a change in IFI financing mechanisms would thus pose challenges. But if ownership is deemed important, more thought needs to be given on what form conditionality should take in the future.

- **Put everything in the publicly available poverty strategy:** the temptation to 'top up' the specification of proposed policy reforms in IFI lending documentation (e.g. in PRSC documents), but without adding this additional information to the overall poverty strategy, must be avoided. All the plans and proposed reforms must be in the public, country-owned document, in the form of appendices if necessary, and open for public discussion. Placing key reforms only in IFI loan documents will undermine ownership, especially when they derive from closed-door negotiations between country authorities and IFIs, without the inclusive and participatory policy-making that is supposed to characterise the 'PRS era'. While separate IFI loan documents are of course required, these should simply set out which reforms are being supported and specify how and when the loans will occur.
- **Expect countries' own strategies for poverty reduction to be even more comprehensive than the current macro/structural/social parameters of the current PRSP specification.** If the political

context truly matters, and if development is to become truly comprehensive and politically-grounded in a country's situation, then development planning must also consider areas that are traditionally not part of World Bank or IMF concerns:

- These might be purely political matters, such as institutional reform issues (e.g. relating to the role of parliaments, or to institutionalising responsibilities for participation).
- They might be politically contentious reforms, such as land-reform, that the BWIs have avoided in the past, but which are vital for addressing key poverty issues such as equity, security and access to productive assets.

It hardly needs to be stated that these are not reforms that the IFIs should be involved in themselves. Yet it is vital that the staff and Boards of the IFI are made aware of what the key obstacles and concerns are in these 'non-economic' areas, as this will help inform them of the context in which their lending decisions are being made, and as to what the priorities of the domestic stakeholders are.

- **Ask for an appendix of stakeholder comments:** NGOs have proposed the inclusion of an appendix or accompanying report to the finished strategy that gives space to comments from non-governmental stakeholders involved in the strategy process, including the private sector, CSOs, faith-based groups and others. This would be an effective way of allowing the international community to assess how participatory the process had been, and to what extent proposals from non-governmental stakeholders had been incorporated.
- **Address the HIPC Initiative-PRSP process tension:** Whilst it is now too late to address the problems inherent in the I-PRSP approach, we feel that the 'flexible PRSP' approach agreed at the 2000 Annual Meetings should be extended. It was decided then that, in the event that a full PRSP had not been drawn up one year after the I-PRSP, a 'progress report' would be an acceptable basis for continued IFI lending and continued interim debt relief under the HIPC Initiative.

African delegates at a UNECA/OECD conference in February proposed that these yearly Progress Reports should be acceptable for continued IFI lending and donor support for as long as it takes to produce the full country strategy. We support this suggestion, and suggest further that progress in the HIPC Initiative should be separated from progress in preparing the full country strategy: the achievement of Completion Point should be contingent on explicit and monitorable plans setting out how resources freed up will be spent on reducing poverty, rather than a rushed full strategy. We have covered this topic in more detail in a recent debt briefing paper.³⁹

- **Tie donor assistance more closely to countries' plans:** Bilateral donors should go further in integrating their development assistance with a country's poverty strategy and in collaborating more closely with each other. One important step for enhancing ownership that we mentioned above is to move towards budgetary support. In addition, a key area to which the European Commission⁴⁰ for example attaches great importance is the strengthening of the institutional capacity in developing countries.⁴¹ To support and help countries' ability to do strategic planning in their countries also came up as a concrete proposal in recent donor meetings.⁴²
- **Broaden the PRSP review:** The recently-announced PRSP review in itself is a microcosm of some of the obstacles that the PRSP approach, and the dominance of the Bank and Fund within that approach, put in the way of increased ownership. The PRSP process is supposed to be a participatory one owned by the country. Yet the PRSP review has

**Unfortunately 'PRSP' is already
perceived by many groups in the
south as a 'Washington thing'**

been initiated solely by the staffs of the Bank and Fund, with the primary aim of providing feedback to their Boards on the PRSP approach. There has been no input from other agencies or donors, and the aim is not to provide a general forum for all stakeholders to reflect on what has been achieved so far, and where things must go next. We find it a shame that the opportunity has not been taken to have an independent and multi-stakeholder (donor and recipient) review from which all participants, Bank and Fund included, can draw conclusions for their own planning. The current plan seems largely to be 'just' a joint Fund and Bank affair for internal feedback. This again fosters the impression that the ownership of the PRSP approach is still largely with the Washington institutions

- **And a final proposal: drop the 'PRSP' label.** We have been careful here not to talk about 'PRS' processes or 'PRSPs' in a generic fashion, and have confined use of those terms only to discussion of the specific papers being prepared for endorsement by the IFIs' boards. We find it more helpful to talk more generally about countries' strategies or plans for poverty reduction. As a senior World Bank official has commented, if there is even a perception that PRSPs are World Bank papers, then the approach will have been a failure. Unfortunately, 'PRSP' is al-

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ready perceived by many groups in the South as a 'Washington thing': it has, for better or for worse, become a devalued brand-name synonymous with Bank and Fund structural adjustment lending programmes. In future, it would be better to talk about a country's strategy for poverty reduction, or plans for sustainable development, or whatever the country authorities themselves want to call their documents. This would be a simple gesture underlining the fact that ownership of countries' strategies should be transferred to countries themselves. They should be free to call them what they want.

Notes

- 1 For discussions in 'official' documents see, for example, *External Evaluation of ESAF*, IMF 1998.
- 2 *PRSP Processes in Eight African Countries Initial Impacts and Potential for Institutionalisation*, paper prepared for WIDER Development Conference on Debt Relief, Helsinki 17-18 August 2001, David Booth, ODI, p. 12
- 3 It is important to stress that 'internal' and 'external' ownership are not separate entities: ownership could be analysed along any number of different lines. The distinction between 'external' and 'internal' ownership is used here simply for ease of analysis.
- 4 *PRSP Processes in Eight African Countries*, op cit, p.6
ibid, p. 6
- 5 *Aid and Reform in Africa: Lessons from Ten Case Studies*, World Bank March 2001
- 6 www.worldbank.org/research/aid/africa/draftsum.pdf p.32
- 7 Eurodad Poverty and Structural Adjustment update Spring Meetings 2001 www.eurodad.org/2poverty/indexpoverty1.htm
- 8 For example, "the ruling elites found it convenient to perpetuate low literacy rates. The lower the proportion of lower and literate people, the lower the probability that the ruling elite could be displaced" Hussain 1999, quoted by Easterly www.worldbank.org/research/growth/pdfiles/five_myths.ppt
- 9 *PRSP Processes in Eight African Countries*, op cit, p. 7
- 10 Remarks by Larry Summers at the World Bank's Country Directors retreat, May 2001. Available at the PRS-Watch archive at <http://www.eurodad.org/2poverty/indexpoverty1.htm>
- 11 *A Rough Guide to PPAs*, Andy Norton et al., ODI, 2001, p.6
- 12 The PRGF is intended to differ from its predecessor by stressing, inter alia, participation and ownership, the links to a country's PRSP, pro-poor budgets, flexibility in fiscal targets, social impact assessments and more selective conditionality. See <http://www.imf.org/external/np/prgf/2000/eng/key.htm> for more details.
- 13 There is a potential tension between moving to direct budget support and the possible need for donor interventions to support the role of civil society in poverty strategy formulation. It is likely that those countries for which donors find it harder to justify budget support are likely to also be those where donor interventions to support participatory processes will be more necessary.
- 14 For more detailed comments on the reforms of adjustment lending, see for example, www.brettonwoodsproject.org/topic/adjustment/22imfcondreview-bwpccomments.htm, or www.challengeglobalization.org/html/ta_menu5.shtml
- 15 *London Seminar on Conditionality and Ownership*, summing up by James Boughton IMF, London 23-24 July, 2001
- 16 When the PRSP approach was first adopted, there was much theoretical discussion about what would happen in the event that a country embarked on a controversial reform path, and whether or not the IFIs would endorse the strategy. With hindsight, this debate was a red herring, as the key concern for country authorities has of course been continued access to donor funding. To this end, there has been little willingness to 'rock the PRSP boat'.
- 17 *Poverty-Reducing Institutional Change and PRSP Processes: The Ghana case*, Tony Killick, ODI, August 2001, p. 11
- 18 *Inter-agency meeting on capacity-building in policy analysis and management for poverty reduction in sub-Saharan Africa*, www1.worldbank.org/wbiep/attackingpoverty/activities/addismitgsumm.pdf
- 19 *Bolivia Bilateral Cooperation Network on the PRSP: a self-evaluation of our efforts*, mimeo, p. 3
- 20 ibid
- 21 ibid, p. 2
- 22 *London Seminar on Conditionality and Ownership*, op cit
- 23 See www.eurodad.org/2poverty/indexpoverty1.htm
- 24 ibid
- 25 Some full PRSPs, such as Tanzania's, have been endorsed by the Boards of the IFIs, despite misgivings about their quality. However, there is a difference between a strategy that is of low quality but uncontroversial in the reforms that it does propose, and a strategy that is of high quality (realistic costings, clear outcome indicators, concrete monitoring proposals etc.) but with controversial ideas. No example of the latter has yet been seen.
- 26 *Poverty-Reducing Institutional Change and PRSP Processes: The Ghana case*, Tony Killick, ODI, August 2001, p. 15
- 27 *Poverty reduction Strategy Paper; input from Civil Society Organisations*, TCDD/PRSP Coalition, March 2000, p. 5
- 28 *The PRSP process in Uganda*, Zie Garuyo, Uganda Debt Network 2001, p. 19
- 29 *Donors and Government Marginalise Civil Society in the CG Process*, 3 Feminist Activism Coalition Tanzania, (FEMACT) September 2001
- 30 *PRSP Processes in Eight African Countries*, op cit, p. 11
- 31 *PRSP in Malawi – Progress Report and Recommendations*, Malawi Economic Justice Network, April 2001, p. 21
- 32 *PRSP in Malawi – Progress Report and Recommendations*, op cit, p. 17
- 33 *Building Institutions for Markets*, World Bank Development report 2002 www.worldbank.org/
- 34 ibid
- 35 *PRSP in Malawi*, April 2001 op cit, p. 20
- 36 *PRSP Processes in Eight African Countries*, op cit, p. 9
- 37 There are of course practical issues with how to measure results, but this also holds true for current practice.
- 38 Another issue here is that of transition between the current conditionality regime and that of a results-based approach. This is not necessarily problematic: the first countries to achieve poverty reduction results would be the first to move away from the current conditionality regime.
- 39 *Eurodad Debt and HIPC Initiative update*, Spring Meetings '01, www.eurodad.org/1debts/indexdebts1.htm
- 40 EC Delegations, with the support of Headquarters, are trying to identify a possible role for EC-financed technical assistance including training in the process of strengthening institutions and capacity-building.
- 41 *Poverty Reduction Strategy Papers: Guidance Notes*, European Commission DG Development, August 2000, p. 5
- 42 *London Seminar on Conditionality and Ownership*, op cit

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MANY DOLLARS, ANY CHANGE?

Part II: Have Structural Adjustment Policies Failed the Poor?

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MANY DOLLARS, ANY CHANGE? PART II: HAVE STRUCTURAL ADJUSTMENT POLICIES FAILED THE POOR?

Introduction

In this part, we look at some of the recent evidence on the content and impacts of structural adjustment reforms undertaken as part of Bank and Fund lending programmes in recent years. Whilst the PRSP approach is a new mechanism or wrapper for IFI and donor financing in low-income countries, with greater emphasis on participation, poverty reduction and ownership, there has been little change in the underlying thinking about what good pro-poor policy is. There was no blinding light and sudden conversion to heterodoxy on the road to PRSPs. Hence some of the lessons from recent years on **content** issues - i.e. which policies work, which don't and why - are still relevant to the current PRSP approach to development co-operation.

The two parts of this briefing paper are closely linked, since the context in which the reforms are implemented (covered in part 1) to a large extent decides what the outcomes of the reforms will be. One of the principal lessons in this section is that reforms that might look good on paper do not necessarily work out in practice. If the reform policies are not adapted to the country context then the outcomes will be less effective or will even be harmful.

A. SAPRI and Country Experiences of Trade and Financial Sector Liberalisation

This section draws heavily on the recently-completed Structural Adjustment Participatory Review Initiatives (SAPRI), experience, and in particular on case-studies on trade liberalisation and financial sector reform, but also on other reports from CSOs in Africa, Asia and Latin America. We consider also the response of the World Bank to the SAPRI critique.

In order to analyse the impacts that structural adjustment has had in many developing countries, certain NGOs challenged the World Bank to undertake a review of structural adjustment programmes and to explore new adjustment options in conjunction with CSOs. Thus, in 1996 SAPRI was developed through consultations between World Bank country teams and a global network of CSOs formed for the exercise (SAPRIN).¹ The initiative was based on a tripartite principle, involving the World Bank, the national government and SAPRIN. SAPRIN organised itself to assess the impact of various adjustment measures on a range of population groups and economic and social sectors in eight countries, notably: Bangladesh, Ecuador, El Salvador, Hungary, Ghana, Mali, Uganda, and Zimbabwe.² In addition to these eight countries, SAPRIN decided to proceed in two countries - Mexico and the Philippines - where the Governments did not want to participate. This novel experiment concluded in 2001, with one of the main outputs being a synthesis of the assembled country evidence into cross-country sectoral analyses.³

Experiences from these countries show that the out-

comes of some of the reforms have been much weaker than was expected and in many cases provoked a set of negative side-effects that had a serious impact on poor people in particular. The intention is not to review here all of the sectoral evidence, but to focus on two particular case studies - namely trade liberalisation and financial sector reforms - and then draw some general conclusions that are applicable across a wider range of reforms. The boxes below start by showing what was implemented, why, what conditions were required and what the outcomes were. We include analysis both from the SAPRIN reports, and also from the World Bank's *Adjustment from Within* report that was written in response.

The World Bank's views on outcomes of liberalisation in the trade sector diverge significantly from the SAPRI country report views. The Bank claims that the reform *did* in many respects have the beneficial impacts expected, i.e. that the liberalisation led to an improved efficiency of the traded goods sector, facilitated the importation of inputs needed for industrial production as well as providing a wider variety of goods at lower cost, and encouraged growth and diversification in non-traditional exports. The Bank draws on the case of Bangladesh as a successful example where exports grew more than sevenfold, with an average growth rate of 11%.⁴ However, as stated in the Bangladesh SAPRI report, the success in export promotion remains a "single activity wonder" where the export-oriented manufacturing over time was concentrated in the clothing sector.⁵ In Ecuador, a country not covered by the WB report, the export of manufactured goods declined and nearly halved in 1980-1990.⁶

Another point where the WB and the SAPRIN reports reveal differences of opinion as to the negative

Box 1. Trade liberalisation reforms: World Bank views & summary of SAPRI results

Why reform? To improve export competitiveness and resource allocation; to boost integration into the global economy; to stimulate growth and the diversification of non-traditional exports; beneficial welfare impacts (wider variety of goods and lower prices of imported goods). Instruments used:

- Liberalisation of import regime (principle instrument), including:
 - reduction of customs duty rates and levels of effective protection
 - simplification of the tariff structure and removal of special tariff concessions and exemptions
- Elimination of export subsidies.

Preconditions: The outcome of the liberalisation depends on a number of things such as:

- Sequencing
- Distributional mechanisms in place
- Market conditions (including market distortions).

Outcomes²:

- External Trade:
 - Exports: Exports grew (in terms of the total share of exports to GDP) in most of the countries, however; to a lesser extent than expected
concentrated to a small range of national products produced by low skilled labour
growth in volume output not matched by value, because of falling commodity prices
 - Imports: Continued increase in import growth and declining terms-of-trade
 - Overall result:
increasing trade and current account deficits causing a deteriorating external debt situation
proliferation of informal trade and cross-border illegal trade.
- Manufacturing sector
 - Fall in, or stagnation of, the share of the sector in GDP
 - De-industrialisation tendency, many of the import-competing industries disappeared.³
- Distributional Impacts
 - Increased unemployment mostly in domestic market-oriented activities
 - Real wages generally declined
 - Increased income inequality
 - Further weakening of female workers statutes on the labour market.

Notes

1. *Adjustment from Within* op cit p.28

2. Based on the experience of five SAPRI countries, notably Bangladesh, Ecuador, Ghana Hungary and Zimbabwe, as well as the two CASA countries Mexico and the Philippines

3. The tool used for improving export competitiveness, exchange-rate depreciation, was insufficient to counterbalance these effects.

impacts of trade liberalisation is regarding the question of whether liberalisation hurt domestic industries. It is argued in the Ghanaian SAPRI report that import liberalisation led to a massive inflow of cheap imported goods that in turn negatively affected medium-sized firms, in particular the textile industry. The WB is somewhat more moderate in its critique claiming that the *"poor performance of import substituting industries may not have been due entirely to import liberalization but rather to structural weaknesses and inefficiencies"* and that *"most critics of trade liberalization and the SAPRI country reports do not question whether the declining industries were operating efficiently and whether the separated workers were gainfully employed."*⁷

These structural weaknesses and inefficiencies did of course affect the outcomes of the reform and the point is that the design of the reform policies should have been adapted to take them into account before pushing a country to adjust. Moreover, whilst it is true that the inefficient industries that destroy rather than add

value can hide behind import tariffs, there are other ways to deal with the issue than simply by eliminating those tariffs, such as reducing state subsidies or de-regulating internally. Small and medium sized enterprises (SMEs) that may not be highly efficient, but which are highly labour-intensive, can also be damaged by liberalisation reforms.

An example from a different industry and a different region, which nonetheless offers similar insights, is that of the liberalisation of the rice sector in Haiti in the 1980s and 1990s. A recent study notes that IMF conditions meant that rice import tariffs dropped from 50% to 3% over the period: *"following liberalisation, cheap American rice imports flooded the Haitian market, forcing small-scale subsistence rice farmers into competition with subsidized agro-business in the US... smallholder producers were not in a position to compete with this massive inflow of cheap rice. Many abandoned their farms and migrated to Port-au-*

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Box 2. Domestic financial sector reforms: World Bank views & summary of SAPRI results

Why?: Move away from using financial controls to fund fiscal imbalances and subsidise priority sectors, because financial controls reduce private financial savings & limiting the resources available for financial accumulation. Liberalisation & stimulate domestic savings and growth and reduce excessive dependence on foreign capital flows. Instruments used for liberalisation are:

Liberalisation of interest rates

- Liberalisation of entry restrictions to financial intermediaries
- New banking legislation including stronger prudential regulations and institutional reforms to strengthen the supervisory capacity of central banks
- Measures to tackle financial distress in government-owned banks, e.g. re-capitalisation and reforms to the management of the banks.

*Preconditions*²: Things must happen simultaneously. Further, liberalisation must be linked to;

- Strong institutions, characterised by effective law enforcement
- Efficient bureaucracy
- Well-established measures to control corruption.

*Outcomes*³:

- Unequal access to credit
- High cost of credit
- Other distortions in resource allocation
- Regulatory controls and institutions undermined
- A poor contribution to macroeconomic performance and stability.

Notes

1. *Adjustment from Within* op cit, pp.12-13
2. *ibid*
3. *Second SAPRI Global Forum*, Washington, July 30-31 2001

Prince."⁸ The IMF claimed in a report that, "by liberalising its trade sector, Haiti has put itself in a position to exploit its comparative advantages"⁹; what that meant in practice was a widespread destruction of livelihoods. Overall, on the export side the evidence is mixed: it appears that the reforms did boost exports in some countries, though the pro-poor effects of this are harder to determine. On the import side, the SAPRI country reports point at the harmful effects of radical import liberalisation. It seems that reforms were designed and implemented without paying sufficient attention to the political reality that the international trade playing field was hardly a level one. Existing domestic industries could not compete with the inflows of subsidised goods from abroad, and there were limited markets for liberalising countries to import into. As a result it was not possible for countries to take advantage of the theoretical comparative advantages that liberalisation should have offered: new industries and new opportunities did not spring up as expected. Instead, the main outcome was simply to shrink the existing 'unproductive' sectors, increasing overall unemployment. When these unproductive sectors happened to be agricultural ones, the rural poor were particularly hard hit.

In other words, the context in which trade liberalisation was implemented was as important for the outcomes as the reforms themselves. We describe in section C below factors such as inappropriate sequencing, or re-

forms that went "too far, too fast", which were crucial variables for the success, or lack thereof, of several reforms.

The World Bank's views on outcomes of financial liberalisation again diverge from the views in the SAPRI country reports. The World Bank states that "*The impact of financial sector reforms implemented in SAPRI countries has been generally positive, but less impressive than expected*" and that "*progress has been limited because some of the reforms, such as the restructuring of governance systems, proved very difficult to implement and the legal and regulatory institutions necessary for a well-functioning financial system remained underdeveloped.*"¹⁰ The Bank also claims that although the impacts of the reforms on lending is difficult to assess, "*examining the volume of bank credit to the private sector on the grounds that the private sector is assumed to use resources more efficiently than the public sector might be a good indicator of improvements.*"¹¹ The Bank points at their results showing that credit to the private sector as a share of GDP did increase in most of the SAPRI countries. However, this in its own right indicates little about the poverty impact. As the SAPRI experiences show, financial sector reforms led to a number of less favourable outcomes.¹²

Firstly, the reform accentuated unequal access to

credit, with different reforms compounding the problem. Outcomes included:

- A concentration of largest share of credits amongst a few, powerful agents
- Increasing difficulties for small and medium-scale enterprises (SMEs) to obtain loans since high interest rates prevented them from borrowing
- A greater spread between lending and deposit rates

In effect, while more efficient financial intermediation (i.e. the channelling of resources to where they are most needed and therefore where they can be used most productively) looks on paper to be the inevitable result of the liberalisation of domestic financial sectors, in practice, there were obstacles that prevented this greater efficiency taking hold, or from being beneficial from a poverty perspective.

Secondly, despite good regulatory intentions, financial liberalisation resulted in a weakening or dismantling of existing public regulations and controls. The removal of public controls weakened states as institutions and strengthened the influence of private interest groups:

- Deregulation allowed private elites to consolidate banking systems without reference to meeting the needs of SMEs
- In El Salvador, some economically strong groups used their political influence to manipulate the reform agenda to better suit their own interests.

Thirdly, the reforms also impacted on macroeconomic performance and stability. Liberalisation led to increasing preferences of financial intermediaries for short-term loans with a consequence of making long-term, non-export oriented and less profitable lending activities increasingly unlikely. Post-reform financial systems promoted speculative behaviour and a worsening situation for the poor and other economically weak groups as their access to credit and financial services decreased. Thus, financial sector liberalisation contributed poorly to macroeconomic performance and stability in many of the countries undertaking structural adjustment.

An analogy might be useful here. The existence of IDA – the World Bank's soft loan window – is generally justified by the fact that market-rate financing is inappropriate for low-income country economies with limited productive and hence repayment capacity. Yet the type of financial sector liberalisation that was carried out in structural adjustment programmes reduces the possibilities of similar concessional financing for domestic economic activities that are 'pro-poor' (e.g. a SME), but which similarly do not produce a sufficiently high rate of return on capital to be able to use the large market-rate credits that a profitable private bank supplies. Let us be clear that IDA-style concessional financing should not be an excuse to subsidise value-destroying parastatals through cheap credits; the point

is that the positive possibilities of pro-poor financing should not be swept away through radical financial liberalisation.

We have briefly looked at some of the evidence relating to domestic financial and trade liberalisation. But approaching structural adjustment sector-by-sector is simplistic and dangerous. In the same way that unexpected effects were not reckoned with in drawing up sector strategies, the effect of reforms in one sector can affect negatively on reforms in others in ways that were not anticipated. As one academic notes, "*IMF and World Bank structural adjustment policies combining trade liberalisation with tight monetary policy were supposed to redirect resources from less productive to more productive uses. In practice, however, when restrictive monetary policy is implemented without sufficient attention to the development of financial institutions oriented towards providing credit to small and/or medium-sized domestic firms, it is almost impossible to create new jobs and enterprises. In country after country, displaced workers went from low productivity jobs to zero productivity unemployment.*"¹³ It is clear that more 'joined-up' policy-making is clearly needed.

B. Lessons from SAPRI and Other CSOs' Experience

We have focused here on two of the SAPRI cross-country reports. The SAPRI reports, and other CSO reports in general, allow multiple conclusions to be drawn as to why structural adjustment policies failed to alleviate poverty in the majority of the countries where

Much of the liberalisation undertaken was designed in a way that would fit any country – a 'cookie-cutter' approach – and thus did not take into account the particular context of each country

they were implemented. These issues raise further concerns regarding the PRSP process, and the perception that this process is merely continuing with old adjustment policies. As one academic commentator puts it: "*How will we with policies that, on the face of it, look much like policies pursued in the past, achieve results that are substantially different from those achieved in the past?*" Some general lessons are drawn out here:

- **Liberalisation was undertaken in isolation, not as part of a national programme:** The conclusions that can be drawn from the experiences of trade and financial sector reforms are that reforms

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were not undertaken as part of a *nationally owned development programme*, but rather to 'satisfy' the sector-specific conditions set out by the IFIs under a general structural adjustment programme. Some elements of these programmes may have been successful if they had been part of an integrated and comprehensive country-owned strategy. Instead, much of the liberalisation undertaken was designed in a way that would fit any country – a 'cookie-cutter' approach – and thus did not take into account the particular context of each country. This made it even less efficient, even harmful in some cases.¹⁵

This is also underlined in a Tanzanian report, notably that "*Specific reform mechanisms such as liberalisation of trade, privatisation, fiscal austerity, retrenchment and cost sharing have been adopted as universal formula in all African countries, without taking into account specific differences and probable impact on poor, women and youth.*"¹⁶

Moreover, reforms that are undertaken in isolation of the international context are also likely to fail, particularly when the international context is a distinctly non-level playing field. The Haiti rice liberalisation case showed that when the theory of trade liberalisation to exploit comparative advantage met the reality of unequal access to subsidies and international markets, the result was highly damaging for Haiti's smallholder farmers. As the Haiti study put it, "*rapid, one-sided liberalisation can have drastic consequences for poor countries where it locks producers and industries into unfair competition with subsidized rich-country products.*"¹⁷

- **Too far and too fast:** The liberalisation reforms were implemented too far and too fast, not permitting institutions, regions and civil services to catch up. This is one of the SAPRI countries' major criticisms of trade and financial sector liberalisation, in that the importance of **sequencing** was ignored, leading for example to an adverse effect on sustainable growth of domestic firms.

In Zimbabwe "*Participants noted that trade policy, rather than having been designed as part of a development strategy, was developed without attention being paid to institutional, structural, market or 'timing' realities.*"¹⁸

There also appear to have been little consideration given to alternative strategies for achieving the targets of the reform programmes. For example, using full trade liberalisation as a tool to address structural problems in a country's export sector is akin to using a pretty inaccurately wielded hammer to break a nut. Other reforms, such as greater deregulation to promote internal competition might

achieve the same end with fewer negative side-effects.

- **Institution-building neglected:** Sometimes the problems extend further than simply slowing down the pace of reform or having better sequencing. In some cases, liberalisation reforms were undertaken with the 'stroke of a pen', and little attention was paid to the creation of the impartial institutions that are needed to make sure that markets work. It must be remembered that markets do not work of their own accord. The invisible hand, left to its own devices, tends to get its fingers into all sorts of unsavoury and monopolistic pies. All markets require transparent and enforceable rules and institutions in order to function efficiently: the latest World Bank *World Development Report* explicitly focuses on the need for institutions which help markets work properly,¹⁹ and as we pointed out in the previous section, building institutions is a vital component of building ownership.

The invisible hand, left to its own devices, tends to get its fingers into all sorts of unsavoury and monopolistic pies

The World Bank acknowledges to an extent the poor sequencing of the reforms and the lack of attention paid to institution-building. It puts these on its list of the broad lessons learned for designing comprehensive structural reforms that minimise the potentially adverse effects: "*In some cases, a step-by-step approach to adjustment is appropriate to allow complex reforms to be closely linked with the development of institutions.*"²⁰ Whether that will be taken into account in the future, still remains to be seen: it is clear, though, that a lot of credibility has already been lost.

- **Macroeconomic instability:** Liberalisation coupled with unstable macroeconomic conditions led to economic crises in many of the adjusting countries. In a paper written by Zambian civil society organisations on their perspective on the Zambian PRSP, concerns are raised on macroeconomic stability.²¹ It is stated that macroeconomic stabilisation has not been achieved even though it has been an objective of the structural adjustment since 1991 and that it is now imperative that the framework for the poverty strategy deals with, for example, the inflation problem.²² Further, although liberalisation has been strictly implemented in Zambia and the government has adhered to the program, the outcomes have been relatively weak: economic growth has not materialised, employ-

ment growth has stagnated and "*Per capita incomes have contracted to less than 50% of their value in 1975, rates of infant and maternal mortality have escalated, while life expectancy has fallen by 20 years in the past quarter century*".²³

Zambian civil society then goes on to give some suggestions on how to manage the macroeconomic framework to achieve 'desired' results, in which additional employment and business opportunities are created through, for example, "*the internalisation of the "Buy Zambian" mantra and the deliberate effort to provide opportunities to Zambians to participate in the mainstream of economic activity*".²⁴

In another CSO paper on the PRS process in Tanzania, there is a call for a review of the macroeconomic policies since they "...*have contributed to a greater poverty in all African countries, including Tanzania. The efforts to reduce poverty should therefore begin by revisiting macroeconomic policies...in a participatory and transparent way, in the light of poverty reduction goals.*"²⁵ This is also something that civil society in Malawi emphasises, that "*explicit links need to be made between macroeconomic policy and poverty reduction...*" and that "*realism needs to be sought on both sides, both in having social policies that are realistic in terms of ongoing macro-economic reforms, and in having macro-economic reforms that are judged on their ability to actually deliver poverty reduction.*"²⁶ This reference to pragmatic realism is vital, and often missed by the highly theoretical approach that is delivered by the IFIs. Everyone recognises that high inflation is bad for the poor, as the Zambian NGOs themselves point out.²⁷ But one of the cures for inflation - high interest rates - is also bad for the poor, as high interest rates result in expensive credit, a slow-down in economic growth and rising unemployment. Thus focusing on one economic problem in isolation is an inappropriate response: the full context needs to be recognised, and a **trade-off** must be adopted that is specific to the country-context (between for example, interest rates sufficiently high to bring inflation onto a downward slope, whilst not stifling economic growth).

- **Lack of built-in safety-nets:** Many of the reforms - for example, the liberalisation of trade and the financial sector - did not have any built-in mechanisms to mitigate the negative impacts on poor people. Financial sector liberalisation was implemented because market forces correct inefficiencies that essentially 'waste' capital by allocating it to the wrong places. But insufficient attention was paid to the externalities of the reforms that to a large extent affected the poor and instead of improving their situation, lead to a deterioration.²⁸ As

we mentioned above, capital allocated to poor groups or inefficient SMEs might not produce a high return by traditional financial measures, but can have a significant effect on poverty. Yet there was little attempt to create the 'domestic IDA' type of institution that we mentioned above.

Furthermore, privatisation of public services such as basic health care and education lead to an exclusion of poor people not able to pay for these services. It should be a state concern to see to that these basic rights are accessible to everybody, through resource allocation and/or through subsidising, and not through leaving everything in the

It sometimes seems to be forgotten that reducing poverty is not a profit-making endeavour: if it was, critics' calls for the abolition of the World Bank would be justified

hands of the private sector. It sometimes seems to have been forgotten that reducing poverty is not a profit-making endeavour: if it was, critics' calls for the abolition of the World Bank would be justified. As stated in a paper written by civil society in Mali, "*...if structural reforms need to include privatisation, they need to consider the social dimensions.*"²⁹

In the Ecuadorian SAPRI report, unemployment is pointed out as the basic cause of poverty: "*A person's access to goods and services capable of providing worthy living standards is dependent upon real chances of being employed*".³⁰ One of the consequences of structural adjustment policies was to extend the gap between highly efficient and productive large companies and smaller low-productivity firms. This was seen as contributing to a widespread process of exclusion affecting particularly poorer Ecuadorians without jobs in the formal sector, and also led in turn to a significant shrinking of the domestic market. This was not something that was taken into account when implementing the reforms - there were no distributional mechanisms in place that would ensure that the benefits of economic development would also reach the poor. This again points at the need for state involvement to mitigate the negative effects on vulnerable groups in society.

- **Lack of Prioritisation:** One of the other lessons to draw from this review of experiences of adjustment reforms is that there must be much more *prioritisa-*

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tion in the choice of reforms to implement. Not all the necessary reforms can be done at once: those that are less important will have to wait. There has been increasing awareness that, for example, public expenditure management is a key area for country authorities to get right if funds available for poverty-reducing expenditures are to lead to effective outcomes. This means that there must be more trade-off analysis of what the benefits to the poor are of particular sets of reforms, bearing in mind their political context and the potential for sustainable implementation through country ownership. This may in future mean that external donors pay more attention to helping implement what might be termed 'governance reforms', such as better public expenditure management or more pro-poor budgets, rather than the more controversial - and potentially ideologically-driven - reforms such as further privatisation of public utilities. Some of the early results of the participation in developing countries' strategies seems to support this idea, where the importance of governance in reducing poverty has become a recurring theme: in Tanzania, "meetings with rural communities to discuss priorities for the PRSP showed that rural poor people put poor governance at the top of their list of problems."³¹

C. Concluding Comments: The Importance Of Impact Assessments

Some of the reforms mentioned have drawn on evidence dating back ten years or more. It is important to ask what has changed since in the design and implementation of structural adjustment policies in the new PRSP era? The IFIs recognise the fact that there have been both social and economic costs associated with structural adjustments and the way they have been implemented in the past. The World Bank in particular has shown a willingness to change, in rhetoric at the very least. However, the crucial question of whether this has actually translated into changes in practice remains unclear. Coming back to the issue of ownership covered in the first section of this briefing paper, it will be vital to develop strongly the flexibility and incentives that a country is given in the PRS framework to develop new solutions to old poverty problems. Without this element of ownership - and the recognition that 'politics matters' in the process of developing a reform agenda - we could see many more years of inappropriate reforms imposed on unwilling governments.

What lessons can be drawn from past experiences and how can they be incorporated into countries' strategies to reduce poverty? The challenge that has to be addressed in a country's poverty reduction strategy is what intervention mechanisms will be needed where market forces fail to allocate resources in a pro-poor and equitable way. A balance needs to be struck be-

tween private sector actors in liberalised markets and government interventions in order to reduce negative impacts on poor and vulnerable groups if they occur: strategies need to be put in place that prevent the poor from being negatively affected either by 'market failure' or by 'governmental failure'. Government has a key role to play in ensuring equitable development without hampering investments or discouraging "wealth creators".³²

In other words, we need to get away from an ideological approach to reforms. Neither liberalisation, nor privatisation, nor any other reform should be ends in their own right, but potential means amongst others of achieving the bigger picture of the International Development Goals by 2015 or countries' own specific poverty reduction targets. Progress in reducing poverty must be the measure of success, not ticks against checklists of structural reforms completed.

An important tool to get to this goal of reforms that work better for the poor will be an enhanced role for **ex-ante poverty and social impact analyses**. These are vital to considering which reforms will work and which will not. Much more thought needs to be given to considering the potential impact of proposed policy re-

Strategies need to be put in place that prevent the poor from being negatively affected either by 'market failure' or by 'governmental failure'

forms before they are implemented, not only to understand better the potential distributional impact of policies ('how will poor people lose or gain from this reform?') and to put in place mitigating measures where some groups stand to lose out, but also to use as a way of considering which policies to embark upon in the first place, and how those policies should be sequenced. "...The IMF and World Bank must show how the design of such programs have taken into account potential impacts on poor people".³³

The IFIs have recognised the importance of this agenda, and are currently developing a systematic methodology for poverty and social impact assessments and a plan for implementation. The framework they are developing "refers to the analysis of intended and unintended consequences of policy interventions - ex ante, during their implementation, or ex-post - on the well-being of different social groups, with a special focus on the vulnerable and the poor."³⁴ Moreover, the importance of not having social impact analyses as a

'separate' exercise, isolated from the process of developing a poverty strategy is recognised: these analyses must "be an integral part of the design both of country strategies and of Bank- and Fund- supported programmes... [this] is not envisaged as a standalone exercise, reported in a separate document".³⁵

While the IFIs continue to work out how best to carry out these analyses, including plans for pilots in up to ten countries, the following points need to be made:

- There is no one-size-fits-all methodology for how best to carry out social impact analyses. They will need to vary with the particular country context. These assessments should not be 'dry' technical exercises incomprehensible to internal stakeholders, but should instead be based on 'live', participatory and politically-grounded debates, with information widely-available. Poverty and social impact analyses need to be 'owned' too.
- 'Rough and ready' ex-ante impact assessments need to be started now. Further research, analysis and pilot projects will be invaluable, but producing the perfect blueprint for impact assessments should not come at the expense of delaying immediate pragmatic steps for assessing proposed reforms.
- In order for poverty and social impact analyses to become a tool for deciding which reforms to embark on, the various possible options should be clearly set out, as well as the differences between them, and the trade-offs that will be necessary.
- Impact analysis should be required across the whole range of adjustment measures, and for a broad range of loan instruments affecting poor countries (including PRSC and PRGF credits). They should take into account economic, social, environmental, cultural and other aspects.

While such ex-ante poverty and social impact assessments will clearly not be 'silver bullets', miraculously producing perfect policies overnight, they represent a valuable tool for countries to decide on structural reforms that might actually help reduce poverty in the coming decade.

Notes

¹ *Adjustment from Within - Lessons from the Structural Adjustment Participatory Review Initiative*, World Bank, 2001

² *Global civil society endeavour to assess the impact and shape the future of economic-reforms programs*, SAPRIN, March 1998. See www.saprin.org In the case of Zimbabwe and El Salvador, both the government and the Bank departed from the process as it evolved though eventually returned to the exercise.

³ The sectoral analyses covered: Trade liberalisation, Financial sector liberalisation, Employment and labour market reforms, Privatisation, Agricultural reforms, Mining sector reforms and Public spending and related public services policy reforms.

⁴ *Adjustment from Within*, op cit, pp.29-30

⁵ http://www.saprin.org/bangladesh/research/ban_trade.pdf

⁶ *Country Report: Ecuador*, National committee for the SAPRI Ecuador project, Second Global SAPRI FORUM, Washington, July 30, 2001

⁷ *Adjustment from Within - Lessons from the Structural Adjustment Participatory Review Initiative*, op cit, p. 32

⁸ *The IMF's and World Bank's role in an unfair trade system*, Oxfam International Spring Meetings briefing, April 2001

⁹ *Haiti: selected issues*. IMF Country Report No. 1/4, January 2001.

¹⁰ *Adjustment from Within - Lessons from the Structural Adjustment Participatory Review Initiative*, p. 15

¹¹ *ibid*, p. 14

¹² *Second SAPRIN Global Forum*, op cit

¹³ *IMF's missed opportunity*, Joseph Stiglitz, article on www.economicstimes.com

¹⁴ *2nd Africa Forum on Poverty Reduction Strategies*, September 10-13, 2001, Dakar, Senegal, <http://www1.worldbank.org/wbiep/attackingpoverty/activities/dakarquotes.htm>

¹⁵ *Second SAPRIN Global Forum*, op cit

¹⁶ *Poverty Reduction Strategy Paper: input from Civil Society Organisations*, TCDD/PRSP Coalition, March 2000, p. 9

¹⁷ *The IMF's and World Bank's role in an unfair trade system*, Oxfam International op cit.

¹⁸ <http://www.saprin.org/zimbabwe.htm> - second national forum

¹⁹ *Building institutions for markets* World Bank <http://econ.worldbank.org/wdr/>

²⁰ *Adjustment from Within - Lessons from the Structural Adjustment Participatory Review Initiative*, op cit, p. 40

²¹ *Poverty Reduction Strategy for Zambia - a Civil Society Perspective*, Civil Society for Poverty Reduction, executive summary

²² *ibid* pp. 30-31

²³ *ibid* p. 33

²⁴ *ibid* p. 31

²⁵ *Poverty Reduction Strategy Paper: input from Civil Society Organisations*, op cit, p.8

²⁶ *PRSP in Malawi - Progress Report and Recommendations*, Malawi Economic Justice Network, April 2001, p. 16

²⁷ If we at Eurodad were to get \$100 for every time that an IFI official informs us that inflation is bad for the poor, we would probably be a major source of development finance by now.

²⁸ *Second SAPRIN Global Forum*, op cit

²⁹ "...si elles doivent déboucher sur la privatisation, tenir compte des dimensions sociales.", report by CSOs in Mali and their views on PRSP, p. 9

³⁰ *Country-Report: Ecuador*, National committee for the SAPRI Ecuador project, Second Global SAPRI FORUM, Washington, July 30, 2001, p. 17

³¹ *2nd African Forum on Poverty Reduction Strategies*, op cit, p. 2

³² *Poverty Reduction Strategy for Zambia - a Civil Society Perspective*, Civil Society for Poverty Reduction. Executive summary, p. 33

³³ *Making PRSPs Work: The role of poverty assessments*, Oxfam International, 2001, p. 5

³⁴ See, for example, *Concept Note: Social Impact Analysis of Macroeconomic and Structural Policies*, World Bank, May 2001, p. 2

³⁵ *ibid*

EURODAD
European Network on
Debt and Development



MANY DOLLARS, ANY CHANGE?

Executive Summary

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MANY DOLLARS, ANY CHANGE? : EXECUTIVE SUMMARY

Introduction

In this two-part paper we focus on two areas that are integral to the poverty reduction debate. The first part looks at the role of donors and creditors in influencing the shape of countries' strategies for poverty reduction, and how this can inhibit the emergence of a greater degree of 'ownership'. The second part looks at some of the evidence that civil society has assembled on the poverty impact of structural adjustment reforms. It notes that the way in which a reform package is put together and implemented is vital in determining its outcome – reforms that look good on paper may fail if the practical context is not taken into account.

The two parts of the paper are closely linked – one of the conclusions that emerges is that a greater degree of ownership, and an upfront recognition that 'politics matters', is vital if countries' adjustment reform plans are to successfully target and reduce poverty.

Part I: Why the PRSP approach needs to address obstacles to ownership

A. Ownership is vital

This section briefly reviews the debate on the importance of ownership in development co-operation. The concept of country ownership of poverty reduction strategies, though difficult to define, is important for ensuring that development reforms are sustainably implemented. Moving towards true ownership of countries' reform agendas has significant ramifications for donors and creditors, not least because it means a transfer of decision-making to a broader and more uncertain national context that includes civil society and other stakeholders. Moreover, the corollary of moving towards greater country ownership is a recognition that 'politics matters' in the success or failure of development co-operation. This can be a hard lesson: where there is little political will to tackle poverty, there is little that outsiders can do.

B. What have donors done to adapt to this new reality of development co-operation?

This section overviews recent changes in the operational frameworks of the International Financial Institutions (IFIs). The international development community has, at a theoretical and rhetorical level at the very least, picked up on 'participation' and 'ownership' as key components in their operations. The IMF is currently undertaking a review of how its Poverty Reduction and Growth Facility (PRGF) has changed the nature of its lending, and of the role of conditionality in its lending programmes. At the World Bank, there is a similar move to change the nature of adjustment lending and a new lending instrument, the Poverty Reduction Support Credit (PRSC), has been developed. Bilateral donors are increasingly co-ordinating their activities, both with each other and with a country's poverty strategy.

C. External and internal obstructions to greater country ownership

We identify in this section a series of obstacles that prevent better ownership of countries' poverty reduction strategies. One set of obstacles to increased ownership is 'external': that is, relating to external development partners:

- **Dominance of the IFIs in agenda-setting and choices of reforms:** the requirement that PRSPs are first endorsed by the Boards of the World Bank and IMF effectively makes them policy 'gatekeepers'. This has undermined the freedom of policy manoeuvre for country governments, in turn weakening government ownership.
- **'Back-door' policy specification:** there has been a tendency to add extra specifications to policies and reforms in documents other than the national PRSP (e.g. in PRSC documentation).
- **The umbilical linkage between PRSPs and the HIPC Initiative:** governments are rushing PRS processes in order to get earlier debt reduction through the HIPC Initiative.
- **Lack of connection to broader development processes:** PRSPs are in many cases isolated from broader development and political processes, such as sustainable development plans in the context of Rio +10.
- **Slow movement of bilateral donors to budget support:** funding via projects rather than at sectoral or budget level impedes the transfer of ownership to governments.

Another set of obstacles to increased ownership is 'internal': that is, relating to internal processes and actors in the country:

- **Lack of economic policy-making capacity** in poor countries, combined with insufficient preparations for negotiations with IFIs and donors, leads to decisions not adapted to country-specific poverty problems.
- **Document access:** lack of availability of documentation in a timely fashion and in local languages remains an obstacle to wider participation and reduces the opportunity for widespread input.
- **Marginalisation of CSOs** by governments that inform civil society participants at very short notice of consultation meetings, or that separate processes into 'poverty/social' and 'macro/structural', and exclude CSOs from the latter.
- **Marginalisation of Parliaments** by not involving them as institutions in a country's strategy process.
- **Institutions inaccessible to the poor:** key institutions that ensure local ownership of poverty plans (courts, civil service functions, regulatory mechanisms) often are not effectively accessible to the poor.
- **A focus on budgets misses key inter-sectoral issues:** structuring poverty strategies around budget lines helps ensure prioritisation of pro-poor spending, but is in some cases done at the expense of addressing key cross-sectoral issues such as cost-recovery.
- **Complementary 'administrative' changes needed:** Parallel changes in government financial and staff management arrangements are needed to ensure that strategies can actually be implemented.

D. Proposals to enhance countries' ownership of their poverty strategies

This concluding section sets out a series of proposals on how to overcome both the 'external' and 'internal' ownership challenges that have been identified:

- **Move to a 'Consultative Group'-style endorsement of countries' strategies as a first step:** this would remove the need for an *a priori* IFI endorsement of countries' strategies.
- **Reconsider the role of conditionality:** in the longer-term, institutions should move towards results-based financing of countries' poverty reduction strategies, which would simultaneously remove the obstacle to ownership created by conditionality and safeguard resource usage.
- **Put everything in the publicly available poverty strategy:** all policies and proposed reforms should be in the public poverty strategy document, in the forms of appendices if necessary.
- **Expect countries' strategies for poverty reduction to be even more comprehensive than the current macro/structural/social parameters of the current PRSP specification:** a country's poverty reduction strategy should also deal with political, environmental and other key issues that are not normally in the IFIs' domain.
- **Ask for an appendix of stakeholder (private sector, civil society) comments to the finished strategy**
- **Address the HIPC Initiative/PRSP process tension** by extending the 'flexible PRSP' approach adopted in 2000, and making HIPC Completion Point contingent on monitorable plans for using resources.
- **Tie donor assistance more closely to countries' plans**
- **Broaden the scope of the PRSP review** beyond assessment of IFI operations.
- **And finally, drop the 'PRSP' label:** boost ownership by letting countries name their strategies as they wish.

Part II: Why the PRSP approach needs to learn the lessons from structural adjustment

A. Experiences of trade and financial sector reform

Civil society groups have in recent years started to analyse the impacts of structural adjustment programmes on poor people, particularly through the tripartite World Bank, civil society and government initiative known as 'SAPRI'.

We review two sector case studies – trade liberalisation and financial sector reforms – which conclude that the theoretical expected benefits of the reforms were not as positive as expected, largely because of unexpected and negative side-effects that had not been considered in the design of the original reform.

Sector case study summaries

Trade sector reforms: Liberalisation helped boost exports in most cases, but not at the same rate as the increase in imports, with macro-economic problems resulting from the declining terms of trade. A non-level international playing field meant that existing domestic industries were damaged by an influx of subsidised goods from abroad, but that new industries did not spring up because of the lack of export opportunities.

Financial market reforms: The effect of financial market reforms was to increasingly channel private sector capital to the larger and more profitable sectors. However, the increasing cost of credit after financial sector liberalisation hit smaller enterprises particularly hard. In addition, in many countries, financial sector liberalisation was not accompanied by sufficient progress in regulatory regimes.

B. Lessons from SAPRI and other CSOs' experiences

These sector case studies help provide broader lessons as to why structural adjustment interventions have failed to alleviate poverty:

- **Liberalisation was undertaken in isolation, not as part of a national programme:** simultaneous structural adjustment interventions tended to be 'cookie-cutter' and based on economic theory, rather than grounded in the political realities of a country's own development strategy and the broader international context.
- **Reforms were 'too far, too fast' and paid insufficient attention to sequencing,** as well as failing to consider whether alternative reforms could have achieved the same results with fewer negative side-effects.
- **Institution-building neglected:** All markets require transparent and enforceable rules and institutions in order to function efficiently, yet these were insufficiently developed during the reform process.
- **Macro-economic instability:** Liberalisation coupled with unstable macroeconomic conditions led to economic crises in many of the adjusting countries.
- **Lack of safety nets:** many reforms lacked built-in mechanisms to mitigate the negative impacts of reforms on poor people, particularly those that affected the access of poor people to basic services (education, health, water).
- **Lack of prioritisation:** governments have limited capacity to deliver multiple reforms programme simultaneously. Greater priority needs to be given to those reforms that deliver the most benefit to poor people, particularly better public expenditure management and good governance reforms.

C. Conclusions: the importance of impact assessments

In future adjustment programmes, a balance will need to be struck between private sector actors in liberalised markets and government interventions in order to reduce negative impacts on poor and vulnerable groups if they occur. Strategies need to be put in place that prevent the poor from being negatively affected either by 'market failure' or by 'governmental failure'. Adjustment reforms should not be ends in their own right, but potential means amongst others of achieving the bigger picture of the International Development Goals by 2015. Progress in reducing poverty must be the measure of success, not ticks against checklists of structural reforms completed.

An important tool to get to this goal of reforms that work better for the poor will be an enhanced role for *ex-ante poverty and social impact analyses*. These are vital for considering which policies to embark upon in the first place, how those policies should be sequenced, and what the trade-offs between different policies are, as well as their likely impact. They need to be a practical tool for stimulating 'live', participatory and politically-grounded debates, not just 'dry' technical exercises incomprehensible to internal stakeholders.

While such ex-ante poverty and social impact assessments will clearly not be 'silver bullets', miraculously producing perfect policies overnight, they represent a valuable tool for countries to decide on structural reforms that might actually help reduce poverty in the coming decade.

**Brief to the IMF/World Bank Review on the PRSP Process
Presented by the International Confederation of Free Trade Unions (ICFTU)
Washington, 14-17 January 2002**

Introduction

1. As the world's foremost body representing organized labour, the ICFTU¹ welcomed the September 1999 announcement of the IMF and the World Bank that poverty reduction would, henceforth, be the "overarching goal" of both institutions. The ICFTU's interest in and support for this goal stems from the very nature of why trade unions exist, which is to raise the working and living standards of people whose primary or only source of income is their labour. The ICFTU has affiliated organizations in countries that range from the richest in the world to the poorest, and these affiliates are found in developing, transition and industrialized economies. The ICFTU represents every class of worker from relatively well paid professionals to landless agricultural labourers whose earnings place them and their families well below the World Bank's threshold of the extreme poor (US\$1 of income per day). Some forty per cent of ICFTU affiliates are located in PRSP countries; in fact, the ICFTU has affiliates in all but about a dozen of the PRSP countries. However the support for the poverty-reduction objective is something that is shared not only by our affiliates in the PRSP countries. Trade unions are created on the principle of solidarity, and this solidarity has entailed using the support and assistance of trade unions to assist most particularly those workers that are the most in need.

2. Trade unions have long argued that the Washington-based international financial institutions (IFIs) should be concerned not only with economic growth *per se*, but also with questions of distribution. This is one of the reasons why the ICFTU welcomed the emphasis placed two years ago on poverty reduction as an objective of IFI programmes. Putting the emphasis on raising the living standards of the poorest members of society could help to ensure that IFI policies not increase the income of a wealthy minority at the expense of the less well-off. Various World Bank reports have noted that most poor people are poor not because they don't work, but because their labour does not provide them with sufficient means to bring themselves out of poverty. A successful poverty reduction strategy therefore obviously requires that the question of labour standards must be addressed, as should a broad array of social and economic policy questions. The ICFTU and its affiliated national trade union organizations have expressed their willingness to work

¹ The International Confederation of Free Trade Unions represents 225 trade union organizations in 148 countries with a total of 157 million members. ICFTU headquarters are in Brussels. See our Web-site for further information (<http://www.icftu.org>). The ICFTU works closely with the International Trade Secretariats (ITS), representing workers in different sectors, and with the Trade Union Advisory Committee (TUAC) to the OECD (<http://www.tuac.org>). All the above organizations are on the Global Unions web-site (<http://www.global-unions.org>).

with governments, with other civil society organizations and with the IFIs in designing and implementing effective poverty reduction strategies. The present brief aims to present some recommendations to the IFIs on the basis of the past two years of experience of trade unions affiliated to the ICFTU in participating, or in attempting to participate, in national PRSP processes. This brief is largely based on reports the ICFTU has received from various affiliates. Many of the points raised in this brief were expressed orally to officials of the IMF and World Bank during a series of meetings which took place on 11-12 December 2001 with a delegation of trade unionists from six PRSP countries.

ICFTU response to the PRSP process

3. In September 1999, the IMF and World Bank announced the process by which some eighty countries would eventually be required to produce Poverty Reduction Strategy Papers (PRSPs). When the announcement was made, the ICFTU responded positively to the three major characteristics of the process, as they were defined by the IFIs:
 - The PRSP would have to demonstrate how the use of IFI funds from debt relief or concessional lending directly leads to the reduction of specific indicators of poverty;
 - The PRSP would be formulated by the country itself rather than by the IFIs (the concept of "country ownership");
 - The PRSP would be formulated and implemented by the government jointly with civil society organizations.

4. The ICFTU welcomed the strengthened commitment to poverty reduction on the part of the IFIs, as well as the stress on country ownership and civil society involvement. To be quite frank, we were a bit sceptical at first as to whether the change would be more than cosmetic. This was certainly not the first time that the World Bank had proclaimed poverty reduction to be the primary objective of the institution (it was more of a change to hear the IMF make such a statement), and we wondered whether there would be any real content behind the rhetoric. Documentation on the PRSP process issued by the IFIs later that year did seem to give a lot of emphasis to the importance of the involvement of civil society organizations, of which trade unions were defined as an important component. On the basis of these commitments on the part of the IFIs, the ICFTU sent a circular document to all its affiliated organizations in May 2000 inviting them to participate in the national PRSP process in their country, as far as it was possible for them to do so. Later that year we began preparing an ICFTU Guide on PRSPs, an initial version of which was released in May 2001. A published version in booklet format was launched in five languages (English, French, Portuguese, Russian, Spanish) in December 2001.

Labour involvement in national PRSPs

5. As noted above, for the past year and a half the ICFTU has encouraged its affiliates to participate actively in national PRSP processes. What can we say about the trade union experience with PRSPs so far? Firstly, that it has been a slow process; in fact a lot slower than the IFIs themselves had originally planned for. Two years after the PRSP process was announced, a total of only eight full PRSPs (as opposed to interim PRSPs, which do not require civil society involvement) have been presented to the IMF and World Bank and endorsed by them. In April 2001 the IFIs announced that the quality of PRSPs should not be sacrificed for the sake of speed. The ICFTU agrees with this objective, but not if slowing down PRSP formulation means that the process gets bogged down, which unfortunately could be the case in some countries.

6. In many of the first PRSP countries, but certainly not in all, there have been serious shortcomings regarding civil society involvement. Trade unions have never claimed to represent all of "civil society" but, since they are often the most structured and representative component of it, we feel that trade unions must be invited to take part in the national PRSP process if the participatory aspect is to have any significance. Unions are vitally interested in the poverty reduction agenda. As already mentioned, part of their membership often earns income below the World Bank-defined poverty threshold and they generally have members in all regions of the country, including both rural and urban areas. In many PRSP countries, urban workers, even if they earn enough to put themselves technically above the poverty line, support extended families that live in rural areas and are therefore highly concerned about rural poverty. As membership-based organizations with democratic decision-making structures, unions can also provide a meaningful input to poverty reduction strategies on behalf of thousands of workers. In our opinion, if organized labour is not involved in the PRSP process, this is an indication that the national process is seriously flawed.

7. Unfortunately, trade unions have not been invited to participate in several countries where a PRSP has been prepared or is in the formulation stage. There have been some cases in which trade unions were invited to participate in the process right from its initial stages, for example in Georgia, Guinea, Malawi and Zambia, despite the fact that, in some of these countries, serious disagreements existed between the government and organized labour. In other countries, unions were invited to come on board only after voicing complaints to the government and the IFIs about their exclusion. In Tanzania and Uganda national trade union centres were told they could participate in the PRSP process, but only after the PRSP had already been completed and endorsed by the IFIs. It is not surprising that, because of the absence of unions in the PRSP formulation stage, labour issues are given little attention in the PRSPs of these countries. ICFTU affiliates in those

countries are evaluating to what extent their input will be useful in the implementation and, eventually, update of a PRSP over which they had no say. In the case in Nepal, the ICFTU's affiliate was not permitted to participate in the formulation of an interim PRSP, in spite of the fact that it has repeatedly shown interest and put forward ideas for the process. The Nepal Trade Union Congress finally decided to join in the production, with other civil society organizations, of an "Alternative PRSP" launched in November 2001. It hopes that it will be allowed to participate in the preparation of the full PRSP, which is scheduled to take place during the first half of 2002.

8. Trade unions are concerned not only with being invited to participate in national PRSP formulation processes, but also with the quality and scope of the consultative process. A common concern we have heard from many of our African affiliates is that consultation has been particularly deficient in rural areas, in spite of the fact that poverty is often most prevalent in these areas. Some ICFTU affiliates have voiced complaint about the superficial or perfunctory nature of PRSP consultations in their countries. Such is obviously the case when trade union participation is limited to an invitation to one national conference to endorse the government's proposal. Even in countries where the consultative process is much more extensive, the participatory component appears to break down in the key final stages. This often happens when the final PRSP document is written, without any civil society participation, by a technical committee composed of government officials and hired consultants. The ICFTU and its affiliates also consider that trade unions and other civil society organizations have a vital role to play in the implementation and monitoring of the PRSP. Their participation can contribute to resolving the governance problems, including problems of corruption, that exist in many of these countries.

Conditions for meaningful labour and civil society involvement

9. Obviously, meaningful trade union participation cannot take place if free and democratic trade unions are not allowed to organize and function. If the IFIs genuinely value the importance of civil society involvement in the PRSP process, it follows that they must defend the right of these organizations to exist and function freely. In order to ensure the involvement of trade unions in PRSPs and for other equally important reasons, the IFIs must promote the core labour standards in the countries where they are active. One of the four key areas covered by these standards is precisely the question of freedom of association and the right to engage in trade union activities, notably collective bargaining. Currently, the lack of trade union freedoms can be considered to be a serious impediment to organized labour being able to participate effectively in several PRSP countries, most notably in some African and Asian countries.

10. The ICFTU regrets the fact that many of the first PRSPs have not lived up to the commitment that trade unions, as civil society organizations, be involved in PRSP formulation. The ICFTU and its affiliated organizations have informed IFI staff and boards of executive directors of specific instances where trade unions were not invited to participate in national PRSP processes and will continue to press for such involvement. We believe, as the World Bank's *World Development Report 2000/2001* rightly points out, that real sustained achievements in poverty reduction require the empowerment of the poor, including the creation of strong civil society organizations, the building of alliances between the poor and the non-poor, and genuine participatory democracy. However, recent declarations by some IFI spokespersons that civil society involvement in PRSPs could "undermine" democratic institutions in those countries are a worrisome development. Trade unions are in favour of the full participation of national parliaments in the PRSP process but note that in most of the cases where trade unions have been excluded from the process, parliaments have also not been consulted. Civil society participation and parliamentary involvement in the PRSP process are in no way mutually exclusive, as some IFI spokespersons have claimed; on the contrary, both elements should be seen as important components of a genuine participatory poverty-reduction process.
11. A final point concerning the issue of trade union participation in national PRSP processes is the question of resources necessary for meaningful participation in the process. Most ICFTU affiliates in PRSP countries dispose of very limited personnel and other means to carry out just their regular functions. Resources are even scarcer for tasks related to participation in the PRSP process, which do require some research and policy formulation capacity. While the ICFTU, as already noted, has encouraged its affiliates to participate as much as is possible, we would hardly expect unions to divert resources from their foremost priorities, for example organizing workers in presently unorganized sectors, in order to fully participate in the PRSP. The ICFTU has been working with various affiliates and allied organizations to make training and research support on PRSPs available for trade unions, and the International Labour Organization (ILO) has also offered to collaborate with trade unions in some PRSP countries. However substantial additional resources will be required in order to ensure meaningful participation of unions in all PRSP countries. We invite the IFIs to address this issue.

The content of PRSPs

12. While some of the PRSPs that have been endorsed by the boards of the IMF and World Bank include sections on labour issues, others do not, an absence that is probably attributable in part to the lack of trade union involvement. The ICFTU considers such an absence to be a serious flaw since, as mentioned in the introduction, most poor people find themselves in their situation because of their poor working conditions, not because they do not

work. In a written brief about the PRSP adopted for Tanzania, the Trade Unions' Congress of Tanzania identifies the extremely low wages and poor working conditions of rural workers as one of the most serious problems that the PRSP should apply itself to. Unfortunately, the question of rural labour conditions was not mentioned in the Tanzanian PRSP; unions had not been invited to participate in its formulation. The ICFTU's African affiliates frequently report that questions of poor wages and working conditions, lack of social safety mechanisms, and lack of sufficient employment are, in their opinion, not sufficiently taken up in many PRSPs. Another recurrent problem in several PRSP countries is the non-payment or delayed payment of wages and the absence of basic social security schemes. All of these issues should be addressed in the PRSP.

13. At the very least, the PRSP should include a commitment to promote the respect of the core labour standards². World Bank publications increasingly recognize the importance of the promotion of these standards as part and parcel of the development process and the IFIs' poverty-reduction mission. The Bank's support for the core labour standards stems from the common-sense recognition that labour is often poor people's main or only asset and that respect of the standards is one of the best tools for ensuring that working people can benefit from this asset. In early 2001 the Bank completed a "toolkit" to be used for carrying out an appraisal of the respect of core labour standards in Country Assistance Strategies of the countries eligible for IDA lending, most of which will eventually be required to prepare a PRSP. We suggest that the toolkit could also be put to good use for preparing a section on core labour standards within PRSPs.

14. One problem that trade unions and other civil society organizations have frequently encountered once the PRSP process gets going, is that governments have often been reluctant to broach some key questions that have an impact on poverty levels. These are notably issues such as monetary policy, overall government budget management, exchange rate policy and trade regime. Governments, presumably with the backing of the IFIs, have tended to try to keep discussion limited to spending decisions regarding the use of resources coming from debt relief or new IFI concessional loans. When governments have accepted discussions on broader fiscal and monetary issues, in some cases they have only done so in a very controlled manner. For example, in Malawi the government accepted to create a PRSP working group on "macroeconomic and poverty targets" only after repeated insistence by civil society organizations, and in spite of the fact that nineteen other thematic groups had been created as part of the

² Core labour standards are internationally-agreed fundamental human rights for all workers, irrespective of countries' level of development, that are defined by the ILO conventions that cover freedom of association and the right to collective bargaining (ILO Conventions 87 and 98); the elimination of discrimination in respect of employment and occupation (ILO Conventions 100 and 111); the elimination of all forms of forced or compulsory labour (ILO Conventions 29 and 105); and the effective abolition of child labour, including its worst forms (ILO Conventions 138 and 182).

PRSP process. After the government finally agreed to create the macroeconomic group, only two civil society representatives were allowed to participate in it, and they were handpicked by the government to attend meetings alongside representatives of the IMF and World Bank. By acquiescing to such a procedure, one wonders how seriously local IFI representatives took the country-ownership and civil-society-involvement features that are supposed to be key elements of the PRSP process. Trade unions believe that macroeconomic policy inevitably has an important impact on growth and poverty reduction. They should be an important part of a comprehensive poverty reduction strategy and be submitted to the same degree of civil society consultation as all other issues.

The PRSP and new IFI lending

15. A major concern of trade unions has been the extent to which new IFI lending will actually be aligned on the PRSP, as is the stated policy. The World Bank has developed a new lending instrument, the Poverty Reduction Support Credit (PRSC), specifically to support initiatives coming from an endorsed PRSP. One of the first PRSC loans was made for Uganda, which was the first country to have a PRSP endorsed, in March 2000. A detailed analysis carried out by a Washington NGO comparing the Ugandan PRSP with the Bank's PRSC for the country has shown some important discrepancies between the two. For example, the PRSP stipulates that new regulatory frameworks must be put in place as public services such as health care, education and water provision are decentralized and, in some cases, privatized. This stipulation was expressed so as to ensure that poor Ugandans are not deprived of access to these services as they are restructured. The PRSC provides funding for the decentralization and privatization initiatives without requiring that regulatory apparatuses be put in place.

16. In November 1999, the name of the IMF's Enhanced Structural Adjustment Facility (ESAF) was changed to Poverty Reduction and Growth Facility (PRGF). It was announced that, as compared to the ESAF, PRGF loans were to have more flexible fiscal targets, more selective structural conditionality, and include social impact analysis of structural and macroeconomic reforms. The IMF also stated that the PRGF would be "progressively aligned" to PRSPs as they began to be formulated. Unfortunately there is little evidence that this is happening, according to reports the ICFTU has received from affiliates. Evaluations that we have obtained on recent PRGF loan conditions do not indicate that conditions are more flexible in some key areas affecting poverty reduction, notably monetary policy and fiscal policy. And despite claims that the Fund would set less conditions outside of its "core areas of expertise", i.e. monetary, fiscal and exchange rate policies, there has actually been an increase, according to the

IMF's own analysis, of conditions in some "non-core" areas, notably trade regime and capital account.

17. There is in fact much evidence that PRGFs are being negotiated with governments in processes that are parallel to, but independent of the PRSP process. To give an example, in May 2001 the government of Ghana began a civil society consultation for PRSP formulation in which the ICFTU's affiliate, the Ghana TUC, participated. During this meeting, the TUC and other civil society organizations mentioned the importance for the PRSP to cover issues such as privatization, domestic market liberalization, trade and capital market liberalization, fiscal and monetary policy, and labour regulation. All were very surprised when, barely a month later, in June 2001, the government signed a letter of intent for a new PRGF, which fixes several macroeconomic benchmarks and performance criteria precisely in those areas raised at the civil society consultation. The TUC's analysis of the letter of intent was that these conditions would in fact impose serious constraints on the capacity of the PRSP to influence government policy. If the PRSP is to be at all coherent with IMF lending conditions, it will likely not be the PRGF that will align itself to the PRSP, but rather the other way around. In this case and in others, it seems obvious that the PRGF loan conditions have been established as if the PRSP process did not exist.
18. While on the subject of the IMF, we believe that it is important to raise a few concerns about the Fund's intent to "streamline conditionality", a process which is presently underway, as it relates to the Fund's stated commitment to national poverty reduction strategy processes. The IMF has stated that it wishes to be less intrusive towards national governments in areas outside of its "core areas of expertise". While trade unions certainly support the idea of the IMF no longer trying to dictate labour market reforms and privatization agendas, there is no indication so far that the IMF is backing away from wide-ranging prescriptions touching state-owned enterprises or social and labour policy. In the annual country-level Article IV Consultation Staff Reports, which are presented to governments and the IMF board of directors, there even appears to have been an increase in the past several months in recommendations on labour matters. Usually these are proposals that governments use their influence to lower wage levels or that they introduce measures to increase "labour market flexibility". On the other hand, when unions sometimes request that the IMF make good on its stated support for the core labour standards by raising the issue when these standards are violated by a government, they are told that these are matters outside of the Fund's area of responsibility. Thus, this retreat to the "core areas" of conditionality seems to be somewhat selective.
19. We are concerned that a retreat to "core areas" of conditionality could mean that national poverty reduction strategies will not be taken account of in defining macroeconomic policy. When the IMF changed the ESAF to the

PRGF in 1999, it announced that loan conditions would be aligned with PRSPs. By declaring this, the IMF seemed to recognize that macroeconomic parameters needed to be adjusted in tune with poverty reduction objectives. As mentioned earlier, we have seen little indication so far that the Fund has been more flexible in terms of fixing fiscal and monetary policy benchmarks so as to align them with PRSPs. In addition, by declaring that the Fund will no longer concern itself with social issues that are outside of the "core areas", even if they are important components of poverty reduction strategies, the risk exists that the gulf between macroeconomic policy and poverty reduction will grow even greater. In this way, "streamlined conditionality" could create situations in which IMF conditionality systematically undermines national poverty reduction strategies.

Recommendations

20. The following conclusions and recommendations have been formulated on the basis of the experience of ICFTU affiliates with national PRSP processes, as described in the preceding pages:
- As an important component of civil society, trade unions should be involved in PRSP formulation processes and the IMF and World Bank should not recommend endorsement of PRSPs where trade unions have not been properly invited to participate.
 - In order to enable the meaningful participation of trade unions in national PRSP processes, the IMF and World Bank should promote the respect of the freedom of association, which is one of the areas covered by the core labour standards.
 - The IMF and World Bank should examine how resources can be made available in order to allow a greater degree of trade union participation in national PRSP processes.
 - PRSPs should include sections on protecting and raising labour and social standards, for example, in respect of the correct payment of wages and basic social security schemes. At the very least, they should include a commitment to promote the respect of the core labour standards.
 - Macroeconomic policy issues should be included in civil society consultations on PRSPs since they are an important part of a comprehensive poverty reduction strategy.
 - Trade unions and other civil society organizations should play an important role in the implementation and monitoring of endorsed PRSPs, so as to ensure transparency and avoid improper use of funds.

- Both the World Bank and the IMF should ensure that lending conditions of new concessional loans (PRSC and PRGF) are aligned with priorities defined in the national PRSP.
- The IMF should take precautions to ensure that, in the course of the Fund's process of "streamlining conditionality", commitments to poverty reduction not be set aside as being outside of the IMF's core areas of expertise.

InterAfrica Group

The Role of Parliamentarians in the PRSP: Issues and Options

Advocacy Note No. 2

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Purpose of the Issues and Options paper

The purpose of this issues and options paper is to draw attention to Ethiopia's Poverty Reduction Strategy Paper (PRSP), the ongoing process of preparation of the PRSP, and the role of Parliamentarians in that process. The aim is to increase the awareness of public officials in public policy design and making. Its objective is to increase Parliamentarians engagement in the formulation of PRSP in Ethiopia.

Background

The PRSP is of critical importance to Ethiopia's development and its efforts at poverty reduction. In particular, the preparation of the PRSP is a key requirement of the international financial institutions for Ethiopia and other low-income countries to qualify for debt relief and for concessional development loans.

This means that to get creditors' approval for debt relief, countries must prepare a PRSP outlining their poverty reduction goals and how they plan to attain them. They then need to demonstrate progress towards these goals before any debt relief funds are released. According to the World Bank, the focus of PRSP is on "identifying in a participatory manner the poverty reduction outcomes a country wishes to achieve and the key public actions - policy changes, institutional reforms, programs, and projects ... which are needed to achieve the desired outcomes".

The PRSP is based on five principles. The PRSP should be:

- Country-driven: with governments leading the process and broad-based participation in the adoption and monitoring of the resulting strategy;
- Results-oriented: identifying desired outcomes and planning the way towards them;
- Comprehensive: taking account of the multi-dimensional nature of poverty;
- Long-term in approach: recognising the depth and complexity of some of the changes needed;
- Based on partnership: between governments and other actors in civil society, the private sector and the donor community.

The Constitution

In this respect, the Ethiopian Constitution provides a sound basis for citizen's participation in public policy making in its Articles 43 (2); 43 (3), and 35 (6) .

"Nationals have the right to participate in national development and, in particular, to be consulted with respect to policies and projects affecting their community. "

"All international agreements and relations concluded, established or conducted by the State shall protect and ensure Ethiopia's right to sustainable development."

"Women have the right to full consultation in the formulation of national development policies, the designing and execution of projects, and particularly in the case of projects affecting the interests of women."

Also, according to the Constitution of the Federal Democratic Republic of Ethiopia, Article 55 (10), the Council of Peoples' Representatives shall,

“It shall approve general policies and strategies of economic, social and development, and fiscal and monetary policy of the country. It shall enact laws on matters relating to the local currency, the administration of the National Bank, and foreign exchange.”

A good PRSP needs a broad based dialogue engaging all sectors of civil society and government on means of eradicating poverty. Consultation should be used in all stages, and particularly in the stage of decision-making by government.

Parliamentarians as the elected representatives of the people have a vital role to play. To do this effectively, they need to link up with the people they represent in order to bring forth the voices of the poor, to identify the changes that need to be made and seek ways of making those changes.

PRSP Progress to date

The federal government has put in place a high level Steering Committee, Technical Committee composed of 18 member and a secretariat. Similar structures are established in all the regions. The key interlocuters are so far, three regions; Dire Dawa, Harari and SNNP have completed consultations for preparation of the PRSP. InterAfrica Group has been actively engaged in this process by producing PRSP literacy materials (copy enclosed) to support the process by providing basic information to inform members of technical committee, conveners and rapportours.

How Parliamentarians can Engage in the Process

InterAfrica Group will advocate for mobilizing Parliamentarians to consider the following roles:

- Observing
- Participating
- Debating the draft PRSP
- Endorsing the full PRSP
- Adopting the full PRSP, or
- Soliciting CSO perspectives

A basic principle of the PRSP is the need for broad “country ownership.” This implies “ownership” not only by government but also by the people of that country, and thus a need for consultation with the people and their representatives at all levels. This draws attention to the need for the active participation of parliamentarians and other elected officials in the formulation of country poverty reduction strategies. They need to be aware of the issues and part of the decision-making and design of legislation, to ensure their effective contribution to development and poverty reduction.

This is in accordance with the Constitution of the Federal Democratic Republic of Ethiopia, which declares in its Article 8 (1) that, “all sovereign power resides in the Nations, Nationalities and Peoples of Ethiopia.” The same Article also stipulates that their sovereignty is expressed through their elected representatives and “their direct democratic participation.”

These two provisions, taken together are designed to ensure grassroots participation of the people in their government at all levels. First, the people are empowered to exercise their sovereignty through their elected representatives; and second, the people are empowered to participate directly in their administration by discussing specific issues affecting them and communicating their decisions to their representatives, or participating in the design and execution of projects, and in evaluating the performance of their elected representatives.

In order to give practical effect to the concepts of self-empowerment, the Constitution provides for a far-reaching dispersal of power with the woreda as the cornerstone, as provided for in Article 50 of the Constitution which states that “Adequate power shall be granted to the lowest units of government to enable the people to participate directly in the administration of such units.”

Under the Constitution, the woreda is the country’s key administrative unit. It is also the level at which development and poverty reduction take place, and the level at which the people elect their Parliamentarian to look after their interests in the House of Peoples’ Representatives. Parliamentarians therefore, bear a heavy responsibility for development and poverty reduction in their woredas, and thus, have a particular interest in the preparation and implementation of the PRSP.

Stages in the PRSP Process

There are two principal stages in the making of the PRSP, in each of which, Parliamentarians, as the elected representatives of the people, have a vital role to play:

In the first stage, that of formulation, Parliamentarians need to ensure that the voices of the people of their own constituency are heard, especially the voices of the poor, who are, in most cases, the majority of the electorate that has elected them to represent its interests.

At this stage there are a number of ways in which Parliamentarians can contribute to the making of a good PRSP. They can do so by observing the PRSP process, informing themselves about the process and helping to ensure that it is inclusive and fair and provides a good picture of the problems and needs of the people in their constituency, particularly the causes of poverty and ways in which poverty can be reduced. They can make an important contribution by participating in the PRSP consultations in their constituency, and exchanging ideas and information with the people. They can debate the draft PRSP in Parliament to help ensure its quality and invite NGOs/CSOs working on areas related to poverty reduction to testify and share their information with Parliament; and finally, they can review the full PRSP in Parliament and either endorse it or adopt it as the authentic representation of what the consultations have found to be the key needs for poverty reduction.

In the implementation stage, Parliamentarians can follow up on the implementation of the PRSP to ensure that it is implemented according to plan in their woredas. They can also help to determine whether the investments planned are being made and whether the plan is achieving what it is supposed to achieve towards the goal of reducing poverty.

Budget issues emerge as a major component in the PRSP. Public participation and during the formulation and tracking their allocations are areas that the public and the parliament can work together. Budgets are key to the effective implementation of the PRSP and Parliamentarians need to know what investments are budgeted for their woredas. They need to know what investments are made, how they are implemented and how the investments made, contribute to reducing poverty in their woredas.

At the end of the day, the PRSP is about making needed changes to reduce poverty, and Parliamentarians are a key force for change and for bringing together stakeholders to work for change. Change cannot take place unless all the stakeholders are engaged in dialogue individually or collectively.

In this respect, Parliamentarians as the elected voices of their woredas, are well placed to promote a collaborative approach between local government, parliamentarians and other elected representatives; civil society organizations (including NGOs, CBOs, research and policy development organizations, media, professional associations, labour and trade unions); donors and other development agencies.

**THE WORLD BANK AND THE PRSP:
FLAWED THINKING AND FAILING EXPERIENCES**

*Jubilee South, Focus on the Global South, AWEAPON, and the Centro de Estudios Internacionales
with the support of the World Council of Churches*

Background

The World Bank and the IMF declared the PRSP strategy and process were different from their former lending framework for countries under the economic jurisdiction of the World Bank's International Development Agency (IDA). PRSPs are claimed to have replaced the old tripartite Policy Framework Paper (PFP) drawn up between the IMF, World Bank and a country government for "soft" (concessional) loans. Originally conceived in the context of the Heavily indebted Poor Country (HIPC) debt relief initiative, PRSPs are now envisaged as the centerpiece for policy dialogue and negotiations in all countries that receive concessional financing from the WB/IMF.

PRSP takes the form of a document that, in theory, is prepared by the country government and civil society including the poor—all under the supervision of Bank-Fund teams. Working in partnership, the actors are said to analyze the incidence, nature and causes of a country's poverty, who the poor are, and define strategies for overcoming poverty with specified policy and expenditure targets. Purportedly what is new, is the objective of achieving a strategy that will "locally generated and owned" and developed through "wide participatory dialogue" focused at both the micro and macro policy making levels.

Further, the PRSP process should also "encourage accountability of governments to their own people and domestic constituencies rather than to external funders" so that the "the poor become active participants not just passive recipients".

A South-South Inquiry

In order to test whether theory matched reality after nearly two years of practice, Jubilee South, Focus on the Global South (Bangkok), AWEAPON (Kampala) and the Centro de Estudios Internacionales (Managua) organized, with the support of the World Council of Churches, a series regional and country reviews of PRSP processes in Africa, Asia and Latin America.

The preliminary findings here presented are based on workshops held in each of the three continents including in-depth reviews and wide-ranging discussions with the principal actors involved.

FINDINGS

Continuity More than Change

1. In the name of poverty reduction, the World Bank and the IMF are seeking an expanded basis for sustaining externally driven structural adjustment plans. Our review of the actual PRSP processes confirms pre-existing doubts as to whether these processes represented fundamental changes in Bank-Fund programs and thinking. In every case examined the most important element of the PRSPs or interim PRSPs devised are the mandatory policy matrices. These orientations detail the now standardized Bank-Fund assortment of policy "reform" including

liberalization, privatization, fiscal and administrative reform, assets management. Fighting poverty becomes the newest justification for the aging prescriptions geared to increasing the overall opening of the “host country” to external economic actors and free market rules.

2. The IMF’s Poverty Reduction and Growth Facility (PRGF) speaks of concessional lending with an explicit focus on poverty reduction *in the context of a growth oriented strategy*. What this meant in practice was that while the various national actors were free to discuss poverty mapping, it became understood that the final document could not step outside the neoliberal free market “growth” framework guiding the “broad economic policies”.

3. Participants questioned whether the longstanding growth model and policies allow for real poverty reduction, let alone the poverty elimination goal set forth at the World Social Summit. Many viewed PRSPs as a model adjustment (more than a fundamental correction) so as to secure improved poverty administration and public relations gains in the light of much warranted criticism and evidence accumulated over the past decade. Critics pointed to spending and deficit targets—which in and of themselves generate unemployment. Multiple examples were also provided of how the standardized prescriptions—privatization, investment law liberalizations, promotion of trade, and the marketization of land and resources in general—diminished living standards and access to basic goods.

4. The obsession with growth projections remains unashamedly dominant in the WB-IMF poverty relief thinking. Research presented at the workshops indicated that growth and poverty reduction did *not* go hand in hand, a fact attributable to the model itself and not to some correctable administrative shortcoming. Programs are ultimately directed towards achieving the highest possible growth which is not necessarily the same as achieving the highest possible poverty reduction. Participants stressed that while high growth or simply growth (if it were the ultimate focus) may take the appearance of improved social indicators, it does not address inequality, growing rich/poor divides and often pushes some sectors deeper into poverty including undignified employment.

5. Reducing the discussion of poverty to poverty alleviation instead of the development model and economic globalization can be intentionally deceptive. There are a number of elements that are *not* included in PRSPs because they do not fit within the obligatory neoliberal parameters. Policy and political measures indispensable in many cases to effective poverty *and inequality* reduction mentioned included land and agrarian reform, progressive taxation, support for domestic markets and protection, food sovereignty, the protection of environment and labor vis-à-vis investors, assurances of social rights and entitlements, and other forms of governmental protection vis-à-vis the free market. In most official iPRSPs and PRSPs these elements did not appear even in the diagnosis, and if the poverty diagnosis is incorrect, so too will the emerging strategy. This is why we believe that the policy matrices that appeared in most PRSP processes seldom show a demonstrable connection with actual poverty reduction.

5 In all, Structural Adjustment logic and policy matrices essentially remain unchanged. As long as PRSPs and iPRSP remain faithful to those matrices, poverty will remain and indeed only increase. Evaluations carried out within the SAPRI process and elsewhere underscore the point, as does the testimony of grass roots organizations. The IMF/WB however reject and dismiss any such conclusions including those voice by the poor. All of which contradicts purported poverty-reduction objectives, not to mention the talk of transparency, national ownership and broad participation. Under the guise of reform, we witness a dangerous attempt to further entrench socially damaging economic processes. While the WB-IMF will claim that they and the PRSPs are open to modification and improvement, the policy matrices remain non-negotiable.

6 Some WB/IMF Officials do expose a willingness to “learn by doing” and make methodological corrections along the road, but insult is added to injury as the learning comes at the expense of people and nations taken as testing grounds for waging the changing fashions

and the nonchanging economic fundamentalism emanating from Washington and the so-called donor community with the accompaniment of well meaning but misguided INGOs. And what is worse, the so called learning process, continues to come at the expense of third world countries whose peoples and economies suffer as testing grounds for the Washington-directed donor community.

Ownership

7 When advising governments on PRSP preparation, Bank-Fund missions come prepared with *their* perspectives on the country's poverty situation, *their* analysis of the country's obstacles to economic growth, *their* menu of policy options, and *their* views on how to mobilize resources for the PRSP, including external donor assistance. These perspectives provide the overarching frame of reference for discussion between the missions and government about the content of the PRSP. Ownership in this context is reduced to a rich big brother invitation to resource-starved national governments and CSOs to sign on.

8 Claims of national ownership and alignment with national plans are further confounded by Bank-Fund involvement and micromanagement of the PRSP process. Casting aside pre-existing national processes and development strategies, PRSPs often resulted in a further concentration of power and administration in IMF/WB hands. Discovering a new found expertise, Fund staff provided policy "advice" on "poverty-focused" fiscal management, structural reforms and prudent macroeconomic policies—in essence more of the same. Somewhat more imaginative, Bank staff offered Washington-generated wisdom on the design and costing of the poverty reduction strategy, sectoral strategies, institutional reforms, good governance, social safety nets, private sector development, etc.

9 There is no "national ownership" of the decision-making process, which is to say that ownership and eventual control is external. Upon completion, a PRSP (or IPRSP) had to be jointly assessed by Bank-Fund staff before submission to the Bank-Fund Boards for approval. While claims abounded that (I)PRSPs and national plans were nationally formulated, in most countries the policy environment was and is so dominated by the World Bank, the IMF, regional development banks and UNDP that who physically writes the policy papers is relatively unimportant. Most PRSPs are coming out noticeably similar in their poverty analyses and recommendations—unsurprising to both critics and defenders.

Conditionality and Debt Relief

10 PRSPs have grave implications for the economic sovereignty of low income countries or countries in serious financial crises. The IMF/WB now counts with new "leverage" in dealing with countries needy of debt relief and concessional lending. Having designated over 70 countries as "eligible" for debt relief once they meet a long list of requirements, the list became longer upon adding coming up with a PRSP as a added condition.

11 Donors and many NGOs initially subscribed to the notion of "insuring" that "debt relief savings" could benefit the poor. In practices, CSOs and governments came to complain, for different reasons, that the two dynamics—poverty alleviation and debt relief-- became intertwined, hopelessly confused and subject to different expectations. CSOs that considered the debt as illegitimate argued that there could be no conditions place on debt cancellation, and that only civil society should impose conditions.

12 Several governments took the deadline as an excuse to minimize the consultation and participation process, saying there was not enough time to secure participation and at the same

time meet the Washington's tight scheduling demands. In some cases, the rush was such that the IFIs simply took over the task of writing the PRSPs in a way that it would meet the approval of the Boards in Washington. Without a PRGF agreement, the HIPC Completion Point is pushed back to unknowable dates, and with it the debt relief by much of the Paris Club as well.

13 The short-term HIPC debt relief logic overtook a more long term and comprehensive possibility of a full scale participatory review of poverty. Given their overwhelming on the IMF/WB, HIPC and non-HIPC governments felt compelled to follow the prescription tune and go through the obligatory motions of civil society consultation, for which CSOs were supposed to appreciate. For this and other reasons, most of those consulted came to the conclusion that debt relief and poverty alleviation (HIPC and PRSPs) should be programmatically delinked.

Participation

14 There is no common understanding of civil society, consultation, ownership and participation. PRSPs are not based on genuine participation or ownership by the poor. The concern rather is with the semblance of participation based on the need to legitimize and modernize the neoliberal paradigm.

15 IFI conceptions of participation tended to be uniformly narrow. By and large, participation as originally conceived takes the form of inviting some Non-Governmental Organizations (NGOs) to offer their perspectives on a pre-prepared document. Where consultations were taken to the field, interpretation of those perspectives tended to be a selective value-laden exercise. In most cases, the failure to properly translate these perspectives to policy actions—not to mention local languages—insured that the discussions remained alien to the poor and their organizations.

16 In most cases, Washington-imposed timelines made it impossible any meaningful participation and transparency process to take place. Governments demanding concessional multilateral credits or HIPC debt relief were told by Washington to quickly prepare an "interim" PRSP for the consideration of the (IPRSP) for consideration by the Bank-Fund Board.

17 Externally sparked top-down participation tended to take the form of the participation of selected CSO in selected meetings with preselected parameters to discuss pre-existing plans. Outside the capitals, participation often took the form of workshopping and subtle co-option given the rushed timetable, the lack of preparation and the disparity of information. CSO representatives complained of not having counted with sufficient time and information to consult their constituencies.

18 Methodological failures further underscored the lack of IFI, and usually governmental, commitment to effective participatory process. The same pressures also undermine any serious effort to build new civil society-government relationships. Local level authorities also reported being marginalized. In several cases, CSOs virtually gave up on the official process and undertook their own consultation process. However while rushed official PRSP exercises contradict the notion of public ownership, the parallel ones consciously assumed the risk of generating recommendations that would not figure in the official PRSP document. In the final analysis, almost every government was more keen to hear from the IFIs than from domestic stakeholders who usually came into the discussions after the base documents had been drawn up.

Conclusions: The Price of "Engagement"

19 In some countries the PRSPs appeared to open up a space for CSOs to engage their governments and the private sector, and to deal directly with the World Bank and the International

Monetary Fund. Other CSOs however pointed out that engagement or “gaining a space at the table” was not an end in itself but involved a trade-off in which Government and IFIs already stood to gain through the much wanted image of citizen support for their strategies. But from the standpoint of the CSOs closest to the interests of the poor, the real issue was whether that space can be used effectively to challenge structural adjustment and structural and global injustice. Another question posed insistently in the various workshops was whether the CSOs are consciously or unconsciously diverting scarce human and organizational resources away from fundamental development and mobilization work, or giving confusing signals as to where they stand in regard to corporate-driven globalization.

20 Where civil society formations have achieved a certain degree of maturity, their advocacy traverses a wide spectrum of issues, and most often includes the advocacy of policies that directly challenge those prescribed by the IMF and the World Bank. Many concluded that where governments joined the IMF/WB in making economic reform prescriptions a non-negotiable matter, then the possibility of meaning of genuine participation, broad based consultation, citizen ownership and even democratic process were all being pre-empted.

21 In several countries, international donors and some INGOs flagged the “absence of civil society” as a major obstacle to development and an effective participation and consultation process. What they usually mean is the absence of CSOs or NGOs who are already familiar with, or can be taught the formal vocabulary of development, such as participation, planning, poverty reduction, sustainability and good governance. Often groupings posing the need, or engaging in, alternative thinking and action would not be considered sufficiently “civil”. In virtually every major discussion reported, the question appeared whether the resources and time expended by CSOs were not in fact being diverted from more pressing tasks, as NGOs become entertained and distracted by a new fad that eventually proves to an IFI public relations ploy, as many now consider HIPC to have been. Other CSOs reported being pressured by their donors and European partners to “participate” or risk their funding.

22 The IFIs, donors and some INGOs, by putting visible efforts into “capacity building” and “institutional strengthening,” are attempting re-form decision making processes in several countries. However such a process is far from, and may be contrary to, a genuine democratization and empowerment strategies and efforts. The wider the gap between policy making structures and acknowledgement of policy impacts, between participating NGOs and nonparticipating CBOs, the greater the divisions within civil society, and the easier it is for the Bank to push its programs. While PRSPs could help make governments more accountable and transparent, they were not, any more than advocacy itself, substitutes for grassroots mobilization or organizing.

23 Engagement around PRSP is not an end in itself, and eventually it has to be judged in terms of whether the present-donor designed poverty analysis and reduction strategy “template” gives way to a national and socially-owned one, particularly as regards decisions on macroeconomic policy choices and the consideration of causes of poverty that are external to the country, including systemic factors that do not let the donors, creditors, trade policies and multinational corporations off the hook. Participants questioned whether indeed growth had to come *before* poverty relief, and whether indeed the growth model (usually export oriented) was not also a poverty-reproducing one, particularly on account of structural and policy measures: privatization (particularly the privatization of such basic services as potable water), trade liberalization, cost recovery schemes for health and education, removal of guarantees or subsidies protecting some of the most vulnerable, rolling back of labor and social entitlements, rights, dependence on attracting foreign investment, etc) were not poverty-inducing measures. That growth model, shared by most governments, responded to the globalization perspectives of the IFIs and the World Trade Organization, and not those of the poor themselves more interested

in income distribution, land questions and equity in domestic and, increasingly, international power relations.

24 CSOs and religious associations in particular expressed the concern on over PRSPs as a forceful attempt of the IFIs to integrate alternative development (participation, civil society, national ownership, poverty concern) and even spiritual values into their traditional discourse and structures. This poses a distinct challenge to the original constituencies. There is first, an evident danger of language being used to legitimize and justify the continuation of failed poverty-producing policies and political frameworks. Such a danger poses the need to demystify and exposed the perverse use of concepts, as an indispensable step in the reclaiming of their original democratic meaning and social content. While IMF and Bank officials may sincerely claim to share the same values as their critics, the assertion is meaningless as long as those values are not operationalized at the level of institutions and policies.

25 Politically, PRSPs and IFI involvement at the level of civil society appears to be feeding a gradual, but growing segregation of local/national societies into those who can, and those who cannot participate in negotiations over poverty and development planning. Large numbers of people--particularly those who live in hardship conditions and/or have been socially and politically marginalized for long periods of time--are alienated from decision making processes that deeply affect their livelihood and future. This in turn erodes local political capacities for representation, negotiation and socially-rooted advocacy. For many PRSPs constitute an obstacle to development and democratization. By creating confusion and dispersion, false poverty reduction strategies will interfere with the building of the collective will, consciousness and capacity that is indispensable in order to identify and resist the unequal national and global power relationships that is the true root of poverty, impoverishment (and enrichment).

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Input for the PRSP Review Poverty Reduction and Participation¹

In September 1999 the World Bank and IMF launched a new framework called; Poverty Reduction Strategy Papers (PRSP), which has fundamentally changed the conditions for debt reduction and new loans from the international Financial Institutions (IFIs). Most developing countries are now required to draw up and implement national PRSP plans before debt relief and new credits can be granted. In short the relevant stakeholders need to negotiate national Development priorities and ensure that they live up to the following five built-in principles:

- *Country-driven*: with Governments leading the process and broad-based participation in the adoption and monitoring of the resulting strategy;
- *Results-oriented*: identifying desired outcomes and planning the way towards them;
- *Comprehensive*: taking account of the multi-dimensional nature of poverty;
- *Long-term in approach*: recognising the depth and complexity of the changes needed;
- *Based on partnership*: between Governments and other actors in civil society, including the private sector and the donor community.

The Danish Development Organisation Ibis welcomes the PRSP principles as an important way to create improvements of the living conditions through poverty reduction for the poorest sections of society. The same underlying principles have been promoted for years by the Danish Government. Danida's Strategy 2000 e.g. underlines that *"Denmark will support the Development of a sustainable national policy for poverty reduction in the developing countries based on in-depth analysis of the poverty challenge in individual countries and informed by respect for the resources, ways of life and strategies of the poor. Denmark will help these countries to build the capacity to draw up poverty analyses and strategies and promote popular participation in the Development process because participation is a right for both men and women, and because popular participation is one of the means through which poverty reduction is promoted"* (Danida: Strategy 2000).

¹ This short paper made especially for the World Bank and IMF Review of Poverty Reduction Strategy Papers, pulls together some of the key comments and conclusions that have been made in meetings and conferences organised by Ibis during 2001.

Experiences so far:

The implementation of PRSPs began in March 2000, so evidence of the impact is still somewhat limited. Nevertheless the general picture from the approx. 40 I-PRSPs and PRSPs that have been developed so far are not promising. Most PRSP processes have been rushed through in order to reach the decision point in the HIPC-initiative. Despite the rhetoric of participation in the PRSPs from the World Bank and IMF, **the national Governments has limited the scope of involvement of NGOs and civil society networks to mere consultations.** The national Governments are not yet willing to involve civil society in drafting the PRSPs. In some countries national networks and NGOs are consulted and the Governments carry out hearings at national and departmental levels. We have only seen few attempts by Governments to involve the poor or their organisations directly in a participatory planning process, and Finance Ministries, who are the drivers of these processes, does not involve non-ministries and very seldom local and national politicians.

On the other hand, IMF and the World Bank continues to have limited flexibility in the demands for conditionalities placed upon national Governments, and the strategies are remarkably similar to the old policies promoted in the Structural Adjustment Programmes and the Enhanced Structural Adjustment Facility. This includes privatisation, trade liberalisation, low inflation rates, reduction of income tax rates and a broadening of VAT, user-fees and a limited role for state regulation. **In practice, it is extremely difficult to see how the poverty reduction objective in praxis will impact on the policy formulation in the PRSPs and especially the macro-economic aspects of the PRGFs.** The World Bank has e.g. not adequately dealt with the tension between equity and poverty reduction on the one hand and economic liberalisation on the other - and until now the PRGFs have not been subject to participation or public discussions.

Both the national Governments and the IFI's are performing a lot of nice rhetoric about participation, but in reality Governments are getting away with consultative process and ignoring differing viewpoints from the civil society. **The donor community and the Governments almost always ignore alternative or additional PRS initiatives** such as the regional PRSPcito in Leon Norte in Nicaragua, the regional PRSP in Western Honduras, the national PRS of Interforos in Honduras or analyses of the macro-economic policies generated from the SAPRIN process. This exclusion is simply not acceptable.

Creating expectations and frustrations:

Although the I-PRSPs and PRSPs vary across countries, the processes have often been unsatisfactory and frustrating for South partners to engage in. It is the impression from our partners that **Governments and IFI's expect the civil society to play only a smaller and limited role in writing the poverty reduction strategies.** But on the other hand many South partners feel that there is a pressure on them to engage in the monitoring of the PRSPs in the implementation phase. This divide naturally creates a lack of ownership of the PRSPs among civil society groups and many partners find themselves completely excluded from the formulation process, e.g. due to problems as:

- Lack of information in an accessible language

- Lack of transparency.
- Limited funds for organising civil society meetings and hearings.
- Insufficient notice and time given to civil society participation.
- Many parallel processes and exclusion from important parts of the discussions.
- Participation is usually by invitation and is managed by the Ministry of Finance who has failed to involve important parts of Government and especially local Governments.
- Limited access to impartial analysis, produced by independent actors.
- Ignorance of alternative PRS models or analyses of the macro-economic policies generated in other forums, e.g. the SAPRIN process.
- General lack of capacity and networking in civil society.

Nevertheless, in some countries, new and valuable space for civil society involvement has been created. The crucial factor in the future PRSP processes will be the political will to involve civil society groups in a genuine dialogue. **But the poor people themselves also have a responsibility for using this opportunity to broaden the scope of influence over their own lives.** Most of Ibis partners have decided to use this opportunity to their level best.

From the support to civil society organisations undertaken by Ibis in varied countries in Africa, Central and South America, perhaps the most important factor defining the processes is to what extent the PRSPs are building on local processes already initiated before the PRSP concept was launched. **In countries like Ghana and Bolivia the PRSPs has been developed on the basis of national processes of planing and dialogue, and therefore the PRSPs have the potential to build on these existing national processes, which perhaps will influence positively on the level of civil society participation.** In countries without already existing poverty reduction processes, the PRSPs are on the one hand a window of opportunity for civil society participation in national planning - but on the other hand a process the national Governments has been forced into under pressure from the donor community. But as we have learned from history such outside pressure cannot create participation overnight.

Macro-economy:

“The PRSP/PRGF framework can be compared with a ram-shackle house with an entrance of gold. Everybody is looking at the nice door - but not on what is behind it. It is a tool for social control, where you try to pull down a curtain in front of people’s eyes turning them into a partner with a participatory role”, participant in the International PRS seminar about Poverty Reduction and Participation in Copenhagen April 23 – 26, 2001.

The experience of Ibis partners is that the macroeconomic framework and the PRGF are as closed as usual. Despite the rhetoric from the IFI's the PRGF is not subject for discussion. The PGRF is still disconnected from the PRSP process, even though the macro economic framework and the policies followed not only sets the budgetary limits for poverty reduction, but also in it self, has often server negative consequences for the poor. One could easily make the conclusion that; **social policies are for NGOs, Social Ministries, and the World Bank - while macro-economic policies are for the Finance Ministries and the IMF.** Farmers or workers organisations, and CSOs and NGOs even less, are not supposed to have any sound views on macro-economic policies, because

they are not economists, do not manage the jargon, are talking from the local micro level and do not master macro-economic policy skills.

"If we try to work in a big group, let's say CONPES, to discuss for instance reserve targets, fiscal targets etc., it would be a waste of time. The technical knowledge of those groups does not correspond to what is needed to develop a programme. Therefore our priority is to negotiate with our counterpart, which is the Government. You cannot develop a macroeconomic programme with a group of 50", Joaquín Harnack, IMF Representative in Nicaragua².

Even worse, there are no signs of change towards a more pro-poor economic model. The PRGF is building on the same economic models as the former ESAF. The macro economical model is formulated from a global perspective of organisations like IMF and WTO in stead of taking the point of departure in national priorities and strategies formulated in a national plan for reducing poverty. Issues like opening up a country's market, privatisation of state enterprises, liberalisation of service delivery etc. are tackled from the perspective of a ideological biased international economic system instead of the perspective of the needs of the poor. This creates a lot of frustration over the limited room for dialogue about alternative economic policies, which supports the argument of many NGO's that the whole process is nothing more than a PR exercise for traditional IMF and World Bank policies, at least regarding the economic policy.

To make the PRSPs work, the IMF and the World Bank has to acknowledge that they can learn a lot from the poor. The main goal of the PRSP processes must be to broaden the understanding of what makes poor people poor and what keeps them poor - and present alternative pro-poor strategies, e.g. income distributing policies instead of economic growth. **Civil society is undoubtedly the most important source to knowledge and perspectives on poverty, marginalisation and vulnerability, and their personal experiences combating poverty should become an important tool in designing local and national poverty reduction strategies.** Without their insights one only knows part of the causes of poverty. In general the poverty debate must become less technocratic and appreciate the depth of political changes needed to make the poverty reduction goals more attainable. Acknowledging the difficulties in this, an immediate objective will be to advocate for a real subordination of the PRGF to the PRSP.

Opportunities and lessons learned:

It is important to acknowledge, that the PRSPs is not an end in it self, but a means for increasing the influence of the poor - and an instrument to potentially change politics in a pro-poor direction. In some countries the PRSP processes is a continuation of local political struggles, but could also open new opportunities and create new alliances. In other countries the PRSP processes have for the first time given civil society a space for influencing national planning and poverty reduction and has created a room for dialogue, due to the outside pressure on the Governments.

² Cited from the Ibis paper: The PRGF, conditions, participation and ownership - The Nicaraguan Case: November 2001.

Therefore the PRSP approach also puts new challenges on both the national Governments and civil society and give rise to conflicts of interest, with possible negative effects for the poorest and marginalised. Whether the PRSPs will translate into deed, still remains to be seen. But potentially the PRSPs could bring many new opportunities, which could improve the situation for the poorest and have a major influence on poverty reduction, e.g. by:

- Putting poverty reduction objectives at the centre of Development policies in North and South.
- Creating a window of opportunity in undemocratic regimes to increase the external pressure for openness, democracy and increased civil society involvement.
- Better co-ordination of Development aid and a more coherent poverty eradication.
- Strengthening of South Governments and poor people's influence over local, national and international policies.
- All policy aspects, including the macro-economic reforms, will be debated more openly in public.
- Increased knowledge in the North and the South of the social impact of economic conditionalities and economic policies from the IFIs.
- Increased focus and advocacy for poverty reduction, growth with equity and alternative Development models, including fair trade.
- The new participatory poverty reduction approach becomes a model for other international policy forums, e.g. the World Trade Organisation.

However there are also risks arising from the PRSPs. The plans may pave the way for poor countries to draw up their own Development priorities with focus on poverty reduction, but there is also a risk that civil society involvement will have a legitimising role on non-poverty reducing policies and in practice support undemocratic Governments scope of work. **There is certainly a danger that the PRSP processes will be unsatisfactory for South partners to engage in, if their opinions are not reflected in the final document and the process.** Ibis' partners have highlighted the following issues. as a risk for civil society when engaging in the PRSPs:

- The PRSP process can become a rubber stamp on non-poverty reduction policies.
- Non fulfilment of expectations can create frustrations among stakeholders.
- A non-meaningful participation can be worse than non-participation.
- The PRSP can end up having no influence on the PRGF.
- Civil society can't support arguments with well-documented research.
- Civil society lack knowledge on macro-economic planning to influence the PRGF.
- Civil society does not manage the macro-economic jargon, and is not taken seriously.
- Civil society lack alternative economic Development models.
- PRSP is about internal politics - and move focus away from external politics (e.g. trade).

Also, it is becoming increasingly evident that the rich countries would have to make much more progress on debt relief, better market access, abolishment of export subsidies, as well as increased Development aid and technology transfers, to ensure the necessary funding to fulfil the PRSPs. While Denmark is (still) one of the more progressive nations on

finance for Development, there is an urgent need to increase the global commitment on these issues.

The case of participation in Bolivia:

Bolivia has been highlighted as a showcase of a good participatory process leading to a quality strategy. However, in reality the poor themselves haven't been participating in the process and the NGO's that did participate in the process recommended to the Boards of the World Bank and IMF not to approve the strategy.

The official participation process in Bolivia took place through the National Dialogue in June-August 2000. But this process was essentially a process of consultations within the state system with a very limited role for the civil society organisations and no role or efforts to consult the poor directly, the real experts on what is needed to fight poverty. Moreover especially the indigenous peoples and their organisations didn't participate in the dialogue, all though the 2/3 of the population in Bolivia are indigenous people and they are far the poorest part of the population.

The civil society organisations were very sceptical towards the Governments National Dialogue, and therefore decided to sponsor a similar process called the Foro Jubileo 2000. It took place in February-April 2000, before the official dialogue and with the purpose to give the civil society a better voice in the process and to influence the official dialogue by preparing participants in the official dialogue.

However, the civil society organisations found that the suggestions and proposals of the Foro Jubileo 2000 and the National Dialogue were not reflected in the PRSP. The PRSP were drafted in a non transparent manner and the first draft of the final PRSP was received by the civil society through the German Ministry of International Development, which indicates that the draft was consulted with the international donor society before it was consulted with civil society. The civil society organisations felt that the ownership of the strategy by the Government of Bolivia was weak, and that the Bank and Fund tried to dominate the process, a viewpoint the informal network of twelve bilateral donors supports, when they in their self-evaluation of their contribution to the PRSP process writes, that *"the Network pushed for greater ownership of the PRSP by the Government of Bolivia, as opposed of being totally dominated by ideas of the multilateral agencies and drafting by them of the document"*.

The macro economical framework of the PRSP and the PRGF has not been part of the consultation process. Many civil society organisations have given written inputs relating to the macroeconomic content of the strategy, but neither the Government nor the multilateral agencies were willing to discuss these issues. As the bilateral network writes in their self evaluation, *"That unlike the World Bank, the IMF was less interested in poverty related topics and in exchanging relevant views with the donor community."* The macro economical framework of the strategy is similar to the traditional structural adjustment programmes, which haven't contributes positively to the eradication of poverty in Bolivia. And IMF has forced through its economical perspectives without trying to measure the impacts on the poor.

Finally the Bolivian Government presented the PRSP for the Boards of the Bank and the Fund. In June 2001 the Boards approved the strategy on the basis of a positive joint staff assessment. The Boards didn't take into account that more than 100 Bolivian civil society organisations in a letter to the Boards disapproved the strategy and urged the Boards not to approve it. Nor did the Boards listen to the critique from the bilateral network and their assessment of the strategy. The Network writes in it's self-evaluation that, *"In the bilateral assessment, the Network raised some critical issues and asked for caution when approving the PRSP. Despite this, head office officials and country Executive Directors (In the Bank and the Fund) endorsed the PRSP enthusiastically...It also seemed that the Executive Directors listened more to the World Bank and IMF staff than to in-country representations."*

Reference: Bolivia Bilateral Cooperation Network on the PRSP: a Self-evaluation of our efforts.

Capacity needs in civil society:

Active civil society involvement in the PRSP processes cannot be taken for granted and extensive support and encouragement will be a crucial condition to successful processes. Although the span of civil society organisations is huge, many of them can be characterised by a lack of technical, financial and political capacity to articulate matters. Among the needs that have been identified by Ibis' partners are;

- Economic literacy and a basic capacity to analyse and engage with Government.
- Budget analytical skills for the planning and monitoring process.
- Capacity to design and conduct policy-focused research.
- General capacity in lobbying, advocacy and networking.
- Dissemination of relevant information.
- Funding and technical assistance to a decentralisation of the PRSP process, with focus on a regional outreach.
- Methodology and information sharing nationally and regionally.
- Regional co-ordination and policy networks.

Two concrete proposals for the Review:

Firstly, we would like to welcome the World Bank and IMF initiative to review the new Poverty Reduction Strategy Papers approach. But we also need to take forward the frustrations of partner organisations, who wanted to - but wasn't able to produce a comprehensive input on the short notice given. This fact must be taken into consideration during the review process and Ibis proposal would be to approach civil society organisations in the South, who are actively involved in their local or national PRSP processes - but has not delivered any input to the review process. The review needs to examine the reasons why civil society organisations in the South have not been actively involved in the review.

Secondly, participatory approaches can increase the quality of information at policy makers' disposal, thereby contributing to more effective poverty reduction strategies and disclosure hitherto non-addressed dimensions of poverty. Therefore PRSPs presented for the donor community without broad participation in all phases of the planning and implementation of poverty reduction should not be approved. It is Ibis' recommendation that all issues regarding poverty reduction shall be open for public debate, not least the macro economic framework and the PGRF programmes from the IMF. Our proposal would be to make Governments certificate the participation of civil society in an annex in the PRSPs and also make them indicate how the participatory process has influenced the document.

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Are PRSPs working?

Oxfam's contribution to the World Bank/IMF PRSP review process

21 December 2001

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Introduction

The Development Committee Communiqué of September 26th, 1999, sets out the following principles for poverty reduction strategies: that the strategies should be country-driven, developed transparently with broad participation, and clearly linked with the international development goals for 2015.

Oxfam welcomed the launch of the PRSP process as an opportunity to move away from one-size-fits-all approaches to economic strategies for developing countries. We hoped that the development of PRSPs would involve the participation of an increasingly wide group of actors, leading to policies which were more appropriate to local needs and which had greater ownership. In particular, we hoped that the voices of poor people would influence policy formation, and that PRSPs would help dramatically reduce poverty through an expansion of public spending in areas which can have the largest impact on poverty, and through a shift towards structural and macroeconomic policies that have poverty reduction as their primary goal.

Nearly 3 years later, progress is mixed. In many countries a space has been opened up for a new dialogue about poverty and how government spending can be better targeted towards poverty reduction. However, many civil society groups that have participated in PRSP processes at the national level express their frustration that their concerns are not being addressed within interim and full PRSPs. The primary concern remains a lack of evidence of a reorientation of structural and macroeconomic policies towards the challenge of poverty reduction. PRSPs are increasingly being challenged at the national level as a continuation of existing economic policies, with an enlarged safety net in the form of additional budget allocations for key basic services.

This paper is Oxfam's assessment of the PRSP process so far. It is based on our ongoing work with partners in the majority of countries that have produced a PRSP or an Interim PRSP to date. The paper incorporates concrete recommendations about how the PRSP process could be improved.

Participation

New opportunities

In most PRSP countries new opportunities have emerged for citizens to voice their opinion about poverty and the public policies required to address it. Civil society groups in many countries have seized opportunities to engage in the PRSP process. In countries such as Uganda, Bolivia, and Cambodia, civil society organizations have diversified, coordinated their activities and developed new skills at an impressive rate. In the best cases the foundations have been laid for an ongoing dialogue between the government, civil society, and the

private sector. Popular debate and media coverage of poverty reduction and participation has increased.

Questions of process

The quality of the participatory process has varied wildly between different countries. In Uganda detailed participatory poverty analysis has been carried out in a diverse range of settings. Civil society groups in Mozambique say that the extent of their participation has been to turn up at meetings in urban areas and to be given a brief overview of highly technical documents that they are then asked to comment on. One common concern is the lack of civil society involvement in the design of processes for participation.

The lack of participation of parliamentarians in the PRSP process is another major weakness. Too often the design of the PRSP has been the responsibility of small technical teams within Finance Ministries rather than of the whole government, let alone Parliament. These teams have generally had far more contact with World Bank and IMF staff than they do with members of parliament.

In many countries the PRSP has been viewed by civil society and Governments alike as duplicating efforts that were already ongoing. Tanzania and Uganda, for example, already had their own PRS strategies, but had to go over some old ground in order to produce a PRSP that was acceptable to the World Bank and IMF.

Access to information

Many of our partners complain about a lack of access to core World Bank and IMF documents. Famously, in Nicaragua the draft interim PRSP was available in English in Washington before it was available in Managua. In general, access to drafts and final versions of PRSPs and IPRSPs has been relatively good. What is lacking is access to the wide range of World Bank and IMF documents that form the background to PRSP discussions. The public release of PRGFs and PRSCs in draft form should be a priority. In addition core documents associated with all forms of programmatic lending should be available to the public including all economic and sector work, the President's Report/Program Document, the Letter of Development Policy, the Tranche Release Memorandum, the Chairman's Concluding Remarks for PRSC, and a summary of Board discussion for PRSCs.

Limited impact

Participation is meaningless if it does not lead to change. In every PRSP country there is an enormous amount of frustration within civil society that the demands they have raised have not been reflected in the final versions of PRSPs and IPRSPs that have been submitted to the Boards of the World Bank and IMF. A degree of frustration is inevitable given the diversity of views within civil society,

and the sometimes highly politicized nature of debate between civil society and governments. In Honduras, civil society groups were so frustrated at not having their voices heard that they opted to move out of the official PRSP process and to generate an alternative and parallel process.

One issue which is repeatedly raised in every PRSP country, however, is that there has been almost no willingness from Governments and IFIs to address concerns relating to the impact of prevailing structural and macroeconomic approaches. This is true for our partners in full PRSP countries such as Bolivia and Mozambique as well as the Interim PRSP countries. Part of the problem is the lack of capacity of civil society to develop complex macroeconomic and structural arguments and to propose alternatives. However, the main issue is a lack of willingness from Governments and IFI's to accept the validity of a diversity of economic development strategies.

Accessing participation

Ultimately the question of whether participation has been adequate is left to the World Bank and IMF Boards. Often Executive Directors have scant evidence by which to judge the extent of participation. Very few countries have adopted a systematic process of documenting which of the demands of civil society have been included in final PRSPs, and World Bank and IMF staff are reluctant to be critical of inadequate participation processes within countries. The nature and extent of participation processes has not been critically assessed in Joint Staff Assessments.

Recommendations

- **Civil society groups should be involved in the design of national participation processes from the outset. They should be involved in establishing methodology, agreeing to agendas and timeframes, and developing benchmarks against which participation processes can be assessed**
- **Every PRSP should include a grid giving comprehensive information about which civil society (and other) demands have been incorporated in the PRSP, which have not, and why**
- **The PRSP must be discussed in Parliament from the outset. No PRSP should be agreed without an extensive debate in Parliament**
- **Joint staff assessments should include a much more detailed assessment of participation processes**
- **Civil society organizations need support to expand their capacity to engage with governments and IFIs on complex structural and macroeconomic issues**

The provision of basic services

One of the key stated ambitions of the PRSP and of the new IMF and WB lending instruments (PRSC and PRGF) is a move towards budgets which are more pro-poor and which include the reorientation of government spending towards activities that benefit the poor. Oxfam hoped that the PRSP process would be a key step towards reorienting government and donor policies towards the achievement of the 2015 international development targets such as the Education For All goals.

Trends in social spending

Up to now it has been in the HIPC countries that most efforts have been made by the World Bank and others to assess trends in social spending. The Bank projects an increase equivalent to 1.2% of GDP. This is a significant increase, but it is nowhere near adequate to set HIPC countries on track to achieve the 2015 targets. Even after debt relief countries like Cameroon, Chad, Guinea, Mali, Mozambique, Senegal, and Tanzania will only be allocating between 3 and 5% of GDP to the social sector as a whole. Of the 24 countries currently receiving debt relief under the HIPC initiative three-quarters will spend more than 10% of government revenue on debt service in 2001. Sixteen countries will be spending more on debt than on primary education and health combined.¹ The PRSP approach will be a failure if countries' debt burden continues to divert resources from priority areas for poverty reduction.

The financing of increased social expenditures within the PRSP could also be undermined by declining terms of trade and the current global economic downturn. Both the IMF and World Bank have expressed "particular concern at the adverse impact of the global slowdown on low-income countries and heavily indebted poor countries".ⁱⁱ Projected optimistic trends in social expenditures will not be realized unless debt sustainability is properly reassessed, and donors increase aid to fill gaps within PRSP financing. Current global economic prospects put at risk the sustainability of many PRSPs that rely on optimistic forecasts of economic growth and expanding trade.

The increase in social spending expected under the PRSP framework is not in any way an end by itself, but a means towards the universal achievement of the International Development Targets. Nevertheless, efforts to cost the achievement of those goals in individual countries have so far been weak. Many PRSPs lack a coherent routemap for achieving them. Where such plans exist they are often seriously underfinanced. In the case of Tanzania, the PRSP includes an Education Sector Development Programme (ESDP) to achieve the 2015 education goals that has been costed at US\$969m over the three-year period ending in 2004. The Tanzanian Government is meeting just over half of the cost,

with an International Development Association loan from the World Bank covering another US\$150m. This leaves a financing gap of US\$92m per year to be met through donor contributions. The UK's Department for International Development (DFID) has earmarked funds to cover two-thirds of the gap in the first year, but after that there is a large hole in the education-financing plan. If, as is distinctly possible, Tanzania's growth rate and/or revenue collection performance falls short of that projected by the World Bank, this hole will increase.

Macroeconomic rigidity

Of all the pledges made in the IMF's "Key features of the PRGF" paper, least progress has been made on the commitment to greater macroeconomic flexibility. The IMF has failed to follow through on its commitment to allow governments greater freedom to invest in key social sectors. The protection of social spending remains a challenge for countries such as Malawi or Nicaragua where "fiscal control is to be restored through a gradual tightening of expenditure rather than seeking out new revenue measures"ⁱⁱⁱ

In the case of Ghana, the I-PRSP approved in June 2000 included a projection of allocations to social sectors increasing from 17.4% of total expenditures in 2000 to 22.5% in 2002. By the end of 2000 however, the country faced a severe decline in terms of trade (declining cocoa prices, increasing petrol prices). Under the article IV consultation carried out for the country in August 2001, the IMF has agreed with the government that the main focus is now on restoring macroeconomic stability.

In the 17 brand new PRGF arrangements (the rest of the 35 being revamped ESAFs) the IMF has shown a greater willingness to accept contingency spending when aid flows were higher than expected. The Fund should do a lot more, however, to assist countries in exploring the different fiscal scenarios and choices available to them.

Financing Gaps: some examples

A report from the *Tanzanian* NGO TASOET stated that in "July 2001, at the start of the 2001/02 financial year, the PRSP is projected to still have a financing gap of 30% for the entire PRSP. After accounting for government revenues, private transfers, expected grants and concessional loans and HIPC debt relief, the government has identified big financing gaps. Over the four-year period 2000 - 2003, Tanzania will still be paying considerable amounts of debt service, which could be used to finance this gap. Full cancellation of these remaining debts would go a long way in filling these financing gaps." (TASOET, 2001, Tanzania NGO)

One of the IMF conditions for *Nicaragua* is the privatization of the electrical plants and the telecommunication system. The Government, the IMF and the World Bank agreed that part of the income from the privatizations shall be used for financing the implementation of the IPRSP. However this decision was changed without any

discussion in CONPES (a broad NGO alliance) or the Parliament. After several bank failures and the use of the international reserves to pay debt service, the reserves are actually less than a third of what is agreed with the IMF. Therefore all the income from the privatization will be used to stabilize the reserves. Furthermore IMF conditions insist that the budget deficit shall be brought down. Because of that, the 2002 budget does not reflect the PRSP. CONPES has protested - but has not been heard (IBIS, 2001, a Danish NGO)

In *Uganda*, some sectors are under funded while others are over funded. Therefore, the government proposed that budget support should be flexible in order to give government a bigger say in the allocation of expenditure for poverty eradication. This is necessary to enable the government to redirect over-funded areas to less funded but equally critical and deserving areas.

The *Bolivian* PRSP is based on unsustainable macroeconomic projections, write seven Bolivian NGO's networks. "According to the PRSP, in the next six years there will be an average 5% growth per year, and poverty in the country should be reduced by 1.45% each year. Presently, not even the Bolivian government backs these projections and they have restated the expected growth to 2.5% for 2001. However this figure is still too optimistic for most Bolivian analysts (CEDLA). The Bolivian economy is expected to grow at a rate of 1.6% in 2001, a trend that would be hard to exceed in coming years. Under these conditions, how can the PRSP be considered viable?"

The persistence of cost recovery

In many low-income countries, the cost of social services provision (mainly education and health) is being steadily transferred to poor families as part of a creeping privatisation of financing. Unfortunately, the PRSP approach has not made a clear movement towards putting an end to cost-recovery schemes, despite widespread public hostility to fees. Recent Oxfam research in Tanzania, Zambia, and Ghana shows how charges for basic education are preventing the children of the poorest families from gaining an education.^{iv}

In Nicaragua, decentralization of education provision (strongly supported by the WB and the IMF) within the PRSP is creating new pressures for cost recovery. Resources transferred to regions are inadequate to match newly transferred responsibilities. There is an official recognition that "mobilization of local resources shall contribute to the maintenance and functioning of educational centers". Bolivian NGOs fear a similar situation will emerge as a result of the decentralization process included in the Bolivian PRSP. This transfers the responsibility for health and education to the municipalities. Decentralization and participation can be key to increasing ownership effectiveness of service delivery, but when combined with a lack of resources and capacity decentralization is a very easy first step towards a system of cost-recovery.

Weak budgetary processes

Increases in national budgets for social services pose serious problems in terms of management capacity in many PRSP countries. This issue has been raised in a number of Joint Staff Assessments of PRSPs. Examples include:

- Bolivia
- Honduras (where the JSA recognizes the need to improve the efficiency and targeting of resources to social expenditure),
- Mauritania (where there is a need to established a better link between the strategy and budgetary processes and a prioritization of actions),
- Mozambique (need to strengthen public sector management) and
- Nicaragua (need for institutional reform in social sectors).

Other countries illustrate how dramatic progress is possible. In Uganda, improvements in budget transparency have paid dividends in terms of the ability of civil society Groups to monitor social expenditures. Strengthening of budget processes and public sector management is a key priority if the 2015 targets are to be met. At the same time Governments must implement key policy reforms such as cutting back on administrative costs, in order to more effectively target increases in social spending where they are needed most.

Composition and quality of social spending

An increase in the quantity of funds allocated to social sectors doesn't automatically mean a better provision of services. It is necessary to go beyond the global figures and assess the internal composition of Each country's spending. Thus, in a country like Nicaragua, where education and health spending have been receiving more funds during the past years, it is estimated that around 75% of the total budget is consumed in bureaucratic activities, while salaries for civil servants continue being among the lowest in Central America.

Similarly, civil society organizations in Tanzania denounce the fact that poor financial management (including delays in the release of funds, the use of funds on administrative purposes rather than social service delivery, poor information inflow and limited reporting, and accountability) has meant increases in funding of education, health, water, and roads construction and maintenance have not solved the serious problems of service provision.

Finally a country like Uganda illustrates clearly the challenge of raising quality in social services. In the case of Uganda, access to education has dramatically increased under the UPE program, but in 1999 one quarter (1/4) of all pupils failed to pass their final examinations in primary education. The ratio of pupils per classroom is still far from the targets included in the PRSP and, generally, it is acknowledged that the progress in delivery of key services is uneven.

Recommendations

- **The IMF should urgently review its approach to macroeconomic planning in order to show a real shift in priorities. The starting point should be “what needs to be done to reach the 2015 targets?” not “how many resources are left for social spending after a *sound macroeconomic policy* is in place”. Real fiscal and monetary policy flexibility should be allowed**
- **Fully financed strategies for achieving the 2015 targets should be included in every PRSP**
- **Growth predictions should be realistic and flexible, and debt sustainability analysis should be re-evaluated. Donors have to show a real commitment to financing the existing gaps in national strategies**
- **The World Bank and IMF should work with governments to abolish charges for basic health and education. Basic education charges should be abolished within 3 years**
- **The World Bank and IMF should work with Governments to improve the costing of social targets and to strengthen budgetary processes and public sector management. Increased budget transparency is vital in many countries which in theory have already implemented this reform**
- **Aid should be provided in one basket as part of the budgetary resources to be spent in agreed priority areas of PRSP. This would help to prevent over-funding of some sectors and underfunding of others**

Moving beyond the Washington consensus?

Oxfam hoped that the PRSP would represent a qualitative change from one-size-fits-all Washington consensus policies. We anticipated a move away from the standard formula of liberalize, privatize, deregulate to a more heterodox approach that started from the perspective of poverty reduction. This is not to say that liberalization, privatization and deregulation cannot be part of a development strategy for poverty reduction. Rather it is recognition of the fact that economic policies that lack broad ownership within countries rarely succeed, and that very different economic development strategies may be appropriate in different contexts. Whilst the PRSP has seen a greater focus on pro-poor government spending, there are few signs that more heterodox structural economic policies are being pursued.

The Bolivian PRSP sticks closely to the belief that current patterns of economic growth will be the key to the reduction of poverty. "This approach will benefit social groups linked to transnational capital, whereas the negative results of this policy are suffered and paid for by the vast majority of the Bolivian population", write Bolivian NGOs networks. "If inequality is an issue in Bolivia, the government PRSP does nothing to face up to it with a new focus that would encourage redistribution of income".

In Ghana, "The macroeconomic analysis of the causes of poverty is driven by an excessively monetarist and fiscal pre-occupation which prevents the policy framework from addressing the real roots of poverty and thereby developing policy instruments that tackle poverty on a systemic basis", writes the Trades Union Congress. "Development and not macroeconomic stabilization, ought to be the main reference point for policies. This may require that government develop a mix of policies that do not conform to the traditional neo-liberal policies that Ghana and other African countries have been pursuing over the last two decades. This means that economic policies must avoid doctrinaire privatization such as that programmed for water and electricity, unbridled liberalization and indiscriminate removal of subsidies. There ought to be a creative application of liberalization and intervention directed at releasing the entrepreneurial energies of our people".

Trade liberalization

Many PRSPs pay attention to trade liberalization. One recent IMF review of trade policy conditionality covering 23 programmes found that a total of 186 trade measures had been included. Most were targeted at reducing tariff and non-tariff barriers.

Trade liberalization can play an important role in fostering economic growth by establishing appropriate relative incentives for export and import activity, and by increasing the efficiency of resource allocation. *Per se* trade liberalization is neither pro-poor nor anti-poor. The outcomes it produces will reflect the timing, sequencing and scope of reforms, and the wider policy environment.

Unfortunately, trade liberalization is increasingly treated by the World Bank and IMF as though it is an indicator of government's credibility rather than as a means to the end of poverty reduction.

Too little attention is being paid to the impact on trade liberalization on poverty. An Oxfam survey of 12 PRSPs that incorporated trade liberalization measures, reveals that only one third mentioned the possible poverty impact of measures. Only two of these incorporated a policy response to mitigate negative impacts of trade liberalization.^v

Another concern is that by imposing unilateral trade liberalization on poor countries, the Bank and Fund unwittingly further undermine the weak bargaining position of developing countries at the WTO.

Stated crudely, many of the countries that have most successfully reaped the benefits of integration into the world economy – China, Vietnam, Mauritius, and Thailand to name a few – are not a strong advertisement for IMF and World Bank policy prescriptions. The evidence from China, Uganda and Vietnam in particular appears to be that liberalization was pursued very gradually and most aggressively in relation to export promotion rather than import liberalization. Export liberalization has also played an important role in Uganda's relative success.

All this adds up to a powerful case for greater flexibility and the accommodation of a diversity of approaches. Countries like China, South Korea, Taiwan and Vietnam all succeeded to varying degrees in tapping the enormous potential gains offered by successful integration into the global economy. They combined a strong export orientation with other less orthodox policies: restrictions on foreign investment, export subsidies, local content requirements, and relatively high levels of tariff and non-tariff barriers.

Privatization

The relationship between the World Bank's proposed Private Sector Development (PSD) strategy and national PRSP processes is unclear. Decisions about privatization or private sector delivery of basic services are highly political in rich and poor countries alike. Questions about the appropriate mix of the public and private sectors in service delivery should be answered by governments at the country level with the full participation of citizens. Oxfam's concern is that the PSD strategy will lead to reduced flexibility for governments through the attachments to World Bank lending instruments of conditions dealing with the nature of service delivery. This, combined with a strong mandate to World Bank country teams to increase lending for the delivery of services by the private sector would reduce the credibility of the PRSP as a process within which a range of development policies can be discussed.

Links between PRSPs, PRSCs, and PRGFs

One of the constant themes of civil society discussions about the PRSP process is that structural and macroeconomic policy is still being driven by conditions attached to World Bank and IMF lending instruments. In most cases the development of PRSCs and PRGFs is still the work of IMF and World Bank representatives in consultation with small technical teams within finance ministries, and perhaps the central bank. There is no sense of integration of economic and social objectives.

The Trades Union Congress of *Ghana*, writes that Ghana's Poverty Reduction Strategy is being developed in the current policy framework of the PRGF. "Though Ghana's Poverty Reduction Strategy has been presented as the government's home-grown development policy, the reality is that it is an integral part of the government's economic arrangement with the Paris Club and the IMF and the World Bank".

In the loan-related documents for Uganda there is detailed attention to trade liberalization in the textile, coffee, sugar and tobacco sectors. These issues are only dealt with in a cursory way within the PRSP.

In *Tanzania*, the draft report released by the Government on the first annual PRSP progress report included aspects of the PRGF progress report. " This increases and underscores the bearing the PRGF has on the PRSP", writes TASOET, a Tanzanian NGO.

In *Honduras* the government has committed itself to implement PRGF arrangements of the IMF for the following 15 years. Such agreements have been included as a chapter of the PRSP' s final version, and thus was not considered in the consultative process (Fosdeh, an Honduran NGO).

To date there are 35 PRGF arrangements, and many of them have been finalized before the PRSP or IPRSP were available, this has heightened the feeling that PRSP discussions have no influence over economic policies. A clear problem is the contradiction between the long-term nature of PRSP processes and the short-term focus of adjustment lending. It is clear that a great deal of work needs to be done in harmonizing PRSPs and lending instruments.

The IMF's review of conditionality is an opportunity to change the relationship between PRGFs and PRSPs. A scaling down of the conditions attached to loan agreements would give developing countries more flexibility to develop their own economic development strategies, and would give more scope for a genuine debate on alternative economic development strategies within the PRSP. Reductions in IMF conditionality, however, must not coincide with an increase in the conditions attached to World Bank loans.

Making PRSPs work: the role of impact assessments

A key way of transforming the relationship between PRSP processes and World Bank lending instruments would be for the IMF and World Bank to deliver on their commitment to carry out ex ante and ongoing analysis of the poverty and environmental impact of economic reforms within PRSCs and PRGFs. Consecutive Development Committee and IMFC meetings have mandated this approach, but progress has been slow. An impact assessment toolkit will be ready by March 2002, and pilot efforts are being taken forward by the World Bank and IMF in 8 countries. Inadequate funding is a reason frequently given for slow progress.

The IMF and World Bank emphasize that impact analysis should be used to enhance mitigating measures such as safety nets. They do not focus on the fact that the analysis should or could lead to different policy choices. There is as yet no example of actual policy change following impact assessments. Mission chiefs need to support the principle that a range of policy choices can be considered. For country ownership to be meaningful, countries need to be able to choose among alternative design options.

The *World Development Report 2000/2001* points out that poverty has many dimensions. The social dimensions of policy impacts, described in "Social Impact Analysis of Economic Policies: A Fact sheet," interact with environmental dimensions, and thus impact analysis must consider both. Poverty and environmental impact analyses should be required for all policy-based lending^{vi}.

Recommendations

- **The number of macro and structural conditions attached to IMF and World Bank loans should be ruthlessly cut**
- **Trade liberalization should not be a condition of World Bank and IMF lending**
- **PRSPs, PRGFs, and PRSCs should be unified and streamlined and part of one participatory process (with PRGF and PRSC clearly deriving from the national strategies, with the IMF and the WB showing a clear commitment to review them when they were approved before the PRSP)**
- **Impact analysis should be required for a broad range of policy-based lending. Primary emphasis should be placed on carrying out impact analysis for policies contained in Poverty Reduction Strategy Credits (PRSCs) and Poverty Reduction and Growth Facility (PRGF) loans. Also, impact analysis should be conducted with respect to policy as well as project-related components of hybrid loan instruments. As noted above, impact analysis should examine poverty, social and environmental impacts of macroeconomic and adjustment policies**
- **Impact analysis should be executed in a dynamic process – that is, not only before and after, but also during loan implementation. A corrective mechanism would allow for mid-course adjustments**
- **The process for producing impact analysis must be open and participatory, and involve an informed civil society. Currently, participation in the formulation and analysis of adjustment loans is a rarity**
- **The process should also present options and tradeoffs, not a single proposed policy and a single mitigating measure put in place to accompany a single policy. Given the pressure within the World Bank to reduce the cost of lending, this will require an important change in Bank procedures**

- **Impact analysis must not be another unfunded mandate. Donor governments should provide adequate resources to fund this work. The World Bank and IMF should share responsibility with governments and civil society in carrying out impact analysis, and, in the initial transition phase, bear responsibility for building borrowing-country capacity**

Monitoring PRSP implementation

PRSP implementation; the critical role of monitoring

It is critical that if the PRSP initiative is to remain credible these papers are now implemented and not shelved. Viable, accessible, and robust monitoring systems are essential if we are to discover whether policies are implemented. They provide governments and evaluators information on the effectiveness of policies.

PRSPs produced to date are weak on monitoring

Those PRSPs that have been completed to date are rather weak on monitoring, and tend to present it as a simple, rational, and an unimportant apolitical process. This varies from paper to paper, but the focus is on long-term poverty monitoring systems and long-term policy reforms that sidestep any immediate commitments. Often the PRSPs have many indicators, but little information on how these will be monitored.

The monitoring process is split into three stages: inputs, outputs and outcomes. It is worth looking at the performance of the PRSPs to date in terms of each of these stages.

Monitoring poverty reduction outcomes- strength of PRSPs

Each of the PRSPs completed to date makes reference to the development of poverty monitoring systems (PMS) that will enable countries to keep track of poverty levels from a variety of different perspectives.

There are concerns over the sustainability of these often quite ambitious (and largely donor supported) Poverty Monitoring Systems. These kinds of systems function imperfectly even in the most well resourced states. Furthermore, the approach adopted in most PRSP countries is not built on citizen engagement and flexible feedback that would actually make a difference to policy. However, the PRSPs have taken a major step forward in planned monitoring of poverty and impact on poverty reduction.

Monitoring inputs- PRSPs are weak, focusing solely on long-term

To be implemented, each new policy for poverty reduction has to be translated into the national budget and resources allocated to it. Without these inputs the policies will never leave the page.

In recent years low income countries have seen a small improvement in the management of inputs, or what are effectively public expenditure monitoring (PEM) systems. These systems need to be in place to ensure that the resources allocated to certain policy actions actually reach their destination. Despite some improvements more are needed and this remains a critical problem for most of the countries involved in the PRSP process. Again this reflects the fact that policy implementation represents the competition over scarce resources which is by necessity a deeply political one where mismanagement, corruption and graft are common.

All the PRSPs to date recognize the importance of PEM, and contain plans for how they intend to ensure that expenditures can be tracked and reach their destination. They generally revolve around two areas of policy reform that are seen as keystones in effective PEM: the introduction of Medium Term Expenditure Frameworks (MTEF's) and the generation of Management Information Systems (MIS). The MTEF is a three-year rolling budget system that is based on quantifiable outputs. This is in contrast to the way budgets are drawn up at present on a line item basis unrelated to any activity or objective. By changing the whole budget system to focus on activities and outputs a clear focus is maintained, is linked to policy, and one whose success is easy to monitor. Similarly the introduction of linked and computerized systems to manage information also facilitates the smoother implementation of public expenditure and improves both transparency and accountability.

Both these sets of reforms are commendable. The problem lies in their long-term timescale, their political nature, and the corresponding resistance to their implementation. For example, MTEF was begun in Malawi in 1995, and despite considerable work and innumerable training courses has yet to make an impact in 2001. Equally in Ghana the MTEF has failed to put an end to the out of budget short-term expenditure brought on by political exigencies.

The long-term timescale of these reforms is recognized in a recent joint IMF/WB paper on tracking public expenditures (IMF/ WB March 2001). This paper recognizes that the vast majority of the 24 HIPC countries have PEM systems where 'substantial upgrading (more than 2 years) is required'. As such it goes on to highlight the need for short-term measures to be put in place to bridge the gap during the interim. Unfortunately this need for short term PEM measures is not reflected in the PRSPs that have been completed, which means that they run the

risk of minimal monitoring of inputs continuing unabated in lieu of reforms that remain in the future.

Instead PRSPs should suggest both short and medium term measures for PEM. In some countries this has involved highlighting or 'tagging' key poverty reducing expenditures. These are grouped together in the form of a 'virtual fund' about which the Government undertakes to prioritize the timely release of information^{vii}. This need not undermine longer term reform initiatives, and can instead begin to build a culture of accountability and timely reporting which can facilitate wider PEM systems in the future.

The IMF/WB paper on "PRSP – progress in implementation" acknowledges the need to strengthen the PEM systems and says that "country-owned action plans to improve PEM have been developed with 7 countries". It also says that given the importance of improving national public expenditure management systems for the success of the PRSP approach, it is expected that PRSPs will include both short- and medium-term corrective measures drawing on action plans. These measures, as identified in the PRSPs, would be incorporated into the Fund's PRGF programs via appropriate conditionality for improved accountability in public resource management."

Monitoring outputs

Access to relevant and timely information on whether or not a policy is being implemented is necessary to hold policy makers accountable. By focusing on long-term outcomes and not on outputs this need will not be fulfilled within the current PRSPs. For example information from household surveys generally has a time delay of years, and is very difficult to specifically attribute to the impact of one policy.

Information is needed of a more immediate nature based on outputs. For example, have the right amount of books been delivered to the schools by the correct time? It is this short-term output based information is the most powerful in monitoring the performance of governments in policy implementation. Often the key problem is that resources go astray during budget implementation. A public expenditure survey in Uganda sponsored by the World Bank in 1995 found that of the money allocated to primary students only 30% was actually reaching them. This prompted the Ugandan government into immediate action (Ablo and Reinikka 1998).

It is difficult to obtain monitoring information on both inputs and outputs in time to have an impact whilst the policy is being implemented. This is to some extent due to poor government reporting capacity, but is also largely due to deliberate opacity. Governments are loath to release information such as this so it is essential that commitments and mechanisms to ensure the timely release of information be an integral part of all PRSPs. Again in most of the documents

there is at least a long-term commitment to greater transparency through better information systems. However this needs to be more explicit and to have more short term and immediate measures to improve transparency and accountability.

PRSPs need a short-term focus on key priority poverty expenditures

What the above demonstrates is that although the PRSP is rightly a comprehensive document that should focus on the whole economy, there is a short term need to focus on a small number of the key pro-poor policy reforms linked directly to achieving the 2015 targets. Governments should then be required to produce timely information on these specific reforms. This can often be linked to the trigger conditions that each HIPC country has on pro-poor expenditure. It should not simply be focused on HIPC money but all money going to that particular expenditure. By focusing on a few key expenditures effective monitoring becomes more feasible.

There is a risk that this will lead to undue focus on a handful of reforms whilst the rest of the budget and public expenditure process is left untouched and unreformed. However, managed well this initial focus should form the basis of an ongoing reform, by beginning to develop systems and a culture of transparency and accountability that can be gradually expanded as the PRSP continues.

Role of parliaments and civil society in PRSP monitoring

Inherent to effective monitoring of policy implementation is independent scrutiny. It is here that Parliaments have the potential to play a critical role together with civil society actors. Working together these two external actors can play a key role in monitoring. Parliaments often lack the capacity to monitor policy implementation, but critically they often are the most legitimate and representative actors in a country. Civil society often has more capacity and outreach to monitor policy implementation, but can lack legitimacy especially in the eyes of the Government.

In Malawi civil society is working with the Budget and Finance Committee of Parliament. It has organized itself to monitor key 'Priority Poverty Expenditures' identified in the budget. This information will be submitted to the Committee who will then raise the issues with Government.

This maximizes impact, and has the added benefit of building relations between Parliament and civil society, and empowering both institutions. Similarly in Uganda a number of district budget monitoring committees have been set up to monitor the implementation of the Government's Poverty Action Fund (Government of Uganda 2001).

Activities such as those in Uganda and Malawi are still very rare, and the PRSP offers an excellent opportunity to make this level of scrutiny more the norm than the exception. However, to do this PRSPs need to be explicit about both the timely release of information and the roles of Parliaments and civil society in monitoring policy inputs, outputs and outcomes.

Role of World Bank/ IMF

The World Bank has been active in many countries in producing Public Expenditure Reviews, with increasing Government ownership. The paper on Public Expenditure Tracking is also a very positive step in this direction (World Bank/ IMF March 2001) and the subsequent action plans developed in seven of the HIPC countries (World Bank/IMF Sept 2001). What is missing is a definite link to the ongoing work with PRSPs^{viii} and the detail on how these PEM action plans can involve other stakeholders and generate ownership for them in the country. These could form legitimate elements of PRSPs instead of being perceived as externally imposed.

Recommendations

- **The World Bank and IMF should be more explicit about the need for short-term public expenditure monitoring measures in PRSPs**
- **The current emphasis on outcomes needs to be supplemented by greater attention being paid to the sticky areas of inputs and outputs in policy implementation**
- **The role that Parliaments and civil society should play in monitoring needs to be institutionalized**
- **The World Bank and other donors should take seriously the capacity constraints of both Parliaments and also civil society in carrying out effective monitoring, both in terms of expertise and resources**

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ⁱ Debt relief: still failing the poor. Oxfam, April 2001

ⁱⁱ IMFC Communiqué, November 2001

ⁱⁱⁱ Study prepared for DFID by C.S. Adam and D.L.Bevan of Oxford University

^{iv} Education Charges: a tax on human development. Oxfam, November 2001

^{vi} Just as environmental assessments are now required for some project lending.

^{vii} This is done in Uganda through the Poverty Action Fund (PAF) and a 'virtual fund' for HIPC money is also proposed in the Honduran PRSP.

^{viii} The World Bank is moving to address this with the development of PEM action plans in seven countries already and aims to develop them for all 25 HIPC countries by the end of the year (PRSPs- Progress in Implementation September 2001). These will be linked to the PRSP via the PRGF programmes as conditionalities. The role of civil society and legislatures is not clear in this action planning process however.

**Save the Children UK submission
to the IMF/WB review of PRSPs**

December 2001

WB/IMF review of PRSPs

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Summary

The following summarises SC UK's key points based on our engagement in 14 countries, which are laid out in the submission in more detail.

Ownership and participation

- SC UK supports the concept of nationally owned poverty reduction strategies, **which offer the opportunity for countries to develop policy choices based on the real needs of poor people. SC UK therefore welcomes the space that has been opened by the World Bank and the IMF to debate these processes.**
- **Some governments are rushing the PRSP process in order to qualify for early debt reduction.** This tension between HIPC and the PRSPs can harm the quality of civil society participation and miss out on valuable insights on poverty reduction.

Including all civil society

- **Children and young people are being left out of discussions in the development of the PRSPs despite the insights they have into their own situation.** In order for PRSPs to be effective at reducing poverty, all marginalised groups need to have the opportunity to participate in their development and their contributions given genuine, not simply tokenistic consideration. This not only includes children and young people, but also older people, women, minority groups, and disabled people.
- **Smaller groups and individuals also need to be recognised in PRSP discussions.** In some places civil society is simply seen as organised and high profile groups – NGOs, religious organisations, trade unions etc. Many poor and marginalised people are thus not being directly involved in the PRSP process. In some countries, the local efforts of civil society to produce their own poverty strategies, which can contain a rich variety of information on the situation of poor people and strategies for action are being ignored.

Policy Content of the PRSPs

- **There is little consideration of macroeconomic and structural policy alternatives.** For poverty reduction strategies to be truly nationally owned there must be free and open discussion of both social and economic policy choices among civil society, government officials and the private sector.
- There is **little explicit analysis of the differential social impact of particular policy choices** and mechanisms for assessing the likely impact of policy choices in the PRSPs are not specified in any country where SC UK works.
- **Analysis of and action to tackle childhood poverty is not given enough attention in existing I-PRSPs and PRSPs.** Given the importance of tackling poverty in childhood as a means of long term poverty reduction the limited and piecemeal attention to this area is a matter of grave concern.

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- **SC UK is concerned that so many countries intend to expand the use of cost recovery mechanisms for health care.** While a few countries (e.g. Uganda, Malawi and Mongolia) have abolished certain kinds of user fees, and many countries plan to limit their use and increase exemptions for poor people, others continue to rely on user fees for an element of social service financing. This is in spite of high economic growth projections in many I-PRSPs and PRSPs, which might be expected to provide adequate financing for these services.
- **Most I-PRSPs and PRSPs give inadequate attention to long term effective social safety nets** that protect people from prolonged poverty and from falling into poverty.

In the light of these findings SC UK recommends the following:

Ownership and participation

- **SC UK urges the World Bank, the IMF and governments to ensure that sufficient time is given to enable broad civil society participation** and that the variety of views expressed in consultative processes are reflected in the final texts of the PRSPs.
- **Examine alternative strategies that would resolve the tension between the desire to qualify for debt cancellation and the reduction in the time available for civil society participation.**

Including all civil society

- **SC UK urges the World Bank, the IMF and governments to take the views of children and young people seriously in PRSPs**, by creating spaces to allow them to participate in formulating and monitoring PRSPs, on issues that affect them. This can be time consuming, but it is worthwhile. More details of this can be found on page 11.
- **Work to encourage governments to include the insights of smaller groups of civil society, not just the insights of more organised and high profile civil society organisations**, through Participatory Poverty Assessments, hearings, consultations and by recognising parallel participatory processes etc.

Policy content of the PRSPs

- **Encourage governments to include civil society in discussions of economic policy not just social elements of poverty reduction policy.** A sign of this commitment would be for governments to provide civil society with more time and training to allow them to participate in macro economic policy discussions. Donors could play a role in supporting these processes.
- **Ensure that all PRSPs contain a commitment to and details of how ex ante and ex post poverty and social impact assessments will be carried out to inform policy.** As well as using quantitative social and economic data, these must incorporate qualitative insights and be partially carried out in a participatory manner.

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- **Each PRSP should disaggregate poverty data by age as well as gender and contain a detailed analysis of childhood poverty or plans for systematically collecting and analysing data in a gender and age disaggregated manner.**
- **Each PRSP should contain action plans for reducing childhood poverty both by producing tangible benefits at household level and national policy to support this.**
- Where reallocations between sectors or increased growth and revenue collection cannot provide sufficient resources for key basic services, **alternative mechanisms must be considered in PRSPs that ensure children and young people's rights to health care and education.** Where shared financing for these services is unavoidable, governments and donors should shift away from charging at the point of delivery and move towards greater risk pooling.
- **IFIs should show their commitment to pro poor or equitable development, by supporting effective social protection of the poorest and most vulnerable. This may require re-examining and raising ceilings on levels of social expenditure put in place to control fiscal deficits.** PRSPs should contain a commitment to develop effective long-term safety nets to protect against poverty and vulnerability to poverty.

WB/IMF review of PRSPs

1. Introduction

Save the Children UK (SC UK) welcomes the opportunity to submit to the World Bank and IMF review of the PRSPs and I-PRSPs and regards it as a positive step in The Bretton Woods Institutions commitment to poverty reduction. We also welcome the fact that existing reviews and evaluations of the PRSP carried out by external parties will be given due consideration in the final review document. In the longer term SC UK would also value the opportunity to contribute to an independent external evaluation which would feed into the longer term evolution of national poverty reduction strategiesⁱ and World Bank and IMF policy.

SC UK works in 25 countries where I-PRSPs or PRSPs have been developed or will have to be written in the future (see Annex 1). This submission is based on the experiences of our country programme staff and partner organisations in many of these countries along with desk based research on the I-PRSPs and PRSPs produced so far. While globally the process of developing full PRSPs is still at a fairly early stage, in the two years since they were announced SC UK has built up a significant body of experience about particular aspects of the process. Unless otherwise specified, all quotations are from SC UK staff.

SC UK has engaged with PRSP processes in a variety of ways. This has included participation in country through PRSP consultation meetings, ensuring that views of marginalised groups, such as very poor people, people living in isolated areas and children and young people are included in the PRSPs; supporting local partners to participate in the process and undertaking particular analysis to feed into poverty reduction strategy discussions. SC UK has also engaged with UK government staff with responsibility for UK positioning and policy on PRSPs in the Treasury and the Department for International Development (DfID). Globally SC UK has undertaken analysis of the treatment of particular policy issues in I-PRSPs and PRSPs, such as social protectionⁱⁱ and childhood povertyⁱⁱⁱ.

This submission is principally concerned with the process of developing the PRSPs and their content. It does not comment on the experience of implementation, reflecting SC UK's profile of work mostly in countries developing their I-PRSPs and PRSPs at this point. Perspectives on the process from SC UK staff – informed by our partners – vary substantially, from those who see the PRSPs as an expensive exercise that will deliver little for the poor, to those who feel it is making a significant contribution to the development of pro-poor policy.

PRSPs clearly offer the opportunity for governments, in partnership with civil society and International Financial Institutions (IFIs), to outline a wide variety of anti poverty policy measures. SC UK recognises that it is impossible for every policy option to be spelt out in detail and the danger of unrealistic expectations of a strategy on which everyone will agree. Nevertheless, while our analysis indicates that there have been positive outcomes from the process, such as the new IFI requirement for civil society participation, in some countries there have also been some serious omissions, which may at the least, reduce the effectiveness of PRSPs as poverty reduction frameworks.

2. Ownership of PRSPs

The World Bank states that the first core principle underlying the development and implementation of poverty reduction strategies is that they should:

'Involve broad-based participation by civil society and the private sector in all operational steps'

In SC UK's experience to date the degree and kind of civil society participation in the development of full PRSPs has been varied, principally because of differing commitments and capabilities of governments, NGOs and local International Financial Institution officials. It is also clear that some governments regard the requirement for civil society participation in the PRSPs as a threat to the sovereignty of democratically elected governments. However generally SC UK welcomes the spaces that have been opened for civil society to participate in developing the final poverty reduction strategies and the commitment to public participation in policy development.

It is important to distinguish between discussions with organised civil society, including NGOs such as Save the Children and our partners and consultations with poor people themselves. If attempts to tackle poverty are to be effective consultations with both these groups are needed. Poverty reduction strategies will then benefit both from insights based on experiences across a range of locations and also from an understanding of the lived experience of poverty. Experience from PRSPs developed so far suggests that the former group tend to have been consulted more extensively and involved more deeply in these processes than the latter.

In this section SC UK has a number of comments to make about the involvement of poor people in developing both I-PRSPs and PRSPs.

2.1 I-PRSPs – Effective roadmaps?

Some of the comments of SC UK country programmes have concerned the process of developing I-PRSPs.

The World Bank states that these are meant to:

'outline a country's existing poverty reduction strategy and to provide a road map for the development of the full PRSP (a timeline for poverty diagnostics, recognition of policy areas that need evaluation and reform, envisaged participatory process etc.)'

Many I-PRSPs have now been completed and governments have moved onto developing full PRSPs. Where PRSPs have not yet been finalised, it is worth reflecting on whether the proposals I-PRSPs make for the development of the final PRSP documents can realistically be carried out.

Unlike PRSPs civil society participation is not a requirement for developing I-PRSPs. Instead I-PRSPs are merely required to describe the current poverty reduction strategies of a country and outline the proposed process for developing a full PRSP. Generally I-PRSPs have been written to very tight timeframes, tied to the release of promised World Bank and IMF funds. As a result some governments have hired

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consultants to write the I-PRSPs for them and therefore qualify for these funds as quickly as possible. While some consultants undoubtedly engage in consultative processes, others have interpreted the brief much more narrowly. Thus in one South East Asian country neither government officials nor NGOs saw the I-PRSP until a very late stage in its development.

'The document was on its seventh draft before NGOs got to see it. They were given one week to consult and then draft eight (the final draft) was produced. Only draft eight was in the local language so government ministers couldn't understand it before then.'

Often consultants hired to write I-PRSPs are foreign. While this may not be a problem in itself where consultants have detailed knowledge of the countries concerned, symbolically it challenges the idea of PRSPs as nationally owned and can result in the I-PRSP being developed by individuals with insufficient knowledge of the countries involved. Similarly where the consultant has been World Bank appointed, they may not be perceived as neutral by civil society, which could also undermine the process from the outset.

I-PRSPs are road maps towards the final PRSP. Given this, it is alarming that few contain information about, or plans for, ex-ante poverty and social impact assessments, while some have simply been rapidly written by consultants, drawing on a very small range of contacts^{iv}. The next section explores whether these I-PRSPs are developing into truly country owned and led full PRSPs.

2.2 PRSPs – true participation or merely tokenism?

Observers have over the past 20 years watched poverty deepen in many parts of the world and many of them doubt whether current approaches will do anything to tackle the vast numbers of people living in abject poverty. Over the past few years IFIs, such as the World Bank and the IMF have increasingly used the language of participation in their operations, aiming to make policies more relevant to poor people's realities.

SC UK therefore welcomes the steps that have been taken by the IFIs to introduce a participatory element in the development of poverty reduction strategies and move this rhetoric to reality. On paper this offers the potential for all stakeholders in the development process to input and most importantly poor people, who have the most detailed knowledge of their own life situations, to participate in developing poverty reduction policies. This offers the chance for more effective action.

However it is not enough merely to seek poor people's views. For development strategies to be truly participatory these views must be taken seriously and be reflected in the strategies as they develop.

The question of whether PRSPs are truly participatory is therefore of critical importance and central to whether they represent business as usual, or do in fact offer a new way of thinking and tackling poverty. The jury is still out on whether the early optimism directed at this new process will be fulfilled.

In Vietnam the main consultations with civil society on a draft version of the final PRSP began in November 2001. It seems here that the process will be fairly participatory. However a lack of organised civil society generally means that INGOs

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have been the main focus for participation, rather than local NGOs or the poor themselves, which ultimately may limit the extent of ownership by the poor of the final document and anti poverty policies.

'I think the process has probably been more participative than in most countries. Although a lack of [organised] civil society means that a lot of participation has come from the INGOs... [at] a recent 3-day workshop to localise the international development targets/millennium goals for the PRSP eight sectors were considered, based on papers that were developed during the summer, again in quite a consultative way.'

In Honduras, SC UK staff have also commented that new avenues have been opened for civil society participation during the development of the PRSP, where they did not exist previously. Here SC UK has participated in discussions on drafts and proposals for the content of the National Plan of Action for the Eradication of Child Labour. This prompted a debate on the link between the eradication of poverty and actions to eradicate intolerable forms of child labour, and the ultimate implementation of the National Plan as one of the policy measures in the PRSP.

In Ghana too while the I-PRSP was put together with particularly heavy World Bank involvement and drawing largely on its Country Assistance Strategy it appears that the final poverty reduction strategy is being conceptualised independently of the International Financial Institutions, with greater civil society participation.

'... with qualifications, ownership of the poverty reduction process, vis a vis the donors on whom the government depends so heavily, is another positive. Both IFI resident representatives are conscientiously avoiding entanglement and other donors are in no sense dictating terms. In these respects the situation is exemplary''

Nevertheless concerns do remain about the true extent of civil society participation and especially in the core teams brought together to discuss the policy priorities in five key areas, which seem not to have been representative and are very based in the capital city. As a result, SC UK supported consultations with poor people in some of the poorest parts of the country. SC UK staff comment that the poverty reduction strategy does offer at least the potential for increased civil society understanding of poverty and for promoting more relevant anti poverty strategies. It also now encourages people's participation in their own governance in itself a significant change. However:

'...[The consultative process] also carries the threat of being just another aid-raising exercise designed to satisfy the donors' latest fad, until the next one comes along''

In East Africa staff have commented in one country that the development of the national poverty reduction strategy has been carried out with a high level of civil society participation – though this was generally felt to be 'organised civil society' – national NGOs not necessarily representing broader civil society consensus. Nevertheless generally:

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'The revision of the poverty reduction strategy involved the piloting of a participatory tool, which enabled significant input from civil society. The feedback inspired the government to redefine their definition of poverty as well as major lines of action for reducing poverty'

In these latter two African cases, where arrangements allow a reasonable time frame for civil society engagement, SC UK welcomes the fact that discussions on the full PRSPs do seem to be having a relatively high degree of national ownership. This shows that there is the potential at least for PRSPs to be nationally owned, even where I-PRSPs have been developed without civil society input. This has in no small part been due to the requirements of the World Bank and the IMF. This requirement may prove to be particularly significant where governments have no history of allowing civil society to participate in policy making or where they are reluctant to do so.

While there have undoubtedly been positive experiences with civil society participation in some countries, the link between the HIPC and the PRGF processes and the PRSPs seems to be creating incentives in others to rush the PRSP process, risking the quality of civil society participation.

'civil society groups have reported time and again that governments are rushing the PRS processes in order to achieve HIPC initiative decision or completion point. Donors too have complained that the rush has damaged the quality of the PRSPs'ⁱⁱ

Fears have been expressed in Honduras for example, that while the process for developing the final PRSP has improved, it will be too rushed because:

'it is linked to the HIPC/PRGF process. This brings into doubt as to whether this is enough time to prepare a detailed PRSP that reflects the needs on the ground, even though the participatory process is improved'ⁱⁱⁱ.

Comments from an East African country demonstrate the dangers associated with unrealistic timescales for civil society participation. Here while the government made it clear that it had reservations about the necessity for civil society to participate in any part of the process it did still draw up proposals for how civil society could participate. However, while NGOs have been given a central role in organising the participatory process they were only given one month to mobilise for it, insufficient to arrange a satisfactory process in the 106 districts meant to be included.

Recommendation: SC UK urges the World Bank, the IMF and governments to ensure that sufficient time is given to enable broader civil society participation, including poor people themselves, rather than just organised civil society. These should be reflected in the final text of the PRSPs. In the next section some examples are given of how this could be done using Participatory Poverty Assessments.

The link between HIPC and the PRSPs is problematic. Alternative models need to be considered which could ensure countries obtain debt cancellation without compromising possibilities for civil society participation. SC UK recommends that serious attention is given to finding ways to achieve this, including civil society representatives in HIPC countries. These could include basing continued IFI funding and donor support on I-PRSPs, while progress on the HIPC initiative would be

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dependent on explicit and monitorable plans setting out how resources freed up will be spent on poverty reduction^{ix}. The full PRSP can then be developed over the next three to five years as the original architects of the process envisaged.

The current tension between speed and quality is as yet unresolved and de-linking HIPC from the PRSPs and therefore the provision of resources may only serve to reduce the PRSP to a meaningless paper exercise. SC UK believes that it is fundamentally important that there is further debate about this process.

3. Including all civil society

This section concentrates on two essential parts of civil society who seem to have been left out of many discussions and consultations in the PRSPs. The first are individual poor people – including many children and young people – often left out of consultation processes as they are not part of ‘organised’ civil society groups. They are also often presumed not to have anything of importance to contribute to direct consultations with poor people. The second group are smaller NGOs, religious organisations and trade unions etc who don’t necessarily have the resources to attend a lot of consultations. In fact, both these groups have valuable insights to contribute about the lived reality of poverty.

3.1 Children and young people^x

While there are some consultations with poor adults in some countries, these consultations rarely include children and young people, despite the fact that in many of the world’s poorest countries children under the age of 15 make up over 40 per cent of the population. For example, in Burkina Faso and Uganda (49 per cent), Malawi (46 per cent) and Ethiopia and Tanzania (45 per cent). Children and young people are also more likely to be affected by poverty than other groups. In Honduras, for example, 60 per cent of couples with children live in poverty compared to 43 per cent of those without children^{xi}, while in Vietnam in 1993, while 50 per cent of the population as a whole lived in poverty, 63 per cent of under 5s did^{xii}. In Uganda 59 per cent of people living below the poverty line are children^{xiii}.

The UN Convention on the Rights of the Child (UNCRC) places in law the right of young people to have their opinions on matters that affect them taken into account in accordance with their maturity. Yet SC UK’s experience to date is that children and young people are generally excluded from commitments to include civil society in participatory processes, despite the commitments in the UNCRC and the large numbers of children and young people in many of the poorest countries.

SC UK’s experience is also that children and young people themselves have a vital part to play in tackling childhood poverty. All over the world and in all sorts of situations children and young people show energy and dedication to improving their own lives and those of others. For this reason in particular SC UK is working to find ways in which their insights can be fed into PRSP development and monitoring. More importantly SC UK is developing ways of monitoring childhood poverty and the impact of the PRSP process on children and looking at ways that children and young people can be involved in this. In one East African country,

‘SC has critiqued the fact that children and young people have not been involved in any part of these processes... they certainly are not consulted

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during the development planning process. All information came from a parent or guardian'

SC UK is now working with the poverty monitoring system for that country to ensure that impacts on children are taken into account.

Through its programme work SC UK has a lot of experience working with children and young people to ensure that their voices are included in policy making. For example in April 1999 SC UK worked with local government officials and social researchers in Vietnam to carry out participatory poverty assessments in three of Ho Chi Minh's poorest districts^{xv}. The results fed into the World Bank's Voices of the Poor Study in Vietnam and its Vietnam Development Report 2000^{xv}. Unlike other PPAs elsewhere, this one included children and young people and explored their experience of poverty, their concerns and aspirations and this complemented the quantitative household data gathered from the Vietnam Living Standards Survey of 1997/98.

In Vietnam SC UK is now able to use these experiences to develop concrete plans for children and young people to participate in dialogue on the PRSP with Plan International, at the invitation of the Government. This will involve children and young people who fed into preparatory processes for the United Nations General Assembly Special Session on Children (UNGASS). Globally SC UK also regularly undertakes research with children and young people in order to obtain their views. Recent work has included in Zimbabwe with children and young people in squatter settlements, in Honduras with child labourers and in South Africa with children and young people with disabilities. SC UK then feeds these insights into policy dialogue on their behalf, as well as developing opportunities for them to input directly.

Encouraging children and young people to participate does not mean inviting them to meetings where they will be unable to contribute. Instead it means creating spaces for consultations to take place, usually where the children are, and allowing their views to be fed into the development of PRSPs. Such meaningful and appropriate processes for engaging children and young people in development planning can be time consuming. However, allowing far greater time for civil society participation more generally would provide the opportunity for groups to prepare for such consultations. Alternatively governments should make a commitment to use the rich variety of already existing pieces of research done with and by children and young people on poverty issues in the formulation of national poverty strategies.

Recommendation: In order for children and young people's right to participate in matters affecting them to be realised they must be allowed to engage meaningfully in the PRSP process on key issues that effect them. This means that where they do not exist opportunities must be created for them to express their views.

This can be time consuming, but it is worthwhile – both for the children and young people, but also for society. All too often today's poor children are tomorrow's poor adults.

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3.2 Smaller Civil Society Organisations

In some countries where sections of civil society feel that they have been excluded from formal discussions, independent dialogues on poverty reduction have been co-ordinated by local civil society networks.

In Honduras for example, where as noted earlier, there is a feeling that the PRS process has been rushed because of its links to HIPC/PRGF time scales, an umbrella organisation INTERFOROS, has been working to ensure that poor people's voices are heard in the development of poverty reduction strategies. They have developed their own poverty reduction strategy paper, which is a product of consultation and consensus building at regional and national levels.

'The PRSP we are now proposing is feasible, and most of the actions described below do not even need financial resources. On the other hand, it does require a genuine political will, transparency, an ability to rationally utilise the available resources and the construction of a significant consensus between the State and civil society, in order to make it a reality.'^{xvi}

Among other things this alternative PRSP discusses the excluding nature of economic models and the political and social system and the unequal distribution of wealth, subjects which are not discussed at length in the official PRSP. It provides invaluable insights into the reality of poverty and shows that effective participatory dialogue among CSOs can be developed.

In one East African country the process, while less developed, has been similar:

'The main NGO (international and local) umbrella group has organised a number of workshops to raise awareness amongst NGOs about the whole PRSP process... These workshops have been effective in bringing a diverse group of NGOs, with vastly different capacities and resources, closer to a common understanding of how NGOs can effectively engage in the process. These workshops have led to a core technical committee of NGOs being formed. The committee has engaged a consultant to put together a report highlighting the contribution that NGOs have made to poverty reduction over the last five years.'

Recommendation: SC UK urges the World Bank, the IMF and Governments to include the insights of these smaller groups within civil society when developing nationally owned poverty reduction strategies. Where processes have been developed to open spaces for them to describe their lived experiences of poverty, the outcomes should be considered alongside outputs from other consultation processes, from which their limited resources have excluded them. These parallel processes, such as the PRSP produced by INTERFOROS should be given their due weight when drawing up poverty reduction strategies and be reflected in the outputs.

4. Policy content of the PRSPs

The PRS approach was intended to bring together more successfully than in the past macro economic policy and poverty reduction. However the experience to date is that there seems to have been little difference between policies outlined in the I-PRSP, describing current arrangements under the IMF Poverty Reduction and Growth

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Facility (PRGF) and the final or draft PRSPs, supposedly written after a participatory process has taken place.

The reality seems to be that there has been very little genuine consideration of economic policy alternatives in the PRSPs, which raises concerns about the true level of ownership of the final documents and particularly the degree to which PRSPs represent the new era in macro economic policy development articulated in the PRGF. More particularly there is little evidence that poverty reduction strategies differentiate between separate groups of poor people, or provide detailed action plans to reduce the poverty of particularly disadvantaged groups, including children. SC UK is also concerned that, while a few countries are abolishing some user fees, others continue to rely on them for some financing. Finally this section comments on how there appears to be limited attention given to long term effective support for the vulnerable in the PRSPs through safety net programmes linked to broader development strategies.

4.1 Genuine consideration of macro-economic and structural policy alternatives

Financial, economic and aid policy made by development institutions have a profound influence on the well-being of poor people around the world and there is increasing evidence that many of today's economic policies are leading to increased poverty and the denial of rights amongst the poorest groups^{xvii}. While international development rhetoric now displays more concern for those left behind by mainstream economic policies, some analysts argue that real policies and programmes have changed little from the 'market fundamentalism' of the 1980s and early 1990s. In light of this it is very worrying that SC UK's experience to date is that where civil society has been invited to participate in formulating PRSPs, they have generally been left out of discussions about macro economic policy^{xviii}. This suggests that governments and IFIs are more interested in maintaining existing policies than examining what the impact has been on the poor of past and present strategies and having discussions on alternatives.

For example an SC UK partner in South East Asia commented:

'According to an economist who has had experience working as an advisor at the MEF, the macroeconomic policy conditions set out in the I-PRSP are similar to those contained in the Enhanced Structural Adjustment Programme'

This is partly because some Southern country governments are committed to economic policies similar to those recommended by the IFIs. However in SC UK's experience this is less due to a genuine commitment to adjustment and liberalisation, but rather a desire to rapidly obtain financial resources and then articulate a framework for spending them, instead of considering the economic issues that may underlie poverty in the poorest countries, such as the impact of trade liberalisation. In one African country for example where SC works concerns have been raised about:

'...the very large amount of "self-censorship" that was involved in writing the document. For example, at the workshop at the beginning of the year (following the initial work of the core teams), several of us raised questions in plenary with the macro-economic team. In particular, we asked why no proposals were made to address trade issues and defend home-grown agriculture, textiles, etc. The response was that there was no reason to put

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anything in that the IMF and WB would reject anyway. Thus any fundamental discussion about the nature of the political economy of the country regarding its impact on poverty reduction was silenced from the start, without the visible heavy hand of the IFIs.'

This is echoed elsewhere by one finance minister in another country developing a PRSP:

'We do not want to second-guess the Fund. We prefer to pre-empt them by giving them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – i.e. we believe in structural adjustment.'^{xix}

These comments raise some considerable concerns about the policy content of the final PRSP documents. It is important to also note here that while the World Bank and the IMF now require civil society participation in the formulation of poverty reduction strategies, they also maintain the power to endorse these same strategies. As such they, rather than governments or civil society are the main policy gatekeepers. In many countries it remains doubtful, therefore, whether the World Bank and the IMF will accept specific recommendations in the full PRSP from NGOs and CSOs or government, which differ from the institutions' current policy, or even open space for discussions about possible alternatives.

Similarly SC UK staff have commented that within government, ownership for developing the PRSP often lies within the Ministry of Finance or the Ministry of Planning, limiting the range of inputs possible, rather than being owned by a range of ministries and stakeholders.

Recommendation: For poverty reduction strategies to truly be nationally owned there must be free and open discussion of all aspects of poverty reduction policy among civil society, government officials, the private sector and representatives from the IFIs. This includes all social and economic policy. Civil society should be given greater time to discuss macro economic strategies and training to engage in these processes.

One way to ensure that civil society has the opportunity to participate in these discussions is to stipulate that all PRSPs must contain commitments to and details of how ex ante poverty and social impact assessments can be carried out, including both qualitative and quantitative components. These represent a valuable tool to promote more participatory debates on the policies recommended by governments and IFIs. To show their commitment to this process, the IFIs should not endorse the final PRS documents where these commitments are missing

4.2 Poverty profiles and diagnostics

Overall none of the strategies differentiated significantly among poor people. While poverty statistics are sometimes disaggregated into poor and extreme poor, for example in Ghana and Kyrgyzstan, the distinction between chronic and transient poverty is never mentioned nor is the meaning of vulnerability in particular country, regional or social contexts spelt out, though most PRSPs do identify vulnerable social groups. These include children, older people, disabled people, refugees and people living in isolated areas.

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Issues of ethnicity, gender and race and their relationship to poverty are mentioned in only a few poverty reduction strategies^{xx}. Where such issues are not even flagged as important, it is highly unlikely that they will be taken into account. Even where certain groups are identified as particularly vulnerable to poverty, few PRSPs and I-PRSPs follow this up with commitments to effective policy for tackling the specific forms of poverty and disadvantage these groups face.

Most of the PRSPs rely on quantitative data, though a few I-PRSPs, such as Mongolia's and Kenya's include insights and quotations derived from qualitative work. Some PRSPs currently in development, such as Vietnam's, are explicitly drawing on Participatory Poverty Assessments and similar exercises, which should enable a more nuanced picture of poverty and disadvantage.

Recommendation: Poverty data should be disaggregated within PRSPs and I-PRSPs to reveal information about the incidence, diversity and special effects of poverty among particular groups of people and more use made of insights from PPAs and other participatory and qualitative processes.

This kind of disaggregation is important everywhere. It can be particularly revealing where poverty appears to be decreasing but inequality is increasing (e.g. Vietnam), as it can show where particular groups (e.g. men, women, children, ethnic minorities, disabled people, people with HIV/AIDS and mobile populations among others) are benefiting less from poverty reduction or are not benefiting. Strategies can thus be designed accordingly.

4.3 Childhood poverty – a main priority?

Six hundred million children live in households with an income of less than US\$1 per day^{xxi}, 120 million children work full-time and a further 130 million work part-time. More than one-fifth of children of primary school age are not in school – that is 130 million children and 11 million children die each year from preventable diseases every year^{xxii}. Furthermore, in some parts of Sub-Saharan Africa the situation has deteriorated over the last 20 years. For example before the HIV/AIDS epidemic no more than two per cent of children in the South were orphans. In Zambia the figure is now 12.9 per cent and in Rwanda it is 12.8 per cent^{xxiii}. Orphanhood pushes most of these children further into poverty and exclusion.

There are sound developmental reasons why increased effort aimed at children and young people would bring about more sustained and effective poverty reduction (for example preventing inter-generational transmission of poverty). The policy content of the I-PRSPs and PRSPs is therefore of particular concern to SC UK and especially actions specifically aimed at reducing childhood poverty. This is because childhood is a one-off window of opportunity and development. Certain losses incurred during childhood cannot be recouped later.

In many of the poverty reduction strategies, children as a social group are considered vulnerable, usually because such large numbers of children are living below the poverty line in many countries. I-PRSPs from Albania, Malawi, Kyrgyzstan and Tajikistan observe that disproportionate numbers of children live in poverty, while Kyrgyzstan's I-PRSP also specifies that rural children are particularly affected. In other poverty reduction strategies, particular groups of children, such as members of child-headed households (Uganda), orphans (Burkina Faso, Cambodia, Lesotho,

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Malawi, Nicaragua, Rwanda and Tanzania) and street or homeless children (Albania, Cambodia, Honduras, Kenya, Kyrgyzstan and Mozambique, among others) are identified as especially vulnerable. The other main way in which children feature in this set of poverty reduction strategies is in observations of the differential rates of school attendance among boys and girls.

Overall children feature more prominently in poverty analysis than policy and action. Malawi's I-PRSP is unique in its explicit observation that as children often 'bear the brunt of poverty', poverty reduction should start with them. However, all the poverty reduction strategies examined in SC UK's review of social protection issues in the PRSPs discuss some measures to reduce the incidence and impact of childhood poverty. These include measures to promote school attendance, make access to health services easier, or to improve nutrition, and action to support improvements to family/household incomes or livelihoods. However it is surprising that only six of 24 countries mention child labour, young people are given little attention and issues such as child trafficking and sexual exploitation are not discussed at all.

Most commonly policy for tackling childhood poverty is based on supporting family incomes and access to health and education services, with, in some places, provision for orphans or other 'especially vulnerable children'. In most cases, there is insufficient detail to analyse the likely effectiveness of these policies. Importantly this is in the context of fairly weak social protection policies and in most places fairly limited redistribution measures to the poorest people. It seems clear that few countries are prioritising childhood poverty reduction, despite its important contribution to reducing both current and future poverty.

Recommendation: In SC UK's experience the most effective action on childhood poverty is based on an understanding of what is specific about childhood poverty and its relationship to the broad factors that lead to children growing up in poverty and action that addresses both these areas^{xxiv}.

Within the PRSPs SC UK urges governments to examine specific actions to tackle childhood poverty. These must include, on the one hand, policies and programmes that boost the livelihoods of the poor and vulnerable people, and on the other, a commitment to adequate financing for health and education services. Without these commitments PRSPs risk failing the 600 million children and young people living in poverty today and perhaps many more tomorrow.

4.4 User fees for health care and education

One result of the pressures many countries are under to contain fiscal deficits is a continued reliance on user fees for social services. In about half the countries developing PRSPs where SC UK works, governments still rely on this form of financing. This is in spite of research which questions the ability of user fees to provide a significant boost to health care expenditure. In fact as a percentage of total government spending on health, income from user fees remains at less than 5 per cent in most African countries^{xxv}. User fee systems can also be costly to run and administration may soak up to 40 – 60 per cent of any revenues raised^{xxvi}.

It is encouraging that many PRSPs and I-PRSPs do indicate an intention to cut user fees and strengthen exemptions. However it is important to note that exemptions have a poor record in ensuring poor people's access to services. The time and travel costs

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needed to apply for an exemption may discourage poor people from applying and in some cases, applicants are charged unofficial fees in order to obtain their exemptions^{xxvii}. Nevertheless while a few countries, such as Uganda, Malawi and Mongolia have abolished certain kinds of user fees^{xxviii}, and many countries plan to limit their use and increase exemptions for poor people, others continue to rely on user fees for an element of social service financing^{xxix}.

There is a great deal of evidence about the impact of user fees on poor households and individuals, including SC UK's own research^{xxx} and experience. This has highlighted how throughout the 1990s, the use of health and education services declined following the implementation of user fees, which has a severe impact on the health of children and young people.

It is therefore surprising, and a cause for concern that so many countries intend to expand the use of cost-recovery mechanisms, though it is worth noting that where there are no services, people may view fee-paying community based services as preferable to none at all.

Recommendation: While there are, of course, many pressures on government budgets, basic health and education are so crucial that ensuring access for all should be an absolute priority. Recent analysis of health expenditures across 40 highly indebted poor countries reveals an average health spend of under US\$10 per person^{xxxi}. Yet in 1999 the World Bank gave less than 4 per cent of its total development finance to basic health, basic education, water and sanitation, with basic health representing just 0.1 per cent of all World Bank assistance^{xxxii}.

Where reallocations between sectors or increased growth and revenue collection cannot provide sufficient resources for key basic services, alternative mechanisms must be considered that ensure children and young people's rights to health care and education. Where shared financing for these services is unavoidable, governments and donors should shift away from charging at the point of delivery and move towards greater risk pooling.

4.5 Safety nets for the poor

In a recent review of I-PRSPs and PRSPs SC UK found that social protection issues are discussed explicitly in around two-thirds of I-PRSPs and PRSPs. A few also discuss vulnerability, particularly in relation to disadvantaged regions and food insecurity^{xxxiii}. The depth in which these issues are discussed and of policy intended to promote social protection varies considerably. In general, however, little sense of co-ordinated and holistic policy to promote the development and inclusion of the poorest and most marginalised groups emerges. Where safety nets are omitted it is unclear whether this is a deliberate omission, based on the view that general development measures are the most effective form of social protection, or whether social protection and anti-vulnerability measures have simply not been considered.

Overall, the social protection programmes outlined in these poverty reduction strategies tended to aim to alleviate and contain the worst effects of poverty rather than to enable poor and marginalised people to participate in economic growth. While this is clearly an important purpose of social protection activities, and a building block for poverty reduction, there is scope for social protection programmes to be developmental, helping people escape poverty, rather than simply containing it.

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While none of these I-PRSPs and PRSPs frame their social protection programmes in this manner, some contain commitments, which imply a more developmental approach. For example, the emphasis on distributing assets to the poorest people, as in Mongolia's proposed restocking (livestock distribution) schemes, suggests an intention to try to help the poorest people escape from poverty. Similarly, the linkages between early warning systems for food insecurity and responses which try to prevent increased impoverishment and vulnerability in some African countries arguably represent a more development-oriented approach. The emphasis on increasing poor people's access, especially that of children, to key basic services could be understood in this manner. On the whole though, these are exceptions. Many specific measures, and most strategies could have greater emphasis on helping the poorest people escape from poverty.

Despite the strong commitment to privatisation and promoting private-sector led development in many PRSPs and I-PRSPs most social protection policy examined seems to rely strongly on state or community-based action. This may reflect the emphasis of social protection policy in countries developing PRSPs and I-PRSPs on livelihood support to the poorest and promoting human development, not sectors of particular interest to profit-making bodies. This is a striking contrast to the emphasis in some middle-income countries on privately funded social protection mechanisms, such as health insurance and is a salutary reminder of the limits to private sector involvement in social protection for very poor people.

Recommendation: Macro economic and structural policies will never entirely eradicate poverty and ill-being. There will always be particularly vulnerable people – due to age, disability etc. A commitment to safety nets should therefore be included in all PRSPs. These should provide long term effective support to people living in poverty, which helps them to escape from poverty rather than containing its worst effects. They should be linked to broader development strategies and be made relevant to local poor people through their participation in design. This requires flexibility on the part of governments and IFIs on deciding upon sustainable levels of social expenditure, to prevent unsustainable budget deficits, while ensuring social protection and poverty reduction.

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Annex 1: PRSP countries with SC UK Country Programmes

Albania	Mongolia
Angola	Mozambique
Bosnia & Herzegovina	Nepal
Cambodia	Nicaragua
DRC	Pakistan
Ethiopia	Rwanda
Ghana	Sierra Leone
Haiti	Sri Lanka
Honduras	Tajikistan
Kenya	Tanzania
Kyrgyz Republic	Uganda
Laos	Vietnam
Lesotho	

Submissions received from:

Angola
 Bosnia & Herzegovina
 Cambodia
 Ethiopia
 Ghana
 Honduras
 Kenya
 Laos
 Lesotho
 Mongolia
 Mozambique
 Tanzania
 Uganda
 Vietnam

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Notes

ⁱ For example by adapting the model used in the Structural Adjustment Participatory Review process (SAPRI).

ⁱⁱ See Marcus, R., and Wilkinson, J., forthcoming 2002, **Whose Poverty Matters? Vulnerability and Social Protection in I-PRSPs and PRSPs**, CHIP Working Paper 1, Childhood Poverty Research and Policy Centre (CHIP), Chronic Poverty Research Centre and SC UK

ⁱⁱⁱ See Marcus, R., forthcoming, **Policy for childhood poverty reduction? An analysis of PRSPs and IPRSPs**, *Journal of International Development*, July 2002

^{iv} This is the case in Bosnia Herzegovina, where the government is withholding the IPRSP from public view as they see it as a government document written with the assistance of the World Bank. In Cambodia the I-PRSP was in its 7th draft before NGOs saw it, while in Lesotho the IPRSP did not receive wide circulation among NGOs.

^v Killick, T. and Abugre, C., 2001, **Poverty reducing institutional change and PRSP processes: The Ghana Case**, ODI, London

^{vi} Ibid.

^{vii} EURODAD, 2001, **Many Dollars, Any Change?**, EURODAD, Brussels

^{viii} EURODAD, 2000, **Poverty Reduction Strategies. Honduras: Country profile**, EURODAD, Brussels

^{ix} EURODAD, 2001, **Poverty and structural adjustment update: Spring meetings 2001**, EURODAD, Brussels

^{*} SC UK believes that in order for PRSPs to be effective at reducing poverty, all marginalised groups need to have the opportunity to participate in their development. This not only includes children and young people, but also older people, women, minority groups, and disabled people.

^{xi} Honduras National Household Survey

^{xii} Vietnam Living Standards Survey, 1992/93

^{xiii} Ugandan Ministry of Finance, 2000, **Uganda poverty profile: What do we know about the poor?** Discussion Paper 3, MOF, Planning and Economic Development, Kampala, Uganda pp. 4-5

^{xiv} Bond, T., 1999, **Poverty in Ho Chi Minh City: Results of PPAs in three districts**, SC UK, Vietnam

^{xv} The World Bank, 1999, **Vietnam Development Report 2000: Vietnam – Attacking Poverty**, World Bank

^{xvi} INTERFOROS, 2000, **Poverty Reduction Strategy Paper**

^{xvii} For example Easterly, W., 2000; Falkingham, J., 2000; Milanovic, B., 1998

^{xviii} It is important to note that while not all CSOs have the capacity to debate these issues, spaces could be opened for those who are able to engage.

^{xix} World Development Movement (WDM), 2000, **Policies to Roll back the State and Privatised**, WDM

^{xx} These are Vietnam's I-PRSP which mentions the mountainous areas where ethnic minorities are concentrated as particularly disadvantaged. Lesotho's I-PRSP, which recognises the particular situation of the Basotho people, over half of whom are trapped in poverty. Nicaragua's and Honduras's PRSPs both identify particular ethnic groups as being among the poorest and most vulnerable groups in society and the particular threats they face.

^{xxi} UNICEF, 1999, **State of the World's Children**, UNICEF

^{xxii} UNICEF, 2001, **The Progress of the Nations 2000**, UNICEF

^{xxiii} Hunter and Williamson, 2000, **Children on the Brink**, USAID

^{xxiv} Save the Children UK is part of an innovative international longitudinal research project – the Young Lives Project – investigating the changing nature of childhood poverty in selected developing countries (Peru, India, Vietnam and Ethiopia), funded by the UK government's Department for International Development. Young Lives will produce long-term data that gives a comparative overview of the dynamics of poverty and its impact on children's lives, including the impact of macro economic policy.

^{xxv} Creese, A., and Kutzin, J., 1996, **Lessons from cost recovery in health**, in C. Colclough **Marketing education and health in developing countries**, Clarendon Press, Oxford

^{xxvi} Van der Meer, J., 1998, **The health impact of economic policies**, Wemos, Amsterdam

^{xxvii} For example Russell and Gilson, 1997, **International Journal of Health Studies**. In a study of 26 low income countries to assess whether there were exemptions to protect the poor they found that '*policies to promote health service access for disadvantaged groups did not exist in many countries*' and that in any case these policies were extremely difficult to implement.

^{xxviii} Uganda and Malawi have both abolished primary education fees, and Mongolia recently abolished the parental contribution to children's upkeep in boarding schools, an essential means of providing education to children in areas of low population density.

^{xxix} For example Burkina Faso, Malawi, Rwanda, Tanzania, Mali and Ethiopia.

^{xxx} See Sims, Rowson and Peattie, 2001, **The Bitterest Pill of All**, SC UK, London

^{xxxi} British Medical Association, 2000, **Debt and Health**, BMA, London

^{xxxii} OECD, 2001, **Development Co-operation Report 2000**

^{xxxiii} These are Ethiopia and Rwanda's I-PRSP and Uganda's PRSP

PERSPECTIVES ON THE TANZANIAN EXPERIENCE WITH PRSP – HIPC11

TANZANIA SOCIAL AND ECONOMIC TRUST (TASOET)

Together with

**Debt and Development Coalition/Jubilee Ireland
Oxfam Ireland
Trocaire**

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Executive Summary and Introduction

In 1999, the World Bank (WB) and the International Monetary Fund (IMF) jointly launched the enhanced Heavily Indebted Poor Countries (HIPC) debt initiative or HIPC11. One of the main features of this enhanced HIPC was the mandatory requirement of eligible countries to prepare a Poverty Reduction Strategy Programme (PRSP). Therefore, PRSP is a direct result of HIPC 11.

Tanzania has produced a PRSP, not because it does not have implementable poverty strategies. On the contrary, Tanzania has for instance the following policy planning documents focused on poverty eradication:

- Vision 2025 – This is a national vision of economic and social objectives to be attained by the year 2025
- National Poverty Eradication Strategy (NPES) – This is a national strategy and sets out various objectives for poverty eradication efforts by the year 2010
- Tanzania Assistance Strategy (TAS) – This is a medium-term national strategy of economic and social development, encompassing joint efforts of Government and the international community

Tanzania developed the Poverty Reduction Strategy Programme through broad consultation with national and international stakeholders. This PRSP was developed as both a **condition** for accessing debt relief under the enhanced HIPC and as an **accountability tool** for using debt relief savings

Civil Society Organisations (CSOs) around the world have been tirelessly lobbying and campaigning to delink PRSP as a condition for accessing debt relief under the enhanced HIPC initiative. The reason behind these efforts is that this link delays desperately needed debt relief and undermines the participatory process.

Debt relief is tied up with PRGF and PRSP

Early 2000 the WB and the IMF jointly announced that Tanzania had reached its Decision Point, and would thus qualify for debt relief of US\$2bn in net present value terms, when it reached Completion Point. However, such debt relief is not automatic! It is tied to successful implementation of both the Poverty Reduction and Growth Facility (PRGF) and the PRSP for a minimum of one year

The Tanzanian Government held a stakeholder consultation on 2nd July 2001 to review the first annual PRSP implementation report. This was, among other things, in preparation for

presenting this said report to the WB and IMF boards who will decide whether or not Tanzania can be deemed to have reached completion point.

Findings of this study

The aim of this study has been to study and analyse the impact of the interim debt relief under the enhanced HIPC during the first year of the implementation of the PRSP. Although it is generally agreed that one year is not enough to assess the real impact, nevertheless the outcome is instrumental in showing where the process is heading.

The following are the main findings of this study:

- That the macroeconomic progress the country has continued to register at the national level is not reflected at the grassroots level where poverty is still widely and deeply felt.
- That the Poverty Reduction and Growth Facility (PRGF) has a major bearing on the success or failure of PRSP and its conditions in terms of weight appear to take precedence over the poverty reduction conditions under the PRSP. While civil society was consulted on the PRSP, the PRGF was adopted without any consultation. No poverty impact assessment was carried out on the policies contained within the PRGF.
- That it has not been possible to track-down the **actual** amount of debt relief savings used at a sectoral level, thus making it difficult to measure its **actual impact**, which might undermine efforts for further debt relief
- That the registered increase in the quantity of funds allocated to social sectors, is not reflected in the quality of social services delivered
- That the gap in financing PRSP is directly and indirectly affecting the implementation of specific action plans aimed at tackling poverty.
- That using new loans to finance PRSP is not an appropriate strategy at this moment as Tanzania is still struggling to deal with its current debt burden.
- That the revision of both the enhanced HIPC package for Tanzania and the PRSP is necessary in order to realistically deal with poverty; but also for the sake of public accountability after the much raised expectations following the participatory preparation of this PRSP.
- That the emphasis on participatory approaches in preparing, implementing, monitoring and reviewing the PRSP has increased the quality of dialogue and transparency among the stakeholders involved.

Findings Analysed

Macro- economic gain yet to trickle down

Tanzania has continued to register positive gains at national level in terms of various macroeconomic indicators for the last five years. Table 1 shows that growth in Gross Domestic Product (GDP) reached 4.9 percent in year 2000, and at the same time inflation dropped to 6.0 percent during the last months of year 2000, down from 7.8 percent during the last months of year 1999

Table 1: Trends in Selected Macroeconomic Indicators

	1995	1996	1997	1998	1999	2000
Real GDP Growth	3.6	4.2	3.3	4.0	4.7	4.9
Inflation-annual average	27.1	21.0	16.1	12.9	7.8	6.0
Exchange Rate (Tshs/US\$) – annual average	574.8	580.0	612.1	664.7	748.1	800.4
Merchandise Exports (mil. US\$)	682.9	763.8	752.6	588.5	543.3	661.5
Export/Import ratio (Good)	50.9	63.0	65.6	43.1	38.1	49.6
Overall Balance of payments (mil. US\$)	-382.1	-231.2	-633.4	-645.8	-372.8	-239.3
Current Account Balance (mill. US\$)	-646.4	-461.3	-558.6	-993.0	-793.5	-515.2
Foreign Reserves (Months of imports)	1.6	1.5	2.8	3.4	4.2	5.6
	1995/9	1996/9	1997/9	1998/9	1999/20	2000/0
	6	7	8	9	00	1
Govt. Domestic Revenue (% of GDPmp)	13.2	13.5	12.6	12.5	11.3	12.2
Total Govt. Expenditure (% of GDPmp)	13.1	15.2	14.8	14.8	17.1	15.7
Fiscal Balance (before grants) - % of GDPmp	0.1	-1.7	-2.3	-2.3	-5.8	-1.2
Growth of Money Supply (M3) - %	18.2	14.5	11.0	9.2	21.7	17.0
Growth of Money Supply (M2) - %	14.4	21.8	5.0	7.9	15.2	14.9
Average Deposit rate	12.0	11.0	10.0	7.9	7.1	4.9
Average Lending rate	28.0	26.5	24.0	24.5	22.1	19.8
Disbursed External debt (mil.US\$)	6623.3	6600.3	6435.8	6580.3	6538.3	6365.8*

*May 2001

Source: Planning and Privatization commission

However, these economic improvements have not had a significant impact on abject poverty. Bearing in mind that Tanzania's population is growing at an average of 2.8 percent per year, and given that a population growth of 1 per cent requires a GDP growth rate of 3 percent to sustain it, Tanzania's economy must grow at the rate of 8.4 percent annually to have a significant impact on abject poverty. 33% percent of Tanzanians are living in abject poverty – that is below 50 cents of a dollar a day.

Table 2: Real GDP Growth by Sector

SECTOR	1995	1996	1997	1998	1999	2000
Agriculture	5.8%	3.9%	2.4%	1.9%	4.1%	3.4%
Mining	11.7%	9.6%	17.1%	27.4%	9.1%	13.9%
Industrial Goods	1.6%	4.8%	5.0%	8.0%	3.6%	4.8%
Electricity and Water Works	6.1%	11.1%	2.2%	5.5%	3.9%	5.0%
Wholesale, Retail and Hotel	-14.7%	7.6%	8.2%	9.9%	8.7%	8.4%
Transport and Communication	3.5%	3.5%	5.0%	4.7%	6.0%	6.5%
Finance, Insurance, Property and Commercial Services	5.9%	1.1%	4.9%	6.2%	5.8%	6.1%
Government Administration and Other Services	0.6%	0.4%	7.7%	5.6%	5.6%	4.7%
Less Imputed Bank services	-2.7%	1.6%	3.2%	2.7%	3.5	3.6%
Total GDPfc	-5.4%	-10.0%	23.5%	8.6%	3.4%	1.4%
	3.6%	4.2%	3.3%	4.0%	4.7%	4.9%

Source: Tanzania Economic Survey 2000

The difference between the 4.7 percent GDP growth of year 1999 and 4.9 percent in year 2000 has mainly been attributed to growth in the mining sectors. During the consultation on the PRSP civil society groups highlighted that unless there is an increased effort to promote faster growth in the agriculture sector which still employs about 82% percent of Tanzania's workforce, it will be difficult to reduce income poverty for a large number of Tanzanians. Table 3 below illustrates the significant role of agriculture in Tanzania's economy and society. Hence any strategy which does not place sufficient emphasis on agriculture also implies inadequate attention to the interests of the majority of the country's population who are employed in that sector and those dependent on them.

Table 3: Agriculture's Contribution to the National Economy (percent)

Parameter	1970	1975	1980-82	1985-87	1990-92	1997-98
Agriculture's share of net exports by value*	-	-	90	85	67	51
Agriculture's share of GDP	49	45	49	46	45	50
Agriculture share of labor force employment	90	88	86	85	84	82
Population in rural areas	93	90	85	82	79	75

Source: International Food Policy Research Institute (IFPRF) AND World Bank 2000.

*** Agricultural exports are taken as the six main exports: cashew, coffee, cotton sisal, tea, and tobacco. World Bank (1999) estimates that including exports of fish, live animals, horticulture and other nontraditional exports would raise the share of agriculture exports in 1997-98 to 73 percent of total merchandise exports.**

Neither has the country's economic growth over the past few years been translated into sufficient investment in infrastructure e.g. Roads. Yet investment in such sectors as well as in social development will provide the real wealth out of which Tanzania's future income will flow. Take for example the Road sector:

- Only 14.5 percent of the total road network estimated to be about 85,000 kilometres(kms), is in good condition including 5 percent which is paved. The rest of the network is in fair and/or poor conditions.
- Only 8% of the district road network estimated to be about 20,000 km is in good condition. The rest (92%) is in fair and poor condition thus requiring significant development expenditure.
- Only an average of 20% of the regional road network, estimated to be 24,700 km, is in good condition, 40 per cent fair and 40 per cent poor condition
- Only 33 percent of the trunk road network estimated to be 10,300km is in good condition, leaving 39 per cent of the network in fair condition and the remaining 28 per cent in poor condition.

Tanzania's inadequate road infrastructure both in terms of quality and coverage continues to be a binding constraint on market access, on income generation and on poverty reduction.

Poverty Levels remain very high- Further debt cancellation is Required

The \$2 billion promised under the HIPC debt relief package seems like a significant reduction in Tanzania's total debt, but when compared to the extreme poverty in Tanzania, it remains highly inadequate. Over half of all Tanzanians are still living on less than \$1 a day and over one third of them are living in abject poverty at below 50 cents a day. This situation is compounded by a large percentage of the population which is dependent on others. In Tanzania, over 45% of the population is below the age of 15 and 3% is aged 65 or more. Poverty incidence is between 51% and 52% among these dependent age groups. Moreover, the disproportionate impact of AIDS on the economically most active group (ie those aged 15-49 years) means that often it is those traditionally seen as dependents, namely those over 65 and under 15 who are in fact struggling to provide for the basic needs of ill relatives or for grandchildren who have become dependent on them (see Annex, Box 2).

The infant mortality rate of under 5s per 1000 live births is 137 at the end of 2000. This means that Tanzanian children are 18 times more likely to die before the age of 5 than their counterparts in developed countries. The average life expectancy at birth for Tanzanians is 47.9 years of age. This means an average person in Tanzania can expect to die thirty years before their counterpart in developed countries. Despite this deep poverty, Tanzania used 17% of its annual government revenue this year (2000/01) to service its external debt – this is after the interim HIPC debt relief provisions. This amount excludes the servicing of non Paris Club bilateral debt. The interim debt relief is not big, especially if you consider the fact that Tanzania used 27% of its annual revenue on external debt servicing the previous financial year (1999/2000).

One of the crucial points presented by Tanzania to the recent Consultative Group meetings with donors in May 2000 and August 2001 was that the debt relief expected from the World Bank, IMF and Paris Club creditors will not be sufficient to trigger a significant impact on growth and poverty reduction. It was clearly indicated that Tanzania would continue to ask for further debt cancellation.

The debt sustainability analysis (DSA) for Tanzania indicates that Tanzania's external debt to export ratio was 397.1%. It shows further that even after full application of traditional debt relief mechanisms, Tanzania's external debt position would be 324.4% of exports, far in excess of the sustainable ratio of 150%. Even with enhanced HIPC, the debt burden indicator would be above the sustainable level at 175% by 2002/03. The debt will be sustainable only if there is additional debt relief from multilateral development banks, the Paris Club and other bilateral creditors. Decisions by many bilateral creditors are still pending, and there is little hope that non Paris bilateral Club creditors will participate fully in the Initiative.

PRGF has a major bearing on the PRSP

Critical analysis of the relationship between the PRGF and the PRSP shows that without successful implementation of PRGF, Tanzania will run the risk of not receiving the promised debt relief at Completion Point, and thus derail PRSP implementation.

The enhanced HIPC matrix for Tanzania has about 30 main conditionalities which needs to be fulfilled before Tanzania is declared to have reached Completion Point. Out of these 30 conditionalities, 25 of them are from the PRGF document and only 5 are from the PRSP document. If the WB and IMF executive boards assess how these 30 conditions have so far been implemented, then it means that how Tanzania has implemented the PRGF will carry more weight than how it has implemented the PRSP.

The fact that the draft report released by the Government on the first annual PRSP progress report and discussed at both the 2 July 2001 national consultation and 5-6 September 2001 Consultative Group Meeting of donors, includes aspects of the PRGF progress report, only underscores the bearing of PRGF on the PRSP.

It is an open secret that while PRSP preparation included broad public participation, however it was not the same with the PRGF. PRSP is participatory. PRGF is not participatory. Even if the Government had opted for wider public participation in preparing the PRGF before signing and committing itself to implement it, the timing of the PRGF and its subsequent linkage to the PRSP would have prevented this from happening.

Why? Because the September 1999 Executive boards meeting of the WB and IMF resolved that Tanzania should reach Decision Point in February 2000 and be eligible for interim debt relief provided that:

- A new debt sustainability analysis (DSA) is done to accommodate new ratios introduced under the enhanced HIPC initiative;
- An interim PRSP is prepared which would show how a more comprehensive PRSP is going to be prepared in a participatory manner;
- Tanzania signs a three year Enhanced Structural Adjustment Facility (ESAF) – which was renamed PRGF.

As a result of this decision, Tanzania signed a PRGF arrangement in January 2000 way before PRSP was endorsed by the same boards in October 2000. This implies an implicit adoption of a policy by the international financial institutions that 'no PRGF in a HIPC Country means no HIPC funds for PRSP'.

Even some bilateral creditors such as Britain have extended 100 per cent debt cancellation for Tanzania on condition that Tanzania does not go off-track with its obligations on the PRGF. Thus the PRGF and its conditions wields the upper hand in so far as the enhanced HIPC initiative is concerned in relation to the much publicised PRSP.

We commend the action of the Government of Tanzania for including aspects of PRGF in the first annual PRSP progress report. This is a very important and positive step towards

achieving a unified and streamlined poverty strategy papers. It will definitely reduce unnecessary duplication, it will increase transparency and thus increased accountability of both the Creditors and the Government to the public. But also it will reduce unnecessary pressurized workload among Government staff and save time for other work.

How do you measure the impact of debt relief at sectoral level without the right information?

The first annual PRSP progress report of 2000/2001 tabled by the Government on 2 July 2001 at a national public consultation only shows aggregate numbers on HIPC relief funds as one source under the PRSP resource envelope. But it is not shown how this amount is distributed under each priority sectors.

Table 4: Budget Framework, 1999/00 – 2003/04

	<u>1999/00</u>	<u>2000/01</u>		<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>
	Actual	Budget	Preliminary Out-turn	Budget	Projection	Projection
(in billion of Tanzania shillings)						
Total Resources	1,262.3	1,394.6	1,490.1	1,764.7	1,707.4	1,810.6
Domestic revenue	777.6	861.4	912.9	1,025.2	1,127.2	1,251.2
PRBS/MDF/BOPS	127.6	196.6	221.8	283.8 ²	253.1	252.0
Project loans and grants	340.5	275.5	271.7	302.3	269.4	249.1
HIPC interim relief	11.2	46.1	57.0	63.6	57.7	58.3
Bank Borrowing	7.9	-	-	69.9 ³	-	-
Adjustment to cash	-2.5	-	-	-	-	-
Privatisation Funds	-	15.0	26.7	20.0	-	-
Total Expenditure	1,262.3	1,394.6	1,490.1	1,764.7	1,707.4	1,810.6
Recurrent Expenditure	902.4	1,081.1	1,110.5	1,368.2	1,372.9	1,508.6
Consolidated Fund Services (CFS)	266.2	293.8	263.4	332.6	282.9	281.0
Debt service	210.6	235.3	206.4	263.8	215.4	211.0
Interest	128.3	111.0	118.9	119.6	131.4	131.3
Amortization	82.4	124.3	87.5	144.2	84.0	79.7
Others	55.5	58.5	57.0	68.8	67.5	70.0
Recurrent Exp. (excluding CFS)	636.3	783.1	811.1	993.7	1,090.0	1,227.6
Salaries & wages	285.3	315.9	308.8	356.3	408.3	452.1
Other charges	216.3	315.2	329.5	370.9	418.5	494.2
Designated Items	134.7	152.0	149.4	266.5	263.1	281.3
Payments of Arrears	-	4.3	36.0	41.9	-	-
Expenditure Float	-	-	23.4	-	-	-
Contingency	-	-	69.9	44.0	10.2	7.9

Development Expenditure	359.9	313.5	309.7	352.5	324.4	294.1
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Source: Ministry of Finance

1. **As approved by Parliament**
2. **Programme Loans have since been revised upwards by Tsh. 35.6 billion in view of the delay in expected PSAC disbursement from June 2001 to August 2001.**
3. **Bank borrowing is actually a drawdown of deposits accumulated at the Bank of Tanzania during FY 2000/01. This figure has since been revised downwards by Tsh. 35.6 billion in view of the delay in expected PSAC disbursement. This amount was supposed to contribute to the accumulation of deposits at the close of FY 2000/01**

For example: the PRSP resource envelope for year 1999/2000 shows that while domestic revenue contributed 60.8 percent of the funds, only 4.2 percent of the funds came through HIPC relief. For year 2000/01 the most likely out-turn is that domestic revenue will contribute 63.4 per cent of the funds needed to finance PRSP, while HIPC relief will supply 7.1 per cent only.

However it is not clear from the information available how for instance these resources are distributed at a sectoral level or between the priorities within the priority sectors. There are six priority sectors in the PRSP namely, Education, Health, Water, Agriculture, Rural Roads and Judiciary. Taking the HIPC funds as a contribution to the overall financial envelope means assuming that the savings from Debt relief were distributed equally among the six priority sectors. This will mean that for year 2000/01, domestic revenue has funded PRSP by 63.4 percent for each priority sector, while HIPC relief savings contributed only 7.1 percent.

It is important that this information be available as it will help to monitor the impact of HIPC relief on the ground at the sectoral level. The current information available enables the monitoring of the entire PRSP performance regardless of the funds made available to finance it. The benefit of HIPC savings going to general budget support, some would argue, is that once a PRS is in place, there is maximum flexibility in allocating funds. Then the challenge is having effective Public Expenditure Reviews, efficient and effective national audit office, good central/local government and channels for distributing funds and effective decentralization measures. But it has to be remembered that PRSP is a direct result of the enhanced HIPC. Therefore monitoring, measuring and evaluating the impact of enhanced HIPC in relation to the annual PRSP implementation is of paramount importance. With the broad percentage calculations shown above, it can be concluded that domestic revenue has contributed a lot more to the success of the PRSP than HIPC relief savings. In this case then if PRSP in Tanzania is succeeding it is not due to HIPC relief savings but is due largely to the commitment of Tanzanians and their Government to financing PRSP.

When World Bank officials were contacted on several occasions on this issue they responded that it is not possible nor practical to dis-aggregate the resource envelope at the sectoral level in relation to the sources of funds. The reason behind this argument is simply because the PRSP resource envelope is in the form of a 'basket fund'. In this 'basket funds' format you can easily show the source of funds, but not how funds from each source have been individually targeted for use at the sectoral level.

Technically this argument may be correct but if more work is not done on this, it will make the tracking of the actual use and impact of HIPC relief savings on the ground more difficult. This will eventually hide the enhanced HIPC and its financial impact on poverty reduction away from public scrutiny.

How does the increase in social spending reflect the quality of services delivered during the same period?

The funds allocated to education, health, water and roads construction and maintenance increased from 39 percent of recurrent expenditure during 1998/1999 to 44 percent in 2000/2001. The Public Expenditure Review for 2000/01 noted that even with this positive increase in spending in priority sectors, there are some problems in relation to the flow of such funds to pro-poor sectors from ministries to grassroots level. Various problems are encountered in the disbursement of these funds, including delays in the release of such funds, use of funds on administrative purposes rather than social service delivery, poor information flows and limited reporting and accountability mechanisms.

Consequently an increase in the **quantity** of funds to a social sector, say for example, health, did not lead to a similar increase in the **quality** of the health services delivered within the 2000/01 financial year. The quality of services delivered depends very much on what level this increase was absorbed within a particular sector.

For example, in the case of the health sector, technical studies carried out in 1999/2000 under the Public Expenditure Review process have shown that the financing of acceptable levels of health care in Tanzania would cost about US\$ 9 per head per annum. This will mean doubling the present budget allocation for the health sector which is not possible with the available PRSP resource envelope. Government allocated an average of US\$ 6 per capita spending in year 2000/01 up from \$ 5.5. in 1999/2000. This amount is however below the international figure of US\$ 12 per capita spending, and the Ministry of Health's own target of US\$9.

Since under the current HIPC debt relief savings are not targeted at specific expenditures within a priority sector such as health, it is not easy to establish where expenditures are absorbed. If HIPC relief savings had been targeted, it would have been easy to establish if this increase in expenditure in the health sector has been properly absorbed, and at which level (eg National or District). Moreover, even if the level is established, it will still be necessary to track down which budget item has benefited, such as drugs, salaries.

Financing Gap not bridged – a threat to PRSP targets

The government when it presented the interim PRSP identified substantial financing gaps over the coming years. Over the four years (2000 – 2003), the government determined that it needed to spend US\$ 4,522 million in 2000, US\$3,301 million in 2001, US\$ 3,614 in 2002 and US\$ 3,785 in 2003. This was and is the spending required in priority sectors like health, education, water, roads and agriculture if the government hopes to achieve the poverty reduction targets identified in its Interim Poverty Reduction Strategy Paper (IPRSP); together with the 2015 International Development targets which the international community, including Tanzania, have signed up to.

After accounting for government revenues, private transfers, expected grants and concessional loans, and HIPC debt relief, the government has identified financing gaps of US\$ 237 million in 2000, US\$ 242 million in 2001, US\$ 264 million in 2002, US\$110 million in 2003.

Over the four year period, Tanzania will still be paying considerable amounts of debt service, which could be used to finance this gap: US\$ 209 million in 2000, US\$ 140 million in 2001, US\$ 107 million in 2002 and US\$ 100 million in 2003.

Full cancellation of these remaining debts would go a long way towards filling these financing gaps. If Tanzania were given full debt cancellation, its outstanding financing needs for

poverty reduction would fall to US\$ 28 million in 2000, US\$ 102 million in 2001, US\$157 million in 2002 and US\$ 10 million in 2003. To demonstrate its true support for Tanzania's poverty reduction efforts, the donor community should provide full debt cancellation.

In July 2001 at the start of the 2001/02 financial year, PRSP is projected to still have a financing gap of 30 percent for the entire PRSP. By the third year of PRSP this financing gap is estimated to be reduced to 20 per cent.

In order to ensure that the PRSP targets are pursued in the context of prudent fiscal discipline, Ministries have been directed to prioritize their programmes under PRSP and identify those which will be covered under the anticipated budgetary appropriation and adjustments.

This means it is already anticipated that the original targets won't be reached, thus slowing down the poverty reduction efforts. With the raised expectations on PRSP resulting from the participatory process, the revision and eventual reduction of poverty reduction targets is a disappointment to the poor masses.

There is increased transparency among stakeholders

The PRSP preparatory process and the implementation process have increased dialogue and transparency among stakeholder activities aimed at poverty reduction and sustainable development. The Government has made it a high priority to develop a comprehensive poverty monitoring and evaluation system which will also cover PRSP activities. Since monitoring involves all stakeholders the interaction will increase the necessary transparency and understanding and coordination of national development activities.

Recommendations

1. PRSP was developed both as a condition for accessing debt relief under the enhanced HIPC, and as an accountability tool to measure the impact of HIPC relief on poverty alleviation. It is recommended that HIPC relief savings should be channeled towards targeted expenditures in order to simplify the monitoring of its impact on pro-poor priority sectors under PRSP. If this does not happen and Tanzania continues with the current arrangement of debt relief going into the general budget, then there is a need for stronger tracking mechanisms under the PER (Public Expenditure Review) process to ensure that the debt reduction has the maximum positive impacts in terms of poverty reduction.
2. In order to deal with the gap in financing PRSP we recommend that:
 - 2.1. The enhanced HIPC be reviewed in order to go beyond the current terms so as to enable eligible countries to receive deeper and faster debt relief. Tanzania's debt burden is still heavy and remains a hindrance to its Poverty Reduction efforts despite the enhanced HIPC being in place. In the case of Tanzania, Debt Sustainability ratios need to be reviewed in order to be relevant to and reflective

- of the country's current situation. Domestic debt servicing should also be analysed as it is an added burden on budgetary resources.
- 2.2. An alternative approach to debt sustainability should be adopted for Tanzania and other countries. The present approach continues to give primacy to export levels as the key determinant in measuring the level of debt sustainability. This approach fails to take account of Tanzania's high incidence of poverty and human deprivation, not to mention the impact of HIV/AIDS on same. On top of this export volumes and values are highly vulnerable to exogenous shocks and the country, like many developing countries is dependent on a limited number of exports¹. To address this deficit a *human development approach* to debt sustainability should be adopted wherein governments should be able to set aside sufficient resources to invest in meeting key development needs. Thus debt repayments would no longer take precedence over funding programmes identified under national poverty reduction strategies as being needed to tackle human deprivation and poverty².
3. Since it has been established that PRGF has a major bearing on the success or failure of the PRSP, we recommend that the monitoring and evaluation strategy established should cover both PRSP and PRGF activities.
4. In the situation where the PRSP is not fully financed any review of the agreed PRSP in order to revise expenditure on priority areas and budget lines must involve all stakeholders.

¹ The impact of exogenous shocks on fragile developing country economies is oft cited. Since research on this paper was initiated the violent events in the USA have led many to project a further downturn in global economic growth prospects and for this to have a significant effect on developing countries. Hence the growth projections for Tanzania and other countries will need to be reviewed with this in mind.

² A number of NGOs/NGO networks have suggested such an approach such as CAFOD/CIDSE/Caritas International, Oxfam International and Eurodad.

ANNEX

Box 1 Summary of achievements of PRSP during 2000/01

Sector	Targets/Outcome Indicators for 2000/01 – 2002/03	Performance during 2000/01
Education	Increase gross enrolment from 77 percent to 85 percent	Based on the 2000/01 HBS, gross primary school enrolment is estimated at 83.2, suggesting that the target for 2003 will be met.
	Increase net primary enrolment from 57 percent to 70 percent	The net enrolment in 2000/01 increased rapidly from 57 percent to around 65 percent following abolition of school fees and other enrolment related contributions.
	Increase progression rate of primary to secondary level from 15 percent to 21 percent	Performance is quite encouraging, as the current rate is estimated at 19.5-20 percent, following increased number of Government-aided community, and non-government secondary schools.
	Reduce the drop-out rate in primary schools from 6.6 percent to 3 percent	Situation has not changed significantly; however, it is expected to improve following implementation of planning measures to improve the teaching and learning environment, as well as the abolition of school fees and other enrolment related contributions.
	Increase pass rate in standard 7 examination from 20 percent to 50 percent.	The pass rate has increased to 22 percent in 2000/01. The benchmark of 50 percent is considered ambitious and the medium-term target will be reviewed downwards in due course.
Health	Increased the number of children under 2 years immunized against measles and DPT from 71 percent to 85 percent	Performance has improved to 78 percent following increased coverage of the Integrated Management of Child Illness (IMCI) in health facilities from 17 to 31 districts.
	75 percent of districts covered by an active HIV/AIDS awareness campaign.	All districts are covered following preparation of HIV/AIDS plans for all districts
	Increase coverage of births by trained personnel from 50 percent to 80 percent	Performance has not changed substantially; however, it is expected to accelerate following adoption of Districts Health Plans that currently cover 82 out of 114 districts.
	Implement a full malaria control programme	New guidelines have been developed and distributed, training of trainers has been completed, and drugs have been ordered
Agriculture	Attain growth rate of 5 percent	Overall growth was 3.5 percent during 2000, down from 4.1 percent during 1999, owing partly to adverse weather conditions. Forestry and fishery sub-sectors recorded growth rates of 5.0 percent and 7.2 percent respectively
Rural roads	Rehabilitate of 4500km rural roads under the Urgent Roads Rehabilitation Programme, upgrade 7,000km of rural roads, carry out spot and emergency repairs over 50,000km.	Detailed costing of needed interventions has been developed.
Water	Fully implement the 2000 Water Policy	The policy has been reviewed by the Ministry of Water and Livestock Development, to take into account the PRSP objections.
Legal and Judicial System	Speed up primary court decisions, raise the ratio of decided filed cases from 63 percent to 80 percent.	The available information by districts shows uneven performance.

	Improve performance of judicial system	Introduction of the independent Judicial Ethical Committee; Establishment of Judicial Administration Institute approved recruitment of 36 State Attorneys, 6 Resident Magistrates, 13 Primary Court Magistrate and 11 Law Research Officers.
	Reduce average time taken to settle commercial disputes to 18 months	There has been significant improvement, as judged from the increase in cases disposed, from 53 cases in 1999/00 to 78 cases in 2000/01. Moreover, the average time taken to settle commercial disputes has been reduced to less than 6 months. Establishment of Land division of the High Court.
	Raise coverage of actual allocation for legitimate Other Charges (OC) requirement of the Judiciary from 50 percent to 100 percent.	There was a significant increase in the allocation of OC from Tshs. 3.9 billion during 1999/00, to Tshs. 5.7 billion during 2000/01, representing 100 percent budgeted of OC.
Local Government	Implement full Local Government reform	Phase I has been completed and phase II is on course.
Governance	Fully implement the Integrated Financial Management System (IMFS).	All central government operations, including 16 revenue station of the TRA in Dar es Salaam, are covered by the IMFS
Macroeconomic stability	Attain real GDP growth rate of 6.0 percent.	During 2000, real GDP grew by 4.9 percent (compared to 4.7 percent in 1999), and is projected to grow by 5.9 percent in 2001.
Inflation rate	Reduce inflation rate to 4.0 percent	Inflation rate was 5.1 percent as of June 2001, compared to 5.9 percent in the same period in 2000
Foreign Reserves	Maintain foreign exchange reserves sufficient to finance four months of imports of goods and non-factor services.	By end December 2000, foreign exchange reserves were equivalent to 5.5 months of imports of goods and non-factor services, and were at about the same level at end – June 2001.

Source: Government PRSP Progress Report at Donors Consultative Meetings: 5 September 2001. Page 7.

Box 2: HIV/AIDS Pandemic undermines poverty reduction efforts

<p>Human Immuno-deficiency Virus and Acquired Immune deficiency Syndrome are not only the greatest single threat to Tanzania's security and socio-economic development, but also to people's individual survival and well-being. As elsewhere in the world, in Tanzania AIDS is closely linked to the lack of protection of some basic human rights, such as the persistent inequality and inequity between the sexes, violence, particularly against women and children, legal discrimination and social exclusion. As a result, women are more likely to contract HIV than men by a ratio of 1.5 to one. In the age group of 15-19 year-olds, the inequality between the sexes is even more profound, with girls having a 6-times greater</p>	<p>In the Tanzania Mainland close to 15 percent of persons aged 15-49 years are infected with HIV, while 60 percent of new HIV infections occur in the 15-24 year age group. According to the National AIDS Control Programme (NACP), about 70,000 to 80,000 babies are estimated to be contracting HIV, annually, from their HIV positive mothers, contributing to reversals in the trends of under-five and infant mortality as well as the mean life expectancy. The number of orphans in the country (most of them due to AIDS) is estimated to be close to 2 million. This is based on extrapolations from the 1996 TDHS and the 1999 TRCHS. HIV/AIDS is also spreading fast in Zanzibar, with reported cases</p>
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risk of being infected than boys of the same age group. Despite high levels of awareness about HIV/AIDS (over 96 percent for both men and women aged 15 to 49 years), large numbers of people do not know that they are HIV infected and continue to lead life styles which put themselves and others at risk.

AIDS is currently placing an ever-increasing burden on the country's financial resources through rising medical expenditures, absenteeism from work, training of replacement labour and labour shortages resulting from morbidity and mortality. Unless decisive policy action is undertaken, HIV/AIDS is expected to significantly reduce Tanzania's economic growth prospects. In Tanzania, infected persons occupy more than half of available hospital beds and it is estimated that each adult AIDS case treated in the health care system absorbs about US\$ 290 per year in nursing and drugs costs.

having risen from 3 in 1983 to 1,803 in 1999. As on the Mainland, the age group 15 – 49 years is the hardest hit, with 85 percent of all reported cases belonging to this group.

The latest UN projections of 1998 show that Tanzania's population will be almost 5 million people fewer by 2015 than it would be in the absence of AIDS (47,221,000 inhabitants instead of 52,185,000 inhabitants, a 9.5 percent difference), with a substantial increase in the dependency ratio.

Source: United Nations Development Framework for Tanzania: 2002-2006. page 9

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I. General background and some history

At the end of '99, the IMF and the World Bank decided to refocus their policies in poor income countries. Poverty reduction policies, along with policy ownership and civil society participation were intended to become new and explicit pillars of lending strategies. In doing so the Bretton Woods institutions recognised that the structural adjustment policies of macro economic stabilisation, privatisation and liberalisation did not deliver poverty reduction in a sufficient way. In the same way, the international financial institutions also recognised the failure of these policies to be implemented against the backdrop of mass protests from the whole of society.

This new focus, along with the recognition of past failures, did not come out of the blue. All of this took years of discussion within and between the IMF and the World Bank, a process that probably dates back to the United Nation's social summit of Copenhagen of '94. From that moment on, both the IMF and the World Bank proved to be more open to discussions and influences from the UN organisations, in particular the ILO. A study that deserves explicit mentioning in this context is the external evaluation review of the 'Enhanced Structural Adjustment Facilities (the so-called ESAF's) that the IMF ordered in '981. This review was carried out by independent academics and proved to be thought provoking. This study criticized heavily the traditional assumption that the 'trickle down strategies' of liberalisation and growth would ultimately benefit the poor. Instead, the study stressed the importance of identifying trade offs between structural adjustment policies and their impact on the poor. Translated into clear language, the study pointed to the following :

- In the short run, the impact of structural adjustment policies on (poor) people can be extremely severe, thereby making the long run beneficial effects of structural adjustment on growth very hypothetical. Countries that stabilise their economy by scrapping public investment in infrastructure, education and health and by starving their population are extremely unlikely to re-connect with growth dynamics.

¹ The World Bank undertook a similar effort, the so called Structural Adjustment Participatory Review (SAPRI). The World Bank's approach was innovative, in that sense that civil society groups were also involved in this evaluation exercise. It should however be mentioned that WCL and its affiliated trade unions were not involved in this process, apparently because the World Confederation of Labour with its 25 million members of which most in developing countries was viewed by some staff members as 'unimportant'. SAPRI was also plagued by other difficulties. Some governments refused to co-operate and relevant World Bank documents were not always disclosed. To date, important differences in opinion seem to remain between the conclusions of the SAPRI documents and the position of the World Bank itself. See 'World Bank: Adjustment from within'

- Averages hide reality. Even when on average a positive relation can be singled out between structural adjustment policies, growth and poverty reduction, this does not mean that there are no losers whatsoever in this process. Specific groups and segments of society can be hard hit by structural adjustment, making the 'trickle down' effects of renewed growth a poor substitute for the losses these groups had to incur.
- In order for adjustment to succeed, national policy makers and civil society in general should be involved in drawing up policies. The study rejected the typical 'top - bottom' approach and proposed that IMF staff would leave room for national policy makers to propose alternative policy scenario's.

At the time, the WCL welcomed the intention of the IMF and the World Bank to focus on poverty reduction and participation. However, we were also aware of the fact that similar attempts had already been made in the past (see 'adjustment with a human face' of the World Bank in the eighties, or the second and third generations of structural adjustment policies of the IMF). Therefore, WCL adopted a position of 'wait and see' (see for example the WCL- declaration in annex : 'New names are not enough'). Two years later, the WCL notes that the IMF is making an assessment of the new Poverty Reduction and Growth Enhancing Facilities that have replaced the former ESAF's and wherein poverty reduction strategies was meant to receive more attention. Also, IMF and World Bank are conducting a joint review of the whole exercise of processing and implementing Poverty Reduction Strategy Papers (PRSP's). In our opinion, this is an evaluation that is most necessary and that provides opportunities for trade unions to submit practical experiences and recommendations for improvement.

II. The approach of WCL

Because poor income countries tend to be concentrated in Africa and because of the presence of WCL affiliated unions, our study focuses on sub Saharan African countries. We base ourselves on three sources of information :

- On the occasion of the WCL-Congress in Bucharest (20-27/10/2001), trade union representatives of Niger, Benin, Burkina Faso, Gabon and Senegal were consulted on PRGF's and PRSP's. Representatives were asked to react upon the questions whether there had been effective trade union involvement in drawing up poverty reduction strategies and whether the PRGF approach makes any difference with the structural adjustment policies of the past.
- From 17 to 20 December 2001, a seminar of African LDC's was held at the regional centre of WCL in Lomé, Togo. During several days, participants from 12 countries (Benin, Togo, Senegal, the Gambia's, Sierra Leone, Democratic Republic of Congo, Central African Republic, Burkina Faso, Guinea, Mauritania, Niger and Chad) discussed and exchanged views on IMF and World Bank poverty reduction strategies and on the links with the development plans of the UNCTAD conference on LDC's (Brussels, May 2001).
- Finally, information was also collected from the national letters of intent and the memoranda on economic and financial policies that are reported on the IMF's web site.

III. On participation and on involving trade unions

Contacts between trade unions and the Bretton Woods institutions are indeed more frequent....

Since the mid nineties and responding to the demands from trade unions, the Bretton Woods institutions have sought more contacts with local trade unions. In the case that governments did not take the initiative of organising contacts with trade unions, the IMF board left it to the discretion of heads of missions to organise discussions with trade unions. At the World Bank, the board decided that each local representation office was to appoint a contact person, responsible for dialogue with civil society. Similarly, it was left to the decision of these local representatives to decide whether civil society was to include organised labour.

Although these board guidelines left governments, heads of missions and resident representatives with important autonomy in deciding whether to talk to trade unions or not, they do appear to bear some result. In our sample of African countries almost all trade unions reported to have had meetings with the IMF and/or the World Bank. Contacts were reported in Senegal, Chad, Gabon, Burkina Faso, Central African Republic. Most of these contacts are in common with other trade union federations. In practice, it seems that the government and/or the IMF decide on the practical organisation of the meeting and who to invite.

An experience worth mentioning is Chad, where due to the insistence of the IMF and the World Bank, a 'comité de pilotage' exists. Government, employers and civil society (including trade unions) are involved in this committee and the presidency of this group is revolving. The committee also gets an opportunity to discuss official documents before they are approved.

The lack of contacts in some countries appears to have particular reasons :

- In the past, IMF/World Bank and trade unions in Togo did talk to each other. However, with the relations and the financial support between Togo and the IMF being suspended, no further contacts had taken place in recent years. A similar story holds for the Democratic Republic of Congo. However, this does not seem to constitute a valid reason. In the case of Togo, a memorandum on economic and financial policies covering the period april/september 2001 could be consulted on the IMF 's web site, indicating the presence of IMF-missions. Similarly, the Democratic Republic of Congo is at present under a staff monitored program that did not result in dialogue with the Confédération des Syndicats Chrétiens of Congo.

- In Sierra Leone, the WCL-affiliated trade union is not mentioned in the official 'labour code', giving the government and the IMF/World Bank the alibi not to consult them. The matter has been reported to the ILO and a new labour code resolving this problem seems to be under way.
- In Gambia also, trade unions until now are consulted in a selective way. The central bank of Gambia, hosting IMF /World Bank delegations fails to include the Gambia Workers Confederation in the participatory consultations. During the last IMF visit to Gambia (May 2001), a last minute attempt was made by the Central Bank to include the GWC. Because of the very short notice (immediately before the end of the IMF visit), this attempt was unsuccessful. The GWC intends to make sure not to miss the next opportunity to meet the IMF delegation.

In general, trade unions welcomed these meetings and insisted that these should become more frequent. They however also insisted that the 'quality' of these discussions should be improved (see further). In their view, discussions with the IMF and the World Bank opened up opportunities in order to :

- gather more information on the problems of their country and the intended policies.
- identify the policy mistakes that governments had made.
- present the trade union view on the social-economic problems and policies. These views concern the fight against corruption and poverty, the problems of educated young people without work, the effect of privatisation operations on workers, the increase in purchasing power of workers, bad governance of public goods, the life style of political leaders setting bad examples in countries where poverty and illiteracy are wide spread, the privatisation of higher education, the general lack of positive effects of the structural adjustment policies, arrears in payment of wages of public workers. (In some countries such as the Central African Republic, the wage arrear is more than one year. Representatives of this country strongly criticized the fact that their country was using scarce resources to pay off the IMF debt without this resulting in any new financial flow from international donors and markets).

...but the dialogue is not systematic and on PRSP's sometimes even lacking...

In the wake of the PRSP- initiative the IMF and the World Bank re-emphasised their commitment to consult with civil society in general in the process of drawing up poverty reduction strategies. Although, as reported above, there is a policy dialogue with trade unions, it appears from our survey that trade unions are **not** systematically consulted on the overall PRSP approach. Where contacts do take place, they are about various other subjects such as the public deficit, wage demands and structural adjustment policies in general. Only in Guinea and Senegal (and probably Chad ?) trade union representatives explicitly reported involvement in consultation on the PRSP's. A particular case is Burkina Faso where trade unions did participate in two meetings of one day. One meeting was on general indicators of poverty, the other one on some particular aspects of the PRSP. The overall poverty reduction strategy was however not discussed in this country and no follow up was assured.

A particular incident that casts a shadow of doubt over the extent to which all staff members have grasped the meaning of 'ownership' of policies is provided by Senegal. In Senegal's memorandum on economic and financial policies, it can be read that the IMF staff welcomes the fact that the responsibility for the drafting of the PRSP has been transferred to the ministry of finance. This resembles the 'traditional' situation where structural adjustment policies and the contacts with the Fund where the sole responsibility of the minister of finance and where sometimes even the rest of the government was not aware of all the conditionalities that were agreed to with the Fund.

... and the quality of consultations is subject to a lot of criticisms.

In order to get a fruitful discussion instead of a one-way presentation, it is essential for trade unions to have the possibility of preparing these contacts. Unfortunately, the way in which the contacts are organised does not really leave room for this :

- *Limited time available.* Several representatives (Benin, Burkina Faso) complained about the fact that their unions were invited only shortly before the meeting took place. In some cases the invitation preceded the actual meeting only with a couple of hours, in other cases there was a time frame of two to three days. This does not give trade unions the opportunity to organise and prepare themselves.
- *Availability and understandability of documents.* Representatives pointed to the technical nature of discussions with and of documents of the IMF and the World Bank and the difficulties in understanding all of this. With no time available to prepare themselves and in some cases even without any documents as a basis for preparation (Senegal : not a single document was being presented), representatives felt that they had problems in responding adequately to the analysis and policy proposals of IMF and World Bank. In Benin, despite the short notice (24 hours), trade unions tried to overcome this problem by seeking the assistance of (governmental ?) experts.
- *An Anglo-Saxon language bias.* A problem that became clear from the research work in

preparing the Lomé seminar was the fact that, although most countries were French speaking, the documents to be consulted on the IMF/World Bank web site were all in English. Entering the web site of the IMF in French resulted in a web page that did not make it possible to request more detailed texts. This makes it impossible for French speaking trade unions to have access to information without (as was the case in the past) being delivered to the goodwill of their government to be open about these documents. A clear example of this was provided at the seminar, where one representative from the Central African Republic reported that, in preparing for the seminar, he had contacted his government to receive a copy of the PRSP. The official answer was that such a document did not exist... whereas this document can be found (in English!) on the IMF's web site.

- *Trade union points of view are not really being taken into account.* Representatives reacted rather mixed and sometimes even sceptical to the question whether their recommendations were taken into account when implementing policies. On subjects as wage payments and demands, some (Benin) felt that, in particular as the result of trade union action and pressure, the trade union demands were indeed taken into account. Privatisation issues on the other hand were generally felt as being a subject where the IMF and the World Bank tolerated no interference whatsoever. In some cases (Burkina Faso), the final report does make reference to trade union proposals, but only in a very limited way. Finally in Senegal, the ministry of finance promised a follow up but the ministry had not delivered on this promise. The impression therefore was that consultations with trade unions in Senegal did not have an effect on policies.

IV. Who is reaping the benefits from growth ? Privatisation policies and poverty reduction strategies

Privatisation : The beat goes on

The so-called 'Washington consensus' is based on the three pillars of stabilisation, liberalisation and privatisation. In reading through the memoranda of economic and financial policies of the different countries of our African sample, and in listening to the experiences of trade union delegates, it is striking to note that the drive for privatisation has continued in the last two years, and in some cases even has been accelerated.

- **Benin** : Over the last two years Sonicog (production and commercialisation of palm oil and soap) and Sonacop (commercialisation of petrol products) have been sold. Trade unions have been involved in this process and did succeed in avoiding mass retrenchments. At Sonacop, workers even had the opportunity of buying shares. The backdrop from privatisation however is that the prices of these products have become very expensive for the population in general. The monopoly of the state cotton enterprise has been ended, with the transition to a competitive system as a next step. References to privatisation operations along with regulatory frameworks of water, telecommunications, electrical power distribution, port of Cotonou are to be found in recent IMF memoranda.
- **Chad** : Privatisation concerns the electricity company, the water company, textiles, Air Chad, Telecom, postal services and hotels. Some of these operations date back before '99. Trade unions were not involved in this process. At present, the privatisation of the road maintenance agency and the signing of contracts concerning the exploitation of air routes are being considered.
- **Burkina Faso** : Société des Hotels de la Gare (SHG), Burkina Faso, Socogib, Onatel have been privatised. Privatisation plans for the electricity sector (with a regulatory framework) and for the telecommunications sector exist. Cotton sector (de-mantling of SOFITEX monopoly and ginning plants) has been reformed.
- **Senegal** : Privatisation of Sonacos (groundnuts), railways, electricity and telecommunications is running. A new overall privatisation strategy has been announced for April 2001.
- **Togo** : 'Everything' is on the list : banks, Société National Investissement, management of the electricity company, Togo Telecom (with regulatory authority), postal services, Sotoco, railways, port, hotels. In some cases (hotels), workers have been fired without any retrenchment compensation, in other cases (Togo Electricity) all workers have kept their job.
- **Mauritania** : Postal and telecommunications.

- **Central African Republic** : Privatisations have taken place, mostly without any accompanying measures for retrenched workers. Remaining workers set their hopes on wages being paid on time but are in the end displeased with the low level of wages.
- **Gambia** : Reform of groundnut sector to allow for total private sector involvement.
- **Guinea, Sierra Leone** : No privatisations have occurred, either because all public ownership of enterprises already had been eliminated, or because of civil war.

Impact of privatisation on workers and on poverty

From the point of view of IMF and World Bank, privatisation is expected to lead to enhanced efficiency, lower prices, more exports and even higher employment. A particular reason for the IMF to promote the sale of state enterprises is the prospect of stabilising public finances. Privatisation yields a one off revenue and it eliminates state subsidies that otherwise would have been lost.

In reality however, privatisation in these African countries has led to a severe increase in poverty, both for (retrenched) workers as for the population in general :

- **Impact on retrenched workers** : The idea that workers in these public enterprises are some kind of 'elite' workers and that putting them out of work only returns them to a situation that is familiar or normal for the rest of the population is very misleading. In the reality of Africa, one such worker is morally and practically obliged to support its family and its relatives. In Senegal, it was said that one salary owner was supporting on average some thirty persons. This also implies that the retrenchment of workers from privatised enterprises is not only a severe blow for the workers and their direct family, but also for a greater circle of people who could otherwise survive on the worker's wage. Moreover, there is also an important domino effect (lower income leading to lower consumption, hence hitting employment in the informal sector and the amount of services provided). Representatives reported that entire villages and communities felt the negative impact of the retrenchment from privatisation. In Mauritania and Senegal, representatives identified privatisation and mass retrenchment as the principal cause of the increase in poverty and unemployment. In Togo, retrenchment without any accompanying measure was strongly condemned as accentuating poverty. In Burkina Faso, the trade union reported that a new labour code (probably advised by the World Bank) provided a maximum on retrenchment compensation (a one year salary), whereas before trade unions could negotiate on this on a case-by-case basis.

- **Insecurity for remaining workers** : Private ownership is exploiting remaining workers. At Air Gabon 80 % of workers are on temporary contracts of 10 months. Workers that are claiming the payment of social security contributions are not re-hired. All of this is possible because of a labour market deregulation law, pushed through by the World Bank. In Togo, it is reported that workers that are trade union representatives and workers from whom it is known they are a member of a trade union are the first to be retrenched.
- **Private, mostly foreign owned, monopolies are taking over from the state.** But a monopoly, whether it is in public or in private hands, follows the same logic. It exploits its supply position and 'rides' the demand curve in order to increase prices and profits. In this process, production and employment are being cut. This is indeed reported by almost all trade unions. The prices of water, electricity, telecommunications and other products have increased, which has hit the purchasing power of both workers and the poor.
- **'Cherry-picking' behaviour ending public service.** Private utilities proceed towards 'adverse selection' only delivering services to profitable regions. Entire villages in Burkina Faso no longer receive electricity. In Senegal, there are regular electricity 'black outs'.
- **Privatisation often colludes with corruption by the existing political elite.** The ruling political elite tends to seize the process of privatisation in order to get even more profits out of it. Often, public enterprises are (partly) sold to the family of ruling politicians, thereby offering them 'deals' (too low price or the prospect of monopoly profits). **Retrenchment of workers then only serves as a means to increase the wealth of the existing rich elite...** A peculiar example worth mentioning is Benin, where it is reported that the government 'overlooked' the fact that an enterprise to be privatised still had an important cash reserve. In the end, the new owner paid for his shares by cashing in on the existing company assets....

Social corrections ?

In some but certainly not in most countries, attempts by the World Bank have been made in order to soften the blow for retrenched workers. In these cases, the World Bank provided a loan to finance the retrenchment payment, the idea being that retrenched workers could start their own business with this sum of capital. However, some of these attempts in themselves were criticized by trade unions :

- With the retrenchment at Air Gabon, a similar lending construction was set up on a secretive basis. In this case, the results were identical to what had been happening 5 years ago in Bangla Desh. Workers, unacquainted with these sums of money, have spent this capital in a non-rational way. Some have taken 4 or 5 women, others have bought new cars. In the end, not a single new business had been set up. This could have been avoided if financial means would have been canalised and if, with the help of trade unions, accompanying policies had been implemented.

- Burkina Faso presents the opposite case. In this country, the retrenchment amount is being paid in tranches. This has the advantage of avoiding capital being wasted to unnecessary expenditure. On the other hand, it also prevents retrenched workers from setting up businesses. Anyway, in Burkina Faso, no accompanying measures in order to retrain workers into entrepreneurs are being organised.
- Representatives from Togo finally reported an initiative with the World Bank that does seem to work. A 'programme d'appui pour la ré-insertion' exists that takes the retrenchment capital as a guarantee for providing loans to set up 'micro-enterprises'. These ex-workers and enterprises are being followed up and monitored until the loan has been re-paid.

V. Who is reaping the benefits from growth ? Stabilisation and poverty

In previous periods, the IMF driven push for macro economic stabilisation resulted in deep cuts in social expenditure and in a collapse of the public health system, the education system and public investments.

From the texts of the letters of intent that governments write to the IMF, and from the reports of the trade union seminar, it seems that this push for macro economic stabilisation has, in general, not been repeated over these last two years. In some cases, an increase of the public deficit was allowed by the IMF, sometimes in order to finance an increase in social expenditure. The following table provides an overview.

Fiscal deficits as a % of GDP

	'99 or 2000	2001	2002
Mauritania			1,6%
Chad		20.8%	
Gambia	4.8% ('99)	5,9%	3,6%
Togo	2,2% ('99)	5%	
Burkina Faso	1,2%	2,7%	
Benin	1,5% fiscal surplus in 2000	0,8% deficit	
Senegal	1,4%	1%	1,1%
Gambia	4,8%	5,9%	
Central African Republic		7%	

Source : IMF, except Gambia and Central African Republic (as reported by national trade unions)

Explicit links between a 'softer' fiscal objective and more possibilities for social expenditure can be found in several letters of intent :

- **Mauritania** : The memorandum to the IMF refers to fiscal policy as being 'relaxed' so as to allow an appreciable increase in social spending.
- **Chad** : Expenditures (including expenditures on health, education, wages and employment) are to increase from 20 to 29% of GDP. The extra revenue from the HIPC initiative and the oil bonus are apparently not used in order to reduce the (high) public deficit.
- **Burkina Faso** : A share of social sectors that continues to rise is going hand in hand with a (limited) increase of the fiscal deficit.

In other cases, the need for renewed consolidation of public finance is being accompanied by

warnings about the need to protect social components of the budget :

- In **Gambia**, the reduction in the deficit (see table) should be done by reducing current expenditure, while at the same time protecting the social/poverty sectors.
- In **Togo**, where the 5% deficit is considered as too high, the letter of intent talks about protecting education and health from across-the-board cuts.
- Representatives from **Benin** reported that the fiscal tightening started in '96, when the deficit reached 7,4% of GDP. However, thanks to accompanying measures (retraining retrenched public workers, plans to absorb youth unemployment) there was no noticeable increase in poverty.

Things have indeed been different in the past. At that time, the Fund and the Bank prescribed policies and objectives to slash the deficit, with no attention whatsoever on the consequences for social spending. However, two qualifying observations are in order :

- It should be said that deficits in most countries have already been brought back to minimal levels. In that case it is easier to allow an increase in the deficit from an already low base in order to provide more funding for social sectors. The 'relaxed' attitude that now seems to prevail regarding fiscal discipline has to be understood against the recent history of severe fiscal tightening. This can also be recognised in another way in a lot of PRSP's. In many PRSP's, the IMF and the World Bank are allowing pay increases for civil servants, health workers and teachers. This is not because the IMF and the World Bank have suddenly become 'labour-friendly'. It is because the real purchasing power of wages in the past has been severely brought back, so that now big pay increases are necessary to keep and to motivate workers. Ultimately, the real test whether the PRSP/PRGF approach allows for considerations on major trade offs between stabilisation and funding for poverty fighting will come when these countries are hit by a major crisis that brings back government revenue and increases deficits in a serious way.
- **Representatives also pointed to the gap between statistics and reality.** For example, the way in which increased educational budgets were being put to use was heavily criticized. Classes of 150 pupils, which only receive basic education, either in the morning, either in the evening (which becomes difficult, given the power strikers of 'private' electrical companies) only serves to 'alphabetise' youngsters, not to give them a useful basis. In this way, statistics on number of pupils increase enormously, but the rate of students that fail to enter secondary education is also dramatic. Others mentioned the interference of corruption : According to the representative from Gabon, the increase in budgets did not go to increased government investment but (in contrary to the WB's recommendations) to an increase in the budget of functional expenses. In particular, the compensation for politicians and high paid officials has even been increased, not through higher wages but through other kinds of compensation. In some other countries, social initiatives such as 'micro-credits for new start - ups' were reported as being 'hijacked' by politicians. On the other hand, examples also do exist where efforts are being made to tackle corruption. For example, in Guinea, a committee on fighting corruption had been installed. ('Comité de lutte contre la corruption').

VI. Tax policies

Despite the bias in the thinking of IMF and World Bank against government interference, the IMF has been a systematic advocate of increasing government revenue by introducing taxes on added value. This is no coincidence. The reason is that added value taxes contribute to stabilisation in two important ways :

- In the first place, these taxes do hit consumption and imports but they are not being suffered by exports. These taxes are therefore sometimes described as a 'hidden devaluation'. In any case, they restrain domestic consumption and imports and do not weigh on exports.
- The other reason is that these taxes tend to hit low incomes harder. Since lower incomes have a higher tendency to consume and a lower savings ratio, this tends to accentuate the cutback in domestic demand that seems necessary to bring the external account back towards less negative positions.

However, it is also clear that added value taxes have a negative distribution effect : They are hard for the poor but marginal for the rich.

Over the years, added value taxes have been pushed through in most countries so that the issue does not surface in the policy discussions of the last two years. In Senegal however a reform of the added value tax has been undertaken. The two rates (10 and 20%) have been replaced by one rate of 10 %. As a consequence, the prices of basic consumption goods have gone sharply (sugar (2), food, medicine, water, telephone), despite a 20 years nominal wage freeze. The only price that has gone down in Senegal is petrol, because of the liberalisation of the distribution network. Although the poor have also somewhat profited from this (cooking needs, rapid cars), the Senegal representative felt that this finally benefited the rich who drive big limousines. A similar reform, without any consideration for the effects on the poor, was also undertaken in the Central African Republic.

² For sugar, an increase of 20% was reported.

VII. Labour market policies

In the PRSP's no attention whatsoever is given to the fact that labour market regulations can protect workers from exploitation, thereby improving their income position and keeping them out of poverty. Given the fact that at least the World Bank is claiming to promote the respect for core labour standards (amongst other things by promoting a tool kit for decent labour standards amongst its staff), this is surprising. One explanation for this probably resides in the fact that trade unions (see part III) are not systematically involved in the consultations on the PRSP's. Another reason might be that the Bank thinks of this as a job that has been finished. Indeed, since the middle of the nineties, the Bank undertook a revision of labour codes in several African countries with the aim of making retrenchments more easy and less costly, probably with a view of preparing 'successful' privatisation operations (which are now, as we have described, in full preparation).

The only exception on this rule is unfortunately a negative one. In the PRSP of Burkina Faso, it can be read that growth can be sustained by lowering labour costs, in particular through a reduction of the minimum wage. The minimum wage in Burkina Faso is about 30.000 CFA a month, whereas according to our trade union representative a wage of 50.000 CFA is a minimum in order to survive in Burkina. At least in this case, the IMF/World Bank endorsed PRSP gets itself caught in the old trap of hitting workers and the poor in the hope that the possible trickle down effects of growth in the end would soften the blow. In this case, the fundamental insight that both policies for higher growth as policies to defend the poor are necessary does not seem to be grasped by the writers and the approvers of the Burkina PRSP.

VIII. Conclusion and some recommendations

Conclusions

The principles of the PRSP/PRGF approach are certainly to be welcomed. In fact, trade unions have since long insisted at the IMF and the World Bank in order to demand ownership of policies, consultation with trade unions, safeguarding the poor from the traditional structural adjustment policies and identifying trade offs and alternative scenarios that are not hostile to social expenditure.

However, the main message from the practical experiences with the PRSP approach over the last two years in our sample of African countries is that there is still a long way to go in order to get these principles respected and implemented in practice :

- In the consultation process on PRSP's, trade unions and other independent civil society groups are more often 'outsiders' instead of being 'insiders'.
- The PRSP construction seems to be merely viewed by the Fund and the Bank as an additional pillar of policy. More attention is indeed being given to higher budgets on health, education and social expenditures in general. But concerning the traditional structural adjustment policies such as privatisation, tax reform (see example of added value taxes) and labour market reform, no link whatsoever between these policies and their impact on poverty seems to enter the mind of policy makers. On these issues, the motto of 'business as usual' indeed prevails. Not even specific social policies to analyse and soften the impact on groups that are extremely hit are being considered. This is not a consistent attitude. Fighting poverty through education and health systems, while on the other hand creating additional poverty is not the right way....
- One area where there indeed seems to be awareness from the side of the Fund on possible 'trade off's' is the macro economic stabilisation area. Here, the Fund seems to take a somewhat more relaxed attitude concerning objectives on the consolidation of public finances. On the other hand, the Fund can most probably afford to do so because, in many (but indeed not all) cases the public deficit has already been addressed in a more than sufficient way.

Seven recommendations

- **A scorecard on consultation and participation.** Each draft PRSP that is submitted to the board of the IMF and the World Bank should contain a 'score card' on participation of and consultation with trade unions. This scorecard should present information on who has been consulted and how this has been done. The 'score card' should provide an idea whether trade unions had been given sufficient time to prepare the meeting, whether all representative unions had been invited; whether the trade unions had been given documents in advance and whether these documents were drafted in a language that is accessible to them. In addition, staff should also summarise the main observations from trade unions and the extent to which the final text was taking these into account. Alternatively, texts or statements by trade unions should be attached to the PRSP document that is being submitted to the boards. Ultimately, the goal of this instrument is to provide the boards with a clear idea on the degree to which attempts had been made to come to real consultation, involvement and policy ownership.
- **Making sure that all representative trade unions are invited.** The Fund and the Bank should be more aware of the fact that trade union pluralism does exist. One easy and non-contestable way to do so is to contact the secretariat of the ILO to gather information on the different trade unions in a country that are acknowledged as being representative.
- **The World Bank should open its 'vaults of information'.** In preparing the report it was striking that a lot of useful information on structural adjustment policies was available on the IMF 's web site where almost all letters of intent and the attached memoranda on economic and financial policies were available. The corresponding documents of the World Bank however were not available at their web site. This makes it difficult to follow up on the lending conditions that are de facto used by the World Bank. Since the tendency is that the Fund is concentrating more on its 'core business', leaving issues such as privatisation to the World Bank, the secrecy with which World Bank adjustment lending is surrounded is all the more worrying. In any case, it does not build confidence amongst the different groups involved.
- **Ex ante impact analysis of the possible impact of structural adjustment measures.** One of the basic insights and proposals of the IMF's independent audit (see part I) was that structural adjustment measures (such as privatisation) could indeed hit specific groups. Consequently, the text suggested that ex ante analysis should be done in order to identify these groups and to prepare adequate policies. It is astonishing to note that (as this report does), despite the PRSP set up, this is not really being done. At the moment there is only talk of 'pilot projects' in some countries. It seems to us that identifying groups that are most hit by adjustment is an essential part of any credible poverty reduction strategy and should be incorporated into all PRSP's as quickly as possible. **We recommend that the boards of the Fund and the Bank should issue a guideline on incorporating such an approach into each PRSP.**

- **Involve trade unions in the fight against corruption.** In the past mechanisms of corruption were partly responsible for the building up of unsustainable levels of debt. In order to prevent that the benefits from HIPIC and growth would be deflected from going to the poor, World Bank and IMF should stop treating governments as the only partner. Instead, mechanisms of control, involving trade unions, should be set up.
- **Establish a 'contact point' for trade unions inside the Fund and the Bank.** One major step forward that would indeed show that both the Fund and the Bank are serious about ownership and poverty is to constitute within the Fund and the Bank a 'desk' that trade unions could contact in case of difficulties and problem. This 'desk' would have the mission of investigating these complaints and observations and, in case the complaints are considered as being important this 'desk' would have direct access to the boards. The 'desk' itself would have to have guarantees to insure its independent functioning.
- **Poverty and structural adjustment isn't a problem only for poor countries.** Finally, the question should be posed why the new poverty reduction approach is limited to poor income countries. Indeed, although the so called emerging market economies reach, *on average*, a higher income, concentrations of extreme poverty, along with sharp inequalities in income and propriety do exist. Moreover, structural adjustment measures follow the same logic and tend to hit certain groups in particular. With the absence of sufficient safety nets, the problems are comparable to poor countries. Therefore, the Fund and the Bank should act on initiatives that translate the fundamental principles of the PRSP approach to these countries.

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Submission to the Comprehensive Review of the PRSP Approach
By World Vision
Policy and Advocacy Department,¹ World Vision

World Vision

World Vision is a Christian relief, development and advocacy partnership that serves more than 70 million people in nearly 90 countries. It is one of the world's largest civil society bodies, and seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation. World Vision works directly with communities through its area development programmes, often large-scale interventions benefiting many thousands of people. World Vision believes in enabling the poor to take control of their own development through participatory methodologies and also emphasises southern leadership. World Vision is the largest NGO recipient of donations by private individuals around the world for relief, development and advocacy

World Vision and PRSPs

World Vision, from the inception of the Poverty Reduction Strategy Papers initiatives, has sought to engage constructively with the development of this new approach to social conditionality. The prospect of comprehensive, country-owned, plans for poverty reduction, which enables improved donor co-ordination, is extremely attractive to all those who work alongside the poor. Given the new and innovative nature of PRSPs World Vision has therefore sought to take a view that these are a work in progress, some mistakes will be made but the potential ultimate benefits make perseverance worthwhile. In a sense this view has been best summarised by the World Bank and IMF when they state that:

'All concerned – countries, civil society and their external supporters (including the Bank and Fund) – are learning by doing in the PRSP context, and strategies will evolve in the light of experience. The numbers (and even the initial quality) of strategies prepared are only a preliminary indicator of success; the program will stand or fall on the basis of persistent poverty reduction efforts at the country level and their measurable outcomes in the lives of poor people.'

World Vision's fear, however, is that some of the problems that have arisen point to more deep seated problems in the management approach taken by the World Bank and

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particularly the IMF towards PRSPs. These problems are suggestive not so much of teething troubles in a new process, but rather a basic mismatch between underlying organisational aims and externally stated objectives. World Vision is not given to criticising the intentions of the IMF and World Bank as we are confident of their wish to reduce poverty, even so, in the context of PRSPs World Vision has been deeply disturbed by the nature of some of the issues that have arisen.

The experience of World Vision in relation to PRSPs within four of our programmatic regions will be shared early in 2002 in a new publication. The four areas involved give an overview of experience at different stages of the PRSP process. This submission draws below on parts of World Vision's forthcoming report. This submission also, however, utilises information from a wider cross-section of World Vision national entities currently participating in PRSP processes. This allows World Vision to speak from experience of contexts in which full PRSPs have been completed as well as those in which the process is still in relatively early days. Given that many countries are still developing their full PRSPs the review process does have an important opportunity to help refine and improve these ongoing processes.

The studies undertaken by World Vision (and included in the forthcoming publication) point to a diversity of perceptions of PRSPs including very real grass roots frustrations with the process. The forthcoming report is also able to review the global analysis of the initiative to date and this analysis informs the comments below. World Vision makes clear within this submission and its forthcoming report its own continued commitment to try to help make PRSPs work in all the contexts in which we are operational. Yet it will also point to the fact that without substantial change, and a willingness on the part of the Bank and the Fund to prioritise the original aim of poverty reduction over other organisational pressures, then PRSPs may be written off as a good idea badly implemented.

The PRSP Review Process

The comprehensive review of the PRSP Approach has itself been indicative of some of the problems that have been experienced in a number of individual national PRSP processes. The original terms of reference for the review are limiting, putting an emphasis on the small number of completed PRSPs which by their nature are likely to have been processes with relatively fewer problems than countries where final decisions have been postponed or drafting has been delayed. The Terms of Reference have also not been extensively shared with participating civil society in the south. In contrast the Bank and Fund have at times given the impression of almost seeking to steer input into the process into a format that addresses a narrow range of issues based around experience of participation.²

Perhaps even more disturbing has been the experience of the Review process in relation to the regional consultation seminars. World Vision found the process of trying to participate in these events extremely difficult even for a large well resourced NGO. In Asia World Vision staff were informed that development workers were specifically not wanted at the regional consultation event. Those NGOs who did manage to gain admittance to the Hanoi meeting found the event was organised around governmental input with no real opportunity for civil society comment. The L.America event was similarly problematic. World Vision did have a registered participant for the Bolivia meeting and was therefore surprised to find that the process for civil society representation was structured so that actual participation was almost impossible (including failure to give details of location, timing or registration).

The organising of the PRSP review in such a way as to limit and 'orchestrate' civil society is a sad reflection of the experience of participatory processes in numerous national level PRSP design processes. Civil society has much to contribute to the successful design and implementation of PRSPs, but that contribution can only be effective if participation is genuine. In the same way the PRSP review will be limited by decision not to embrace the widest possible spectrum of views on experience so far.

World Vision Experience of PRSPs

World Vision has been actively engaged in the PRSP design process in many developing countries, both directly and also through national coalitions to which we belong. Early in the process World Vision decided to closely monitor the experience of our national

² A list of suggested questions is posted on the IMF website but a narrow focus on participation was suggested in individual meetings with NGOs such as that between the IMF/World Bank with three US NGOs on 10/09/01

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partners and other NGOs in four regions (Ethiopia, Senegal, Cambodia and Latin America). Case studies based on experience in these four programme areas are included in World Vision's review of PRSP experience to be published early in 2002.

The experience of World Vision research in these four areas has been complemented by the publications of many national level coalitions and southern NGOs. These groups have been able to articulate the grass roots view of PRSP processes.

By drawing on both its own research and also the wider industry literature, including donor sponsored studies, World Vision has identified 12 major problems areas in relation to PRSPs. These 12 problems relate very directly to the key questions outlined by the IMF in relation to the review of the PRSP approach.

1. Participation - World Vision has not yet encountered what might be termed a satisfactory participatory process. In several contexts the process was limited to a select group of NGOs who received invitations to events at which the intentions of a government was outlined for their agreement. Elsewhere, World Vision has witnessed poor dissemination of documentation and information and inadequate explanations of the processes for the constituencies whose views were being sought.

The dynamics involved were explored in a review of civil society participation in PRSP processes by SGTS & Associates, which also found that the speed of transition from I-PRSPs to full PRSPs mitigated against 'good' participation.² The decision to make Participation compulsory, but not a part of the final approval process, did raise suspicions early on that commitment to this area was weak.³ Some critics have therefore been able to tabulate negative experiences by CSOs in a range of Countries.⁴ Timing was also clearly a factor that affected participation with some countries attempting processes in a limited timeframe (as the Ethiopia case study below highlights with 100 districts being targeted over 3 days).

2. NGO Capacity –The gradual progression towards new initiatives such as participatory budget setting highlighted a substantial capacity problem among NGOs. The Bank and Fund were eventually to respond to these concerns with some capacity building initiatives of their own.⁵ This is an issue that is highlighted both within the Cambodia and the Ethiopia case study below. The World Bank and IMF were both late to react to the capacity problem on the part of civil society groups and this has seriously impacted key parts of the initiative such as participatory budget setting.
3. Timing – The conditionality element within the genesis of PRSPs tended to create an impetus on the part of governments to seek a rapid completion of their PRSP

processes. As Adam and Bevan state:

'countries are very loath to settle for interim relief (obtainable at the decision point), reached, *inter alia*, when they have produced the more limited I-PRSP) without moving rapidly on to the 'completion point' at which the relief is locked in, and which requires implementation of a full PRSP for a year. The HIPC thus creates considerable pressure to speed up the transition to a full PRSP.'⁶

Whatever the cause it has been consistently suggested that the rapid development of comprehensive national plans for poverty reduction mitigates against quality, a dilemma that has surfaced in relation to Senegal (see the case study below). This tension has also featured in numerous academic and NGO papers,⁷ but was recognised by the World Bank and IMF in their September 2000 progress report.⁸ There is therefore an underlying question as to whether Bank/Fund thinking on the timetable for PRSPs was ever practical. The US General Audit Office has pointed out that those countries seen as developing best practice in this area have taken up to five years to construct an adequate poverty reduction strategy.⁹

4. Data – Economic changes dictate that communities may enter and leave conditions of poverty over relative short periods (a sudden market crash for the main local produce or a bumper harvest can have very different impacts). Data is therefore crucial to constructive an effective strategy against poverty and a key part of civil society experience has been the importance of accurately mapping poverty in order to plan effective programmes.

World Vision has therefore been surprised by the lacks approach to data taken within PRSPs. Overall data has played an inadequate role with only limited attempts at poverty mapping or thorough research, prior to the completion of the strategy.¹⁰ This problem has been common to almost all of the countries in which World Vision has been actively involved in the PRSP process. One of the earliest full PRSPs to be given the official seal of approval by the World Bank and IMF was that of Tanzania. The data used for much of the planning within the document was, however, based on a ten year old household survey.

Thin, Underwood and Gilling after their review of African PRSPs concluded that: 'Even full PRSPs have significant deficiencies in their poverty profiles, including lack of specificity about key categories of poor people, and lack of explicit linkage between the means and process of identifying the poor, and specific dimensions of anti-poverty strategies.'¹¹

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5. Social Impact Assessments and Monitoring – World Vision has been unhappy with the limited and late planning for social impact monitoring in relation to implementation of PRSPs. Processes for assessments and monitoring must be inbuilt during the planning stage of poverty reduction initiatives if they are to give an accurate picture of results. This has clearly not happened as a general rule within PRSP design processes. One DFID funded study was particularly scathing, stating that:

‘a blind eye is being turned to well-known facts about the unreliability of the official reporting systems and administrative data on which implementation monitoring depends. This is not picked up even in JSAs [Joint Staff Assessments – by the Bank and Fund]. The potential for using known shortcuts techniques, such as participatory beneficiary assessments and facilitated staff self-assessments, to provide quick feedback on critical implementation issues is not being explored creatively enough.’¹²

6. Resource Siphoning – The original suggestion by the World Bank and IMF that resources freed by debt relief would be complemented by those released from unproductive areas entailed a considerable assumption that such a process was politically possible.¹³ Yet the focus during the development of PRSPs has very strongly been on two specific areas of social policy: health and education. Governments may feel pressured to divert funding from lower profile areas of social policy into the health and education sectors.
7. Resource Gaps and the PRGF – the Bank and Fund were clear at the start of the PRSP initiative that new funding would also be required particularly from OECD donors.¹⁴ Although some donors have agreed to organise their existing aid flows around the PRSP concept few have actually committed substantially increased volumes of aid. Ultimately the quality of PRSPs may prove to be academic if sufficient resources are not available to allow them to be fully implemented.¹⁵ This is an issue that is drawn out within the case study on Latin America below, but which has also been encountered by World Vision in many other contexts.

The PRGF has also proved to be problematical as a component within the PRSP funding framework. It has remained primarily a means to support monetary policy and fiscal reform. Indeed a ‘stocktaking exercise’ of the PRGF by Adam and Bevan found that PRGFs did not differ dramatically from PFP (Policy Framework Papers). They also found that concerns over the quality of PRSPs had in some cases: ‘led to Fund staff feeling that they could not realistically base the PRGF on the PRSP.’¹⁶

In addition to problems applying PRGF to programmes PRSPs Adam and Bevan also

concluded that the Facility while suitable for stabilisation as a non-concessional loan is an expensive way of financing development.¹⁷ As a result the World Bank had to introduce a new financing system of its own termed Poverty Reduction Support Credits.¹⁸ In both cases the levels of finance available would be insufficient to fully finance a PRSP.

8. Ownership (governmental commitment) – An initial response to the concept of PRSPs was clear questioning of whether governments would ever fully own a policy or process that was itself a product of conditionality.¹⁹ Yet most actors accepted that without some degree of ownership the sustainability of PRSPs and their successful implementation would be in doubt.

World Vision's experience in this regard surfaces in two of the case studies below but a particularly interesting guide to ownership has perhaps been provided by a major SPA funded study undertaken by ODI. The 'Institutionalisation' study found that PRSPs had already been beneficial in bringing poverty reduction into the mainstream of national policy-making.²⁰ The study goes on to suggest that national stakeholders have 'settled into a relationship with PRSPs that is at worst one of equanimity and in many cases enthusiastic.'²¹

World Vision experience is that this view masks a diversity of experience and government officials in several developing countries have shared their own views on PRSPs which suggest a very low sense of ownership. As the SPA study states: 'In several countries, stakeholders perceive the PRSP exercise as being overwhelmingly motivated by getting access to debt relief and having little further significance.'²²

9. Government Capacity – A major issues that has affected the PRSP process in every country and which will ultimately have a determining effect on successful strategy implementation is government capacity. The impact of SAPs was to erode and shrink state sectors, often this shrinkage was felt keenly in the social policy arena.²³ Not surprisingly government capacity has been a key factor in producing problematical design processes (poor participation, inadequate data etc). Other countries, including Cambodia as described below, have been emerging from long periods of conflict and political instability that have also eroded capacity.

The same capacity issues could have a more damaging effect as governments seek to expand educational, health or other provision based on weak departmental infrastructures. Capacity problems may also still exist within essential parts of the central financial administrative system.²⁴ One area that has clearly concerned the Bank and Fund is budget tracking and Public Expenditure Management (PEM),

something the two institutions have identified as an urgent area for strengthening.²⁵

10. Macroeconomic framework – The Bank and Fund have long argued that the most critical factor is actually the achievement of economic growth, more recently this position has been nuanced by an emphasis on ‘quality’ growth (e.g. better income distribution). To a large extent, therefore, PRSPs will be dependent on their surrounding macroeconomic context. This was accepted by the Bank and Fund when they initially suggested that attaining trade liberalisation in northern countries was an essential ingredient in achieving success.²⁶

Attaining higher rates of growth is, however, for many of the countries dependent upon the success of the advice they are receiving from the Bank and the Fund. Yet the track record of IMF macroeconomic advice is not impressive (see the Latin America discussion below). The basic ingredients of PRSP macroeconomic packages seem to be the traditional adjustment approach with little substantive innovation or learning from elsewhere. World Vision studies have pointed to the inappropriateness of some key aspects of IMF macroeconomic advice for developing countries.²⁷ Although market led growth and trade liberalisation are important to reducing poverty the evidence is mixed as to whether IMF advice helps to achieve these goals.

The continued failure to absorb new economic knowledge within the macroeconomic framework is profoundly disturbing, as is the frequent failure to include basic pro-poor policies such as real and effective action to improve income distribution, for example through land reform. Yet, as the Senegal experience shows, the dominant importance of adherence to traditional macroeconomic prescriptions is the definitive characteristic of PRSPs. A factor underlined by the decision to make macroeconomic policy a decisive issue in the determination by the Bank and Fund of whether to accept a completed PRSP.

11. Is HIPC2 Sufficient? – A major assumption within the PRSP initiative is that HIPC2 will reduce developing country debt down to sustainable and manageable levels. If this is not the case those countries involved (including Senegal) face the prospect of seeking to implement PRSPs while still carrying high levels of debt that demand considerable resources for repayment. EURODAD suggests that for many HIPC2 debt to export ratios will remain above the IMF/Bank threshold ratio.²⁸ This was acknowledged in an IMF/IDA paper in August 2001 which suggested the need for options to increase debt relief at completion point.²⁹ Other critics, such as Oxfam point to the fact that debt repayments for countries benefiting from HIPC continue still exceed the level of social budgets.³⁰

12. Language – World Vision has encountered several instances in which key PRSP documents, including the draft PRSP itself, has only been available to external constituencies (such as local civil society groups) in English. The concept of a participatory process in which the essential materials appear only in a foreign language is nonsensical and this basic problem has devalued much of the rhetoric surrounding PRSPs.

Conclusion and Recommendations

The PRSP process is an important opportunity to introduce a new approach to poverty reduction that will focus energies and resources on the poor. The PRSP concept is itself fundamentally sound and much of the material produced by the Bank and the Fund over the last two years has been helpful, including the PRSP sourcebook.

The successful implementation of PRSPs will, however, largely depend on the quality of the design process and yet clearly there have been major process flaws. Success is also dependent upon significant increases in resources and at present these have not materialised. Equally poverty reduction is closely linked to macroeconomic policy and World Vision is not convinced that enough lessons have been learnt in this regard.

World Vision is also aware from its direct experience that country-ownership varies enormously with divergent views on the part of those involved. Unhappy experiences on the part of NGOs of participatory processes have also eroded the potential sense of ownership which might have existed on the part of civil society – reducing the likelihood of another set of important development actors joining the PRSP effort. Just as important is the issue of government capacity and the indicators to date are that this will be one of the key stumbling blocks that may derail PRSPs.

Many of these issues realistically should have been predicted by the World Bank and IMF, with programmes put in place to address the issues involved. The unfolding of PRSP processes has included action to deal with some of the most obvious issues, indicating a welcome degree of flexibility and a willingness to hold workshops, produce papers or change the sourcebook. Even so, too often the impression has been one of closing the stable door after the horse has bolted, the Bank and Fund have looked to solve problems after the underlying issue has already compromised many of the PRSP processes already underway.

The PRSP review should therefore seek urgent action to improve the framework being used for ongoing PRSP processes and to address some of the deeper flaws within the conceptual approach being used. This latter need is particularly acute in relation to the

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macroeconomic framework, although a fuller appreciation of the need for capacity building is also critically important. World Vision would therefore make the following recommendations for the continuing evolution of PRSPs:

1. Timing – The implicit motivators for a rushed process should be explicitly counteracted with clear recommendations that PRSP design processes must be focused on good design practice rather than speed. As a result data gathering and participation should never be compromised in order to more quickly produce a draft paper. The continuing linkages between PRSP development and debt relief timing needs to be urgently reviewed.
2. Data – The quality of data gathering and poverty mapping must be drastically improved.
3. Government Capacity – The World Bank and IMF have a clear responsibility to be more pro-active in capacity building key parts of state structures. This should also be extended to organised capacity building for national level civil society that goes beyond occasional workshops and specialist websites.
4. Resources – The IMF and World Bank must greatly increase their advocacy for increased development resources from the north, taking advantage of the Finance for Development conference as an early opportunity in this regard. Continued calls for northern trade liberalisation are also important. The World Bank and IMF should also make clear the insufficiency of HIPC and the need for substantial increases in the level and extent of debt relief. Debt relief should be increased based on a realistic analysis of in-country economic conditions, not simply cookie cutter donor prescriptions such as debt sustainability analysis.
5. Participation – Participation must not just be part of the PR process of the PRSP initiative it must also be a genuine attempt to develop the most effective strategies that are possible. Establishing criteria for the quality of participation on the part of the IMF/World Bank is not sufficient and would likely only reduce governmental ownership of the participatory process. Capacity building for participation is perhaps the most effective contribution that can be provided by the Bretton Woods institutions, both for the governments involved and also CSOs. A sign of good intentions in this regard would be to ensure that essential documents are at least available in the major languages of the countries involved.
6. Macroeconomic framework – Economic conditionality from the IMF has a weak track record particularly compared to more successful development and poverty

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reduction experiences elsewhere. The IMF review of its streamlining of conditionality was remarkable for the fact that the streamlining has addressed only the quantity rather than the quality of conditionality (and even in this regard it has not been a great success). The IMF should urgently move to a target based approach to conditionality based on medium term policy rather than short term attempts to direct the main instruments of economic policy. There is also a serious question as to whether the IMF is equipped to effectively manage a lending instrument such as the PRGF. Early signs are that action is needed to make the PRGF concessional, more appropriate for development, better linked to PRSPs and less focused on stabilisation; without such action the PRGF will be no more successful than ESAF.

7. IFI Practice - Increased accountability and transparency are needed at the World Bank and IMF to foster public confidence in their commitment to participatory processes and country ownership. The IFIs must also prove themselves willing to politically and financially support heterodox approaches to pro-poor development drawing on experiences in areas where poverty has successfully been reduced. The Bretton Woods institutions and donor governments must also be more willing to strengthen democratic institutions to encourage national accountability for the PRSP process, policies and results

Summary Case Study One: Developing a PRSP in Ethiopia

Background

Poverty reduction is the core agenda of Ethiopia's current development program. The country is characterised by overwhelming poverty. Ranking bottom in Africa in overall growth (-0.6% annually) with a per capita income of \$100 a year, approximately 65% of Ethiopia's current population size of 63.5 million live in absolute poverty. Average calorie intake in 1998 was 1954 calories, against the required 2200, and information generated from a health and nutrition survey in 1998 found that 60% of household income was spent on food. Ethiopia was recognised as a HIPIC Initiative country, and with this embarked on preparation of its PRSP. As of August 2002, the debt burden of Ethiopia amounted to US \$9 billion. This sum was consuming up to 20% of the country's foreign exchange reserves to service.

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Preparing the I-PRSP

According to the independent NGO, InterAfrica Group, the process of preparing a PRSP goes back to the May 2000 election campaign. Part of this electoral process involved extensive debate on development strategy. Participating parties discussed their programs as part of the election platform, through numerous gatherings and meetings. After the elections, government carried out further consultations with selected members of the civil service, elected officials as well as professionals from the private sector. These consultations led to formulation and adoption of the Second five-year program, whose principle strategy was the ADLI (Agricultural Development-Led Industrialisation). ADLI was in turn the basis for preparation of the I-PRSP by the government, which was submitted to the World Bank and IMF for approval.

World Bank/ IMF views of the I-PRSP

In the view of staffs of the World Bank and IMF, the Ethiopian Government's I-PRSP was acknowledged to contain both strengths and weaknesses. The weaknesses as seen by the Bank and Fund include: failure to indicate clearly the relationship between the poverty reduction strategy (PRS) and the policy metrics, targets and indicators; failure to mention how implementation of the PRS would be monitored and whether the institutions to undertake this would include civil society; failure to mention how the PRSP would be prepared and whether effort would be made to build broad ownership; failure to include a more in depth analysis of the poverty situation in Ethiopia. Furthermore, Bank and Fund staffs stated that much as it is proper to focus on agriculture to address poverty, the full potential of this sector may not be realised without further reform, such as improving the functioning of the agricultural input markets, overcoming implementation constraints in developing irrigation and improving infrastructure, streamlining the land lease policy as well as improving legislation of agricultural land.

They also noted that, given the persistence of structural food insecurity, a comprehensive food security strategy needed to be developed, and that policy reforms were needed to remove hindrances to the private sector. The strengths cited were that overall the I-PRSP had the necessary elements required, and that it provided a sound basis for the development of a fully participatory PRSP. Accordingly, their Executive Directors recommended that the I-PRSP be approved. Approval was granted and with it US\$112 million through the PRGF.

Concerns of NGOs.

At the April meeting of NGOs, several shortcomings were highlighted with respect to the approaches made in the I-PRSP as well as its recommendations. Chief among these was the fact that the I-PRSP was the product of one stakeholder, government. Other stakeholders were not included in its preparation. Its contents were similar to the ADLI strategy that was sector specific and that this approach was allowing less lea way to search for alternate strategies for addressing poverty.

In addition, the main thrust of the ADLI strategy was the emphasis on agricultural extension. ADLI did not incorporate other critical areas such as marketing and distribution as being vital to poverty eradication in Ethiopia. Furthermore, although 60% of the country is arid and is facing major environmental issues, the I-PRSP did not address the unique problems of the pastoral communities. The I-PRSP did not accord significant attention to such cross cutting issues as HIV/AIDS and gender, much as these occupy centre stage in the evolving poverty patterns in the country. The I-PRSP did not provide a clear timetable for the development of the full PRSP, and the roles of various stakeholders were not clearly articulated.

In order to make themselves heard and have an impact on the process, the NGOs decided to have a central voice to voice their concerns. Working under the auspices of the CRDA, an umbrella agency for 192 NGOs out of a total of 370 with registration in the country, the NGOs arranged a two-day workshop during which participants broke out into 8 panels and then made in-depth analysis of the I-PRSP and made recommendations with respect to approaches suggested on: HIV/AIDS and Health, Gender, Children and Youth, Education, Agriculture and Natural Resources, Water, Urban Development, and Pastoralists.

This was followed by formation of an NGO PRSP Taskforce. The Taskforce had 20 NGO standing members, and was given the mandate of (i) negotiating with government on how NGOs can best be involved in the process, and (ii) co-ordinating various PRSP initiatives in order to build an NGO perspective which would in turn be presented to government as the NGO input into the PRSP process. In turn the NGO Taskforce (i) commissioned quantitative and qualitative studies on contributions of NGOs in poverty reduction work, (ii) encouraged all member NGOs to take part in the woreda level consultations and regional level consultations, (ii) conducted workshops on a number of cross-cutting issues including; gender, pastoral issues, democracy and governance, food security, urban poverty, children, and HIV/AIDS; (iv) established formal relation with the national level PRSP steering committee; and (v) undertook public relation and sensitisation activities with available communication media. The information generated was used to start drafting an NGO Perspective Paper on PRSP.

PRSP: The formal consultations.

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As NGOs were organising themselves for effective participation and input, the PRSP process was officially launched. In its launch, government stated that the process would involve levels of consultation within the existing institutional set up. Consultation of citizens would be made at all levels of the analytical process, and would extend from district (**Woreda**) to Zonal, Regional and ultimately to National level. Participants would be drawn from all spheres of society with the objective of giving voice to the poor. Participants would be drawn from political parties, knowledgeable individuals, and civil society organisations. The objective would be to solicit their input in understanding the nature and causes of poverty, explore public action to tackle poverty, prioritise public action including public expenditure, articulate private sector role in poverty reduction, assess the implementation arrangement, identify the monitoring indicators, and monitor and evaluate the strategy.

To facilitate the consultation, it was indicated that the government would issue a framework document (in the local language) together with two other documents; the Second five-year Development Program, and the I-PRSP. The former sets the direction of policies and programs for medium-term economic growth (broadly derived from the long-term strategy of ADLI). The later sets the building blocks for poverty reduction strategy. These would be circulated ahead of time so those participants can form opinion on their contents and develop their own ideas on poverty reduction. The Federal Government would be responsible for the planning, co-ordination of the process, and preparation of the strategy document. The General Public would be represented in the consultation at district level. The pillars of the PRSP as presented by government for discussion would be: food security, democratisation and governance, decentralisation, and capacity building.

At the time of my visit (September), it was anticipated that at least 5,000 participants would take part in the district consultations; or roughly 50 participants from each of the 100 **Woredas** selected to participate in the consultations. The selection would be such that the participants at the **Woreda** level include those drawn from the five most vulnerable groups of society (rural poor peasants, urban unemployed, women, youth and the elderly). In addition civil society organisations would also participate, and would include; rural peasant associations, co-operatives, urban **kebele** associations, religious institutions, trade unions, NGOs, political parties, academic and research institutions, the private sector, media and donors. Since then, it has been reported that the number of participating **woredas** has increased to 115 in part to assure representation from the pastoral communities.

The timetable set for completion of the entire process was as follows: September 13-15 district level consultations in all regions; November 1-4 regional level consultation; and

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December 17-20 federal level consultation. All consultations would end by January 2002. In March a draft PRSP would be produced. May was set as the target date for submission of the completed PRSP. As of December 1st, only one region and one city administration had completed the district level consultations and were preparing for the regional level consultations. Hence, adjustments have been made in the schedule, and it is now left up to each region as to when they would complete their respective district and regional level consultations.

General impressions;

It is still too early to state what the outcome of the consultations would be in terms of preparing a PRSP in which all stakeholders have participated. However, those familiar with Ethiopia indicate that: (i) Public consultation by the government is a new experience. This gives a chance to government to learn the importance of public contributions. (ii) The very appreciation of the idea and undertaking of the consultation process is good development in its own right. It has merit, irrespective of debt issues, as people would now ponder over their own problems and be initiated to take action on their own. (iii) The consultation exercise, adds significance to governments emphasis on poverty as a matter of policy.

World Bank/ IMF recent moves:

More recently, the IMF and the World Bank's IDA announced that Ethiopia had taken the necessary steps necessary to reach its decision point under the heavily Indebted Poor Countries Initiative. Hence the HIPC debt relief from all of Ethiopia's creditors would amount to approximately US\$1.3 billion in net present value terms or 47% of Ethiopia's total official debt after traditional debt relief (corresponding to US\$1.9 billion in debt service relief over time). As a result the NPV of debt to exports ratio would be cut from 350% to 150% (at decision point), and even further over the next decade. Based on current projections, the NPV of debt to export ratio is expected to rise somewhat above the 150% threshold during 3-4 years following completion point due to high but essential levels of borrowing to help finance post conflict reconstruction and rehabilitation. The savings resulting from HIPC would amount to about \$96 million per year on average until 2021. Debt service as a percentage of exports would be cut by more than half, declining from 16% to 7% by 2003, and declining thereafter to less than 4% by 2021.

Summary Case Study Two: Developing a PRSP in Senegal

I. A Challenging Starting Point:

Located in the hub of West Africa, Senegal is a country with much potential and significant challenges. The last three years have produced solid growth rates, averaging around 5 percent, and relatively low inflation rates, around 3 percent. In spite of these figures, Senegal is one of the poorest countries in the world with a per capita income US\$510 dollars in 1999. In recent years, international aid to Senegal has declined significantly. This situation is made worse by the growing population, resulting in a steady decline in aid per capita, which in 1999 sat at a meagre US\$57.5 compared to nearly US\$80 in 1995.³¹ Social indicators bare the scars of poverty: 58% live below the poverty line.³² In general over half the population is illiterate. A closer look reveals that illiteracy rates are significantly higher among women than men. Over 70 percent of women are illiterate compared to just over 50 percent of men³³.

The task of the PRSP is to move beyond statistics to defining a strategy for poverty reduction.

Debt is a major obstacle in poverty reduction. This was a conclusion drawn from in-country preparatory analysis for the PRSP process in Senegal. For Senegal, debt relief translated into a mere 18% reduction in the Net Present Value of the country's debt burden, equivalent to about US\$450 million. Even with some debt relief, in 1999, of a total GDP of US\$4.8 billion, Senegal spent US\$237.3 million on debt servicing³⁴. The World Bank and IMF are one of the primary benefactors from Senegal's debt repayment: the country owes about 43 percent of its debt to these institutions.³⁵ Research by Jubilee Plus and the New Economics Foundation has drawn attention to the fact that, even with the reduction, the country will be paying out more for debt servicing by 2018 than it is today.³⁶ This situation is unsustainable and points to the insufficiency of debt relief commitments by IFIs.

Further analysis of Senegal's poverty profile suggests that addressing poverty lies in promoting agricultural development. 60% people live in rural areas, 80% of these live on less than \$2/day, most rely on agriculture for livelihood.³⁷ A proposed direction for economic development suggests agricultural diversification to increase productivity in rural sectors. Although logical, this strategy risks being undermined by Senegal's trade liberalisation commitments and ever-present trade barriers in the markets of industrialised countries. (Full report contains greater detail)

Beyond the weakness of the agricultural sector, the Senegalese profile of poverty makes clear that social expenditures need to redress the current imbalance between rural and urban areas |

The health sector is typical. The rate of infant mortality in rural settings is more than double that of urban settings (950/100 000 compared to 450/100 000). Yet public expenditures highly favour the urban areas. 48 percent of the budget is spent in Dakar where the poverty level is relatively low at 24.7 percent. In comparison, only 3 percent of the budget is spent in the region of Kolda where poverty levels reach 86.6 percent.³⁸

Identifying areas of emphasis such as agriculture, and the rural/urban disparity is an important step in formulating PRSP. If PRSPs however are going to be effective pro-poor, country-owned and participatory, who and how strategies are defined is critical.

2. A Troubled Process

2.1 Under Duress: The Role of Time Constraints

The time pressure threatens to significantly undermine the value and quality of the Senegalese PRSP.

Among a sample of participants in the PRSP process in Senegal, including government, civil society and donors, time constraints were identified as the most restricting factor in the formulation of the PRSP. The Senegalese I-PRSP gained approval from the Bank and Fund in June 2000 and the date for final submission was over optimistically proposed to be December 2001.

In theory, Senegal had a year and a half to complete the PRSP. In actuality, the process was effectively compressed into six months, officially launched at the end of June 2001. As a result, many of the critical components of the PRSP process were condensed into July and August and the synthesis of all the findings from the process into a draft PRSP was done in a mere fifteen-days in November, for submission in December 2001.³

Many involved suggested that time constraints on the PRSP process compromised not only the quality of the data analysis and resulting proposed strategies, but also the participation of civil society. Many of the participatory activities ended up being held simultaneously and as a result some civil society groups found it difficult to be involved. Constraints like these hamper the quality of participation and as one participant put it,

³ At the time of writing there is emerging evidence that the IMF has suggested that Senegal improve its macro-economic framework in order for the PRSP to be accepted. The suggested completion date appears to have been moved to April 2002

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leave the perception that consultation was an intellectual rather than an effective exercise.

When both the quality of the analysis and the legitimacy of the process are sacrificed for the sake of a deadline, what of worth is really left in the PRSP?

2.2 Contracted Participation

Participation in the Senegalese PRSP was limited to the involvement of large CSOs and networks, with marginal inclusion of traditional groups, and village level participation – including women. In addition, elected officials also appear to have played a very limited role during the formulation stage. Parliamentarians will only be officially included in the final ratification of the PRSP. These shortcomings are worrisome considering that informal networks are often closest to the poor and including parliamentarians is an important step in creating accountability for the PRSP.

What was the experience of those groups who did participate? In-depth interviews with CSOs well positioned through their strong or very strong involvement to influence the PRSP process included questions about their perceived ability to influence the content as a result of their participation. None gave a strong positive answer. In fact one organisation that was involved at essentially all levels of the process, including the steering committee, strongly disagreed that participation had resulted in influence.

Civil Society's perceived lack of influence can be attributed to a number of factors. One common concern was that, when the PRSP process was launched in June 2001, the government appeared with their analysis already prepared. Furthermore, civil society was expected to comment on the analysis presented without having received it before hand.

With many of the key groups left out of the process and those who were included doubting the impact of their involvement, the need for improvement can hardly be questioned.

2.3 Whose Idea of Pro-poor?

Defining a comprehensive strategy for pro-poor development, which consistently integrates social and economic policy objectives, has proved an illusive task. Within the documentation prepared for Senegal's PRSP, many sectors strategies contain long lists of activities associated with a given objective. Even when these activities are costed, they are not set within the larger economic context. Without this context some questions cannot be answered, such as "how will the predicted drop in government revenue

associated with the elimination of tariffs impact the funding available for the social sector?" If these details are not clarified, then social priorities risk becoming an unrealistic wish list that will not be funded, with resulting disappointment among groups who advocated for them.

The lack of connectivity between social and economic strategies in the PRSP points to another need frequently expressed by participants in the process: to strengthen the capacity for civil society to engage in economic policy dialogue. Without the capacity for all players to understand the economic framework and its implications, the disconnect between macro-economic and social policy objectives will never be addressed.

Bringing civil society into economic debates on the direction of the PRSP will only be helpful if all the facts – including new loan conditionalities – are on the table...

3. An Omnipresent Interlocutor

After the launch of the PRSP process, in a seemingly unconnected exercise, the IMF conducted a review of a PRGF loan to the Senegalese government. This review resulted in the "acceptance" of new conditionalities in order for the country to receive the third instalment of the loan. The conditions included the privatisation of two major state supported enterprises.³⁹

The terms of this loan will undoubtedly have an effect on direction for poverty reduction and growth, though no attempt was made to harmonise the terms of the loan with the forthcoming results of the PRSP process.

Furthermore, discussions to determine the new conditions for the loan were private, not public. If the PRSP process is based on the principle that civil society participation is key to effective strategies for growth and poverty reduction, then the failure of the government or the Fund to insist on an open process suggests that this principle has not penetrated deeply into the practices of either institution.

This example does not inspire confidence that relations between governments and the IFI have not changed as a result of PRSPs. Rather it is the same old policies and practises with new names. If the PRSP process is truly central in shaping the direction and development of the country, PRGF conditionalities should be negotiated within and not outside the process.

Furthermore, increased accountability and transparency around the actions of these institutions is urgently needed to foster public confidence that the IFIs are truly committed to participatory processes and country ownership.

4. Conclusions

Recent rumours indicate that the IMF has suggested the revision of Senegal's draft PRSP because it deemed the macroeconomic framework inadequate. Although exactly what inadequate means is unclear, it is clear that macroeconomics is what matter to the Bank and Fund. Whether it is through the conditions of PRGF loans or the stated fact that even with a PRSP in place, new loans will only be granted if the economic framework satisfies IFI criteria, it is evident that the limits of country ownership are set.

The Senegalese example starkly illustrates the limits of pro-poor. The vacuum, which exists in defining a comprehensive strategy that brings coherence to social and economic objectives, exacerbated by time constraints, means that pro-poor is likely to become neo-liberal economics with a few dollars for social expenditure. This is hardly the fundamental shift PRSPs were touted to be.

Summary Case Study Three: Developing a PRSP in Cambodia

Cambodia's PRSP

The PRSP process in Cambodia is in its infancy. The country has completed and submitted an interim PRSP in October 2000 and the full PRSP is anticipated to be completed by October 2002. Yet, despite the full PRSP yet to take place, the negotiations between the main actors in Cambodian development, namely the World Bank and the Asian Development Bank (ADB) have exposed serious problems of the PRSP process and its place in a multi-donor environment. Even before it is launched, the PRSP is almost redundant in its implementation as the lack of co-ordination by donors means that the over-stretched and under-resourced government ministries will be struggling to meet the demands of two major donors, while trying to keep within the constraints of the International Monetary Fund's dictate on fiscal stability.

The complex relations between bilateral donors, the Royal Government of Cambodia (RGC) and the Bretton Woods Institutions in Cambodia have revealed a political dimension to the PRSP that it was not designed to accommodate. In Cambodia, the

politics of poverty reduction have turned the PRSP process into a fight over territory and influence.

The Poverty context of the Cambodian PRSP

Like many of the first PRSP countries, Cambodia is one of the poorest countries, with low results on most measures of human development. GDP per capita is estimated at \$260 in 2000, with poverty estimated at 36% in 1999, down from 34% in 1994. Poverty in Cambodia is mainly located in rural areas, where the majority of the poor live (84%). Of that rural population, less than 5% earned more than \$1 per day as opposed to Phnom Penh where less than 30% earned more than \$1 per day.⁴⁰

Agriculture is the main industry for most workers. Over 77% work in agriculture compared to 18% in industry. However, industry makes up 37.7% of GDP compared to agriculture's 42%, and, importantly, the growing garment industry in Phnom Penh accounts for 70% of Cambodia's total exports of goods and services.⁴¹

Social spending per person is low, approximately \$5 for the year in 2000. This is despite the fact the majority of Cambodia's population is below the age of 18, and the health problems associated with poor nutrition, low immunisation rates and poverty.

Government revenues are still weak and tax revenues are not nearly sufficient to meet its expenditure. Foreign aid makes up 17% of nominal GDP, equal to twice domestic budget revenue. Of the \$600 million pledged to Cambodia by international donors, the World Bank and ADB contributed 20% through loans.⁴²

Social Economic Plans for Cambodia

Before any critique of the PRSP process in Cambodia can be undertaken, it is important to place the PRSP in the context of social economic plans currently in place in the country. The PRSP is not the first such paper operating in country, and due to divisions between the ADB and the World Bank, there will continue to be two plans after the PRSP is designed and implemented.

In addition to the World Bank's PRSP, the country has a social economic plan, the second of which, the SEDPII, was recently approved by the Cambodian National Assembly. The SEDPII is supported by the Asian Development Bank, which aids the Royal Government of Cambodia (RGC) with planning and designing the SEDP. The first SEDP ran from 1995 to 2000, and while comprehensive in its scope, proved to be

problematic in implementation with many of its main action points not completed.

Despite the Royal Government of Cambodia's appeals for one poverty reduction plan, there is no consensus. The PRSP arrived just when the SEPDII was being designed. The RGC asked its donors in the annual donors consultation meeting in 2000, to be allowed to combine the two strategies into one paper. While this seemed logical, that there be one poverty reduction strategy, the two main contenders, the World Bank and the ADB were not able to reconcile their differences, and the RGC was forced to plan and operationalise the two plans through its under-resourced Ministry of Planning.

Within this territorial war, the Interim PRSP can be assessed.

I-PRSP

Cambodian NGO community is highly evolved and sophisticated. There are 172 international NGOs and 360 Cambodian NGOs⁴. The NGOs have formed a number of coalitions through which they co-ordinate their work. The NGO Forum completed an in-depth critic of the final IPRSP document. The local Cambodian NGOs participate through this forum as well. Other institutions working on PRSPs in country include the well-respected Cambodian Development and Research Institute (CDRI), Oxfam who submitted a report on the PRSP process in March as well as some of the UN agencies, including UNDP

The IPRSP was started in May and was completed on the 20th October 2000. During that time, the NGO community was invited to meet with the RGC as part of a consultation process. The invite went to the head of the NGO Forum and the Co-operation Committee of Cambodia (CCC), both ex-pats. The meeting took place in August 2000 and consisted of the RGC, donors and the international financial institutions and reviewed the 6th draft of the IPRSP. The NGO community had not held consultations as yet as they were planned to take place between August to October. Therefore the two NGO representatives were uncomfortable to make significant contributions as they would not be representative of the wider NGO community.

Various NGO consultations went ahead including a one day workshop on the 25th October 2000. The results of the workshop were sent to the intergovernmental council to review and include them into the PRSP. Unfortunately, the by time of receipt of the NGO's views, the Council had already accepted the IPRSP and had sent it to Washington for approval.

⁴Figures taken from the **NGO Statement to the 2000 Consultative Group Meeting on Cambodia**, Paris 24-26 May 2000, p.58

Most importantly, the IPRSP went through a total of 8 drafts, and consultations with NGOs were based on these drafts. Unfortunately, all drafts were in English and not translated into Khmer. This exclusion based on language meant that most Khmer NGOs, especially those located in the provinces, were unable to participate in the consultation process. Perhaps even more worrying, is the low level of English speakers or readers in the various line Ministries that were to contribute to the IPRSP.

Given the language restraints, the poor timing of consultations and deadlines, the IPRSP was not a process of development between all sectors of Cambodian society. However, according to the IMF review of the IPRSP, the process was 'iterative and participatory'. Indeed, 'a number of drafts and redrafts were circulated. At an early stage in the process, copies of drafts were given to external partners. Several working group meetings were held, and the process has been opened to the Parliament, external partners, NGOs, and the private sector.'⁴³ The IMF fails to note the importance of timing and language.

The Full PRSP

Timing

The timing of the subsequent full PRSP is another important indicator of the importance of World Bank priorities as opposed to those of the country. Originally, the full PRSP was to be started and completed by the end of 2001. This would bring it on-line soon after the SEDPII was approved in March 2001. Many external commentators, including the UNDP and the Swedish aid agency, SIDA, pushed for the World Bank to slow down this process. The great speed of the PRSP process in Cambodia – from an IPRSP in October 2000 to a full PRSP in December 2001, along with devising another consultative process in the SEDPII was untenable. However, it was not until April 2001, when the SEDPII itself was put back to December 2001, did the World Bank relent and set a new deadline, in consultation with the RGC, of the end of 2002.

Language

Once again language is important, only this time it is the diplomatic use of words and language that is key here. In order to find some sense of agreement on with the ADB, the World Bank is at pains to show that the PRSP is the operational part of the SEDPII. In this new concept, the SEDPII will be the visionary strategy for the Cambodian economy, with the PRSP being the poverty reduction action plan. Consequently, the World Bank stresses that the PRSP is not the PRSP, but a national PRSP. While it is

difficult to understand the difference as according to World Bank publications, all PRSPs are national PRSPs, in Cambodia, the language is critical to get support.

The IMF

The IMF seems to be above the fray of interbank squabbles of the World Bank and ADB. It even highlights the problems of a low capacity government like that of Cambodia dealing with a number of plans. In its review of the Cambodian IPRSP, the IMF comments: "Looking ahead to the full PRSP, the main concern relates to the government's weak administrative capacity and difficulties in co-ordinating arrangements among different government and donor agencies and among various policy and planning initiatives."⁴⁴ The IMF apparently has decided to lift some of the load off the RGC, by removing the macroeconomic framework from the discussion. According to some international organisations in Cambodia, the IMF has already concluded its review of the macro framework for the PRSP. Certainly, in its review of the IPRSP, the IMF has indicated its use of the cookie-cutter approach:

In important part of the PRSP is the macroeconomic framework. It is the macro elements of poverty reduction that were to make the difference between traditional Bank/Fund lending and the new poverty focus of the PRSP. However, it does not appear that the IMF is fully on-board with this concept. In its assessment of the IPRSP in Cambodia, the IMF comments on the policy agenda that

*'The objectives of increasing economic growth, keeping inflation low, and containing the external account deficit while strengthening external management, are key elements in promoting a stable market-based economy. Fiscal policy will continue to be the cornerstone of macroeconomic policy. Current budget surpluses and the avoidance of domestic budget financing will be important for maintaining stability, while improved revenue mobilisation and expenditure management will be necessary to support poverty reduction objectives.'*⁴⁵

This accent on fiscal restraint is in evidence elsewhere in the IMF assessment of the IPRSP and advice of the full PRSP. While the IMF approves of the various plans and initiative for poverty reduction, it cautions the RGC that ' the IPRSP mentions a very large number of actions across those areas which are likely to strain institutional and fiscal capacity. There is, therefore, a need to prioritise proposed actions in the full PRSP, based on the expected poverty impact and to cost measures in the context of the ongoing development of a medium-term expenditure framework.'⁴⁶

Co-ordination

The object of the PRSP is to get all donors on board with achieving agreed poverty goals. For the PRSP to be successful, it must have buy-in from all actors in Cambodian development. The IMF is critical of all donors coming on board and warns the RGC that external assistance needed to support the PRSP will not be forthcoming. This is the nub of the problem. Although the RGC is trying hard to accommodate all donors, especially, the World Bank and ADB this is not easy. In Cambodia in particular, where there is a need for massive investment in basic infrastructure, the co-ordination of the donors is critical to any success. However, while the PRSP and the SEDPII is viewed as territorial wars between two dominant lenders, there is little ownership of the donors, including the NGOs to get on board.

Conclusion

In the final analysis, the PRSP process in the Cambodia context is a poor reflection on the ideals it proposed when it was launched. Rather than being refocusing of the Bretton Woods Institutions towards poverty reduction in all its work, it has become a tool with which to muscle in on other development bank's territory and get governments to work more on Washington agenda. The failure of the IMF to participate or even evaluate properly the participation of society and government in the process is indicative of the continued mindset of the old policy formation. The chances of NGOs and civil society groups getting any chance to influence the process as the full PRSP gets underway is poor indeed.

Summary Case Study Four: A Strategy to Reduce Poverty In Bolivia, Honduras, and Nicaragua

World Vision operates in 3 of 4 of Latin America's HIPC countries. According to the Inter-American Development Bank's poverty index, Bolivia is the poorest country in Latin America; Nicaragua, is second and Honduras, eighth poorest. Bolivia, Honduras and Nicaragua will continue to borrow from IFIs while they participate in the HIPC II initiative. The cycle of lending and borrowing continues with future generations bearing the burden. In addition, the gap between the proposed World Bank Poverty Reduction Strategy Paper (PRSP) and the actual Bank and Fund documents that will govern lending terms remains unresolved.

Approximately half of Bolivia's aid is delivered through concessional loans that will add to the burden of its debt. While HIPC governments will receive debt relief over the next 5 to 8 years, they will continue to need additional loans just to maintain basic social and economic infrastructures. Historically, economic investment in developing countries has outpaced social investment in the areas of health and education.

The PRGF is intended to boost the capacity of a HIPC country's macro economy. Favourable macroeconomic conditions, while necessary, are not sufficient to ensure a prosperous economy. Prosperity, says Harvard economist Michael Porter, ultimately depends on improving the microeconomic foundations of competition.⁴⁷

In the case of the Honduran and Nicaraguan economies, the drought and the downward spiral of coffee and cotton prices on exports have had a destabilising effect. The Bolivian economy is heavily dependent on mineral exports subject to price fluctuations. All developing countries are vulnerable to fluctuating currency exchange rates. It is difficult to ascertain how PRGF macroeconomic goals can support the World Bank's poverty reduction strategy paper process in this imploding commodity environment.

The enhanced HIPC II initiative with the imperfect PRSP and PRGF alone can not eradicate poverty, nor will special trade preferences. There are many internal and external cultural, political and economic factors that effect a government's ability, or in some cases its inability, to lift over half of its population out of poverty. In Latin America, there is strong sentiment against poor people in the cities and surrounding urban perimeters

All three countries suffer from a high unemployment rate, a high proportion of single women headed households, street children, an increasing rate of HIV/AIDS, and they suffer from a flight of capital as well as migration of employable citizens. Furthermore, there is evidence that PRSP and IFI involvement with civil society can be divisive among those who are allowed and who are excluded from participating in negotiations over poverty and development planning. Other than through local CBOs or NGOs, the poor sometimes have little in the way of political power to represent themselves. Without representation, they can then have no means to lobby on their own behalf.

Debt relief and poverty reduction are not dependent upon quick economic growth. Poverty reduction goes hand in hand with economic and human development and is a long-term goal. In the UN Human Development Report for 2001, rankings in the Human Development Index (HDI) and Gross Domestic Product (GDP) indicate that countries do not have to wait for economic prosperity to make progress in human development. In fact, indicators in poor countries show that with the right policies – greater investment in health and education – they can advance faster in human

development than in economic growth. However, if economic growth favours the poor, countries can do even more to promote human development.⁴⁸ The IMF maintains that it is not possible to have poverty reduction without economic growth. The HDI refutes that assumption, but if any economic growth should occur through the PRGF, some should be directed at supporting greater human development.

People living in poverty in Central and Latin America are often excluded from the process of economic improvement through the inequality of the distribution of wages and lack of access to the dynamics of production, especially in the case of land tenure and financial investment for rural development. Governments have been pressured to adopt the IFI's neo-liberal view that it is inefficient systems and poor labour productivity that are the key determinants of poverty.

¹ IMF/World Bank, *PRSPs – Progress in Implementation*, Washington, April 20 2001, p4 (point 6)

² SGTS & Associates, *Civil Society Participation in Poverty Reduction Strategy Papers (PRSPs) Report to DFID*, London October 2000, see pp5-6, p16, p53

³ Alan Whaites, *PRSPs: Good News for the Poor*, World Vision, Monrovia 2000 op cit p9

⁴ see Annex I of WDM, *Policies to Roll Back the State and Privatised?* London April 2001 which tabulates excerpts of documents summarising experience from a range of countries.

⁵ The World Bank held a workshop in April 2001 in Washington DC

⁶ CS Adam and DL Bevan, *PRGF Stocktaking Exercise on Behalf of DFID*, Dept of Economics, Oxford University, Draft November 9 2001 p5

⁷ see for example SGTS & Associates op cit p 16

⁸ World Bank and IMF, *Poverty Reduction Strategy Papers – Progress in Implementation*, September 7 2000

⁹ General Accounting Office, *Developing Countries, Debt Relief Initiative for Poor Countries Faces Challenges*, Report to Congressional Committees, Washington June 2000, p10

¹⁰ see Neil Thin, Mary Underwood, Jim Gilling, *Sub-Saharan Africa's Poverty Reduction Strategy Papers From Social Policy and Sustainable Livelihood's Perspective: A Report for DFID* Oxford Policy Management Group, Oxford 2001 p4

¹¹ Thin, Underwood and Gilling op cit p4

¹² David Booth, Henry Lucas, *Desk Study of Good Practice in the Development of PRSP Indicators and Monitoring Systems, Initial Review of PRSP Documentation*, commission by DFID for the SPA, ODI London May 2001 pvi

¹³ IMF, *PRGF – Operational Issues*, December 13 1999, point 7

¹⁴ IMF, *PRGF – Operational Issues*, December 13 1999, point 12

¹⁵ Alan Whaites, *PRSPs: Good News for the Poor?* Op cit p19

¹⁶ CS Adam and DL Bevan, *PRGF Stocktaking Exercise on Behalf of DFID*, Dept of Economics, Oxford University, Draft November 9 2001

¹⁷ Adam and Bevan op cit pp22-24

¹⁸ see World Bank paper to the Development Committee meeting of September 2000, *Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries*, Washington September 2000

¹⁹ Charles Abugre, *Still Sapping the Poor: A Critique of IMF Poverty Reduction Strategies*, World Development Movement, London February 2001 pp16-17

²⁰ ODI, *Institutionalisation Study* op cit pviii

²¹ *ibid* p 18

²² *ibid* p22

²³ see ODI *institutionalisation Study*, op cit pp26-36

²⁴ see ODI *institutionalisation Study*, op cit p ix

²⁵ World Bank/IMF *Progress in Implementation, September 2001* op cit p13. And also IMF/IDA, *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries*, March 27 2001

²⁶ IMF, PRGF – *Operational Issues*, point 59

²⁷ Alan Whaites, *Precarious States*, World Vision, Monrovia 2001

²⁸ Eurodad, *Debt Reduction for Poverty Eradication*, Brussels July 2001

²⁸ see Jubilee South, *Pan-African Declaration on PRSPs*, Kampala 10-12 May 2001 p3

²⁹ IMF/IDA, *Enhance HIPC Initiative – Completion Point Considerations*, approved by Jack Boorman and Cheryl Gray, Washington, August 17 2001

³⁰ Oxfam International, *Debt Relief: Still Failing the Poor*, Washington DC, April 2001

³¹ World Development Indicators Database, July 2001 www.devdataworldbank.org

³² Senegalese Interim PRSP May19, 2000 p.3 data taken from Enquête Sénégalais Auprès des Ménages (ESAM I) 1994

³³ World Development Indicators Database, July 2001

³⁴ IBID

³⁵ International Monetary Fund, (July 2000) *Senegal: Recent Economic Developments*, IMF Staff Country Report No. 00/91, Washington D.C. p16

³⁶ See www.jubileeplus.org/worldnews/africa/senegal230201.

³⁷ République du Sénégal, (2001) *Diagnostic de la Pauvreté au Sénégal*, Ministre de L'Économie p.8 Data taken from Enquête Sénégalais Auprès des Ménages (ESAM I) 1994

³⁸ IBID p. 26

³⁹ See www.imf.org "Letter of Intent, Memorandum on Economic and Financial Policies for 2001, Technical Memorandum of Understanding, August 30, 2001

⁴⁰ Sok Hach, Chea Hout, and Sik Boreak, *Cambodia's Annual Economic Review 2001*, Cambodia Development Resource Institute, Phnom Penh, pg. 18

⁴¹ Taken from SEDP II (draft 5 March 2001) – sources: National Institute of Statistics, Ministry of Planning, General Population Census of Cambodia 1998: Final Census Results, Phnom Penh, 1999, pp. xi-xxii; National Institute of Statistics, Ministry of Planning, National Accounts of Cambodia 1996-1999, Phnom Penh, 2000, p.18.

⁴² *Ibid*, 18.

⁴³ **Cambodia, Assessment of the Interim Poverty Reduction Strategy Paper**, International Monetary Fund and The International Development Association, December 26, 2000 accessed at www.imf.org, pg. 6.

⁴⁴ **Cambodia, Assessment of the Interim Poverty Reduction Strategy Paper**, International Monetary Fund and The International Development Association, December 26, 2000 accessed at www.imf.org.

⁴⁵ *ibid*, pg. 3.

⁴⁶ *Ibid*, pg 4/.

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⁴⁷ Porter, Michael E., "Attitudes, Values, Beliefs, and the Microeconomics of Prosperity", **Culture Matters**, edited by Lawrence E. Harrison and Samuel P. Huntington, pp. 17-18. Basic Books, N.Y., N.Y., 2000

⁴⁸ "What the Human Development Index and Human Poverty Index Reveal", **Human Development Report**, p.13, United Nations Development Program, N.Y.,N.Y., 2001

Contributions from Individuals

Draft November 9 2001

PRGF Stocktaking Exercise on behalf of DFID

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1. Introduction

This paper examines the Poverty Reduction and Growth Facility (PRGF) introduced by the IMF in 1999 as a successor to its Enhanced Structural Adjustment Facility. One of the key changes reflected in this switch was to be the introduction of the Poverty Reduction Strategy Paper (PRSP) prepared by the borrowing country, to be endorsed by the Boards of the Fund and the World Bank, and to act as the foundation for both the Fund's new instrument and that of the Bank, the Poverty Reduction Strategy Credit (PRSC). This co-ordination between the Fund and Bank programmes was also intended to assist in the process of streamlining conditionality.

Thus the new system involves the articulation of three major innovations¹. Since the design is new, and since parts of the structure depend on actions of other agencies than the Fund, it is early to assess the success of what is clearly a work in progress. However, with that caveat, it is already possible to come to some preliminary conclusions about the ongoing process, and which parts of it seem to pose the greater challenges. This study is based on experience in ten countries. It is restricted to a reading of the documentary evidence supplemented by discussions with Fund staff (mission chiefs and others) and with some of their counterparts in the World Bank². No field studies were undertaken, and hence there were no discussions with either the authorities or with civil society in the countries studied. Given the importance attached in the new system to issues of ownership and consultation, this is a major shortcoming of the present study, and the conclusions must be interpreted accordingly.

The remainder of this paper is in three parts. Part 2 argues for certain conclusions about the operation of the PRGF in general. It utilizes the Fund's "Key Features" as an organizing basis, and tries to provide some insight into those areas which are functioning well, and those that require further thought or further action. Part 3 provides thumbnail sketches of how things have evolved in each of the ten countries studied. Part 4 then sets out to place the PRGF at least partially in context, as the primary vehicle for the interaction between the Fund and its low-income members. Since there are some far-reaching issues here, a range of more or less radical alternatives is discussed. Part 5 concludes.

¹ It is also important to see it in the context of the Highly Indebted Poor Countries (HIPC) initiative, as will be argued subsequently.

² We benefited from the most informative, helpful and frank discussions with staff during our visit to Washington during October 22-26, and would like to record our appreciation for the courtesy and patience with which we were received. We would also like to acknowledge the high quality input from our research assistants at Oxford University, Phillippa Biggs and Ana Maria Lugo.

2. Operation of the PRGF to date: general issues

The key features of the PRGF are organized under seven headings or categories. These are:

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

Each of these is discussed here in turn³. Before doing so, however, it is worth pointing out four general features. First, one consequence of the Fund's famously intensive internal review processes means that, if it adopts a new system with a detailed checklist of actions, there will be detailed follow-up on the extent to which these actions have been executed and, where not, the reasons for this. These seven headings are broken down further into no fewer than twenty-four bullet points, mostly of a specific, concrete, and monitorable kind. Discussions with mission chiefs leave little room to doubt that these bullet points are taken seriously as defining what a Fund team is expected to achieve, and for which it is expected to be answerable if not always accountable (see the following point).

Second, these categories are very different qualitatively. The key features document itself notes that "the Fund's contribution needs to become more narrowly focused on the institution's core areas of expertise (see sections E and F), but at the same time more consistent with the broad approach to poverty reduction (sections B, C, and G) and with enhanced country ownership (sections A and D)". Thus the key features are symmetric, neither in respect of the expertise that the Fund brings to bear, nor in the extent to which the Fund could undertake to deliver on them even if it had the expertise to do so. In this respect, the key features represent a sort of portrait of what the Fund would like a PRGF to look like, but implementing this vision depends not only on the Fund's own staff, but a variety of other actors. The Fund can presumably be more or less pro-active in cajoling its various partners to carry out their part of the exercise, or it can act relatively passively. It is in this feature that different mission chiefs and their teams may get the most scope for differential behaviour. There is evidently a wide variety of attitudes amongst staff as to the intrinsic desirability of these changes. For some, they represent a welcome validation of a perspective they were already effectively trying to implement under the ESAF. For others, they threaten to compromise the future quality of Fund programmes. There is probably some validity in both perspectives, and there is a trade-off involved. However, our impression is that staff are on average very committed to trying to make the shift a success.

³ The discussion is in general terms, but draws on events in the sample countries. Most of this information is uncontroversial and often in the public domain. However, this is not true in all cases, and since our conversations were off the record, illustrations are not identified by country in this section. Country specific information is provided in section 3.

Third, even given the qualitative aptness of the previous point, the Fund's own partitioning of responsibilities is a little odd, and may have had important consequences for how staff have perceived their new obligations. Most importantly, category D refers to appropriate flexibility in fiscal targets. While choice within an 'appropriate' range should clearly be part of the 'broad' approach to poverty reduction, the question as to what is appropriate seems to fall squarely within the Fund's core expertise. In the presence of capacity limitations in domestic policy formation, there is a clear case for the Fund to be relatively pro-active in helping the authorities explore the dimensions of prudent flexibility. We return to this point below.

Fourth, as is clear from the second point, it is important not to over-stress the discontinuity between the old and new arrangements. While the shift from Policy Framework Papers (PFPs, often drafted to a standard format in Washington) to PRSPs, drafted in country, is potentially a really major change, much of the rest of the key features articulates aspects of the Fund's involvement with low-income countries that had been evolving steadily for some time. The shift should not be seen as a structural break, more as part of a cumulative process.

Given these general remarks, we now turn to a somewhat more detailed consideration of the main headings themselves.

A. Broad participation and greater ownership

The central feature underpinning this heading is the preparation of PRSPs by the country authorities via a transparent process involving broad participation, with the main elements of the PRGF then being drawn from the PRSP⁴. Since, for many governments, the switch from passively accepting an imposed PFP to generating a full PRSP involves a major and possibly protracted transition, provision was made for interposing a less ambitious interim PRSP between the two. While this switch seems eminently desirable at the level of general principle, there are a number of possible complications in practice.

First, at least initially, and possibly over a protracted horizon, there may be a real trade off between ownership and quality. It cannot be stressed too highly that this is very country specific; in some cases the process generating the PRSP has unquestionably been participative, and the resulting document has been internally consistent, focused and of high quality. However, in others there have been concerns over the extent of participation⁵, or of the quality of the resulting policy framework. In some cases this has led to Fund staff feeling that they could not realistically base the PRGF on the PRSP (with additional implications for heading B below) because of technical shortcomings in the latter; in others it seems to have led to doubts amongst Fund staff concerning the extent of in-country commitment to the PRSP; in yet others

⁴ In addition, "where relevant, joint staff assessments/staff reports [should] highlight flexibility in accepting country choices".

⁵ One interesting feature is that in at least one case, the formal requirement for a government to be seen to engage in consultation has led to the emergence of previously dormant civil society groups which remained active even after the PRSP had been finalized.

it seems to have led to in-country perceptions that the Fund's commitment to ownership was limited⁶.

This potential problem has certainly been aggravated by an unfortunate though understandable coincidence, where the I-PRSP to PRSP transition has been asked to fulfil a dual function. One of these has been the attempt more fully to relate Fund and Bank interventions to the aspirations of the recipient countries, as represented by the triplet PRSP/PRGF/PRSP. The other has been the HIPC initiative, with the associated imperative to ensure that debt relief will be utilized to increase social sector spending or otherwise benefit the poor. While there is nothing intrinsically in conflict between these two goals, it is in general a mistake to attempt to hit two targets with the same instrument. In this context, there may often be a conflict of timing. The HIPC initiative has a lot of momentum, and countries are very loath to settle for interim relief (obtainable at the 'decision point', reached, *inter alia*, when they have produced the more limited I-PRSP) without moving rapidly on to the 'completion point' at which the relief is locked in, and which requires implementation of a full PRSP for a year⁷. The HIPC thus creates considerable pressure to speed up the transition to a full PRSP, while the PRSP/PRGF relation would often benefit from a slower pace in which improved consultation and quality could be achieved incrementally. This conflict results from design features which cannot realistically now be addressed, but it may result, for some countries, in a delayed or otherwise less satisfactory transition to full local ownership of a satisfactory policy regime.

The second caveat about the PRSP/PRGF linkage is also related to the ownership issue. At the risk of caricaturing the difficulty, consider two very different types of PRSP. One is so bland that it would be hard to take serious issue with it. A change of government would cause no difficulty because all political parties would subscribe to it. On the other hand, the lack of specific content means that this type of PRSP really provides no concrete guide to policy. What is owned is relatively vacuous, so ownership is an empty concept. The other type of PRSP reflects a definite political stance. It provides an agenda for action, and ownership now has real content. However, a change of government might now involve radical revision of the PRSP, and in consequence might require revision of the PRGF. Of course the way in which the PRGF is related to the PRSP might insulate it from this type of consequential revision, but that would in turn raise questions about how fully the PRGF reflected the concerns of The PRSP. However, the process whereby the annual 'arrangement' under the PRGF is renegotiated would allow a considerable degree of accommodation to domestic policy shifts to take place.

In any event, the question of how best to relate these two instruments is far from trivial. The PRGF design effectively moves Fund programmes from a purely technical level of discourse to one involving explicit reference to issues of political economy. Of course, it could be argued that these issues were always there implicitly, and that this change is more of form than of substance. But that is to miss the point, which is that explicit recognition alters the nature of the permissible dialogue, and hence of the

⁶ This last conclusion is based on limited anecdotal evidence, given the lack of extensive in-country discussions for this study noted above.

⁷ Countries which had achieved completion under the previous more restricted version of HIPC do not need to fulfil this additional year's implementation requirement. These are the so-called retroactive cases.

possible outcomes. At its best, this should prove a strength of the new arrangements; at its worst, it could be a weakness.

As regards the Fund's own involvement in this process to date, it seems very various. Of course, it is a sensitive issue for a Washington IFI to become too involved in what should be a domestic process, even if the intention is good. However, there do seem to have been some benign instances of a relatively pro-active stance, especially in reflecting back to government information about disquiet on the part of civil society – for example, local NGOs – at inadequate consultation in the preparation of the PRSP. More commonly, the Fund staff seem to have been rather more passive in this connection, though it appears that there has been a marked increase in the extent of the Fund's own discussions with non-governmental bodies. In some cases, this included fairly intensive seminars intended to educate members of these bodies in the nature of policy choices.

B. Embedding the PRGF in the overall strategy for growth and poverty reduction

This heading is more ambiguous. In part it relates back to the previous heading of ownership; in part, it relates forward to the headings covering conditionality (E) and social impact analysis (G). However the central proposition under this heading is that the PRGF “should be based on fully integrated macroeconomic, structural and social policies” and that staff reports will “need to evidence this integrated framework”. This is a pretty tall order. This type of integrated framework is one which the economics profession, at least, has conspicuously failed to deliver over the last thirty years, despite much trumpeting of micro-macro frameworks. The short answer is that our understanding of these relationships, while not wholly lacking, is very far from being ‘integrated’. Even setting sights a little lower, and requiring that the PRGF provide (i) a consistent macroeconomic framework (ii) a context for the country's structural and social policies and (iii) be rooted in the PRSP is likely to be difficult enough. The main difficulty is that emerging PRSPs tend to provide detailed structural and social policies but are often very weak in providing a consistent macroeconomic framework. This leaves a potentially serious problem of articulation, with the Fund providing a macroeconomic framework, the PRSP providing a social programme, and the relation between the two being restricted to simple aggregation⁸.

There is scope for a very large agenda of work here. A partial list would include:

- Theoretical studies of macro-micro linkages. While these have been ongoing for many years, they have often been rather desultory in nature. In the present context, it should be possible to draw up a more focused research agenda.
- Applied/quantitative work using CGE models and micro simulation. There is much work currently under way in these areas.
- Some serious interdisciplinary work tracing the individual, household, and community level impacts of macroeconomic policy changes.

All of these areas are currently active, but an increase in the activity level would be necessary, though perhaps not sufficient, to clarify these complex connections. It does not appear that the Fund has given much active consideration to these matters. For example, the joint exercise with the World Bank to develop CGE approaches appears to have collapsed with this activity now reverting solely to the Bank.

⁸ Even simple aggregation may be lacking when the PRSP fails to provide detailed costings of its policies, as has so far typically been the case.

C. Budgets that are more pro-poor and pro-growth

To some extent, this heading suffers from the same difficulties as the preceding one, namely that we lack a clear understanding of the processes involved. Beyond that, the two considerations tend to be treated separately. The pro-poor aspect tends to be seen as involving a reorientation of government spending towards the social sectors and basic infrastructure, coupled with improved tracking to ensure these expenditures actually take place. It seems plausible, *a priori*, that this type of compositional shift should benefit the poor; however, *a priori* is pretty much what it remains. It is extraordinarily difficult to demonstrate that these shifts do improve outcomes. The issue of pro growth budgets is more problematic. There is a consensus that, at least over a range, a reduction in inflation enhances growth and benefits most citizens, including the poor⁹. Hence, at least after an interval, stabilizing an unstable economy is likely to be both pro poor and pro growth. Beyond that, it is difficult to be clear about what budget configurations are likely to be pro growth¹⁰.

In this area, the Fund has been pretty active, pressing (along with others in the international community) for major shifts in the composition of spending, and for the creation of institutions to deliver these (such as those covered by heading F). There have also increasingly been cases where the Fund has argued against various measures, not on the traditional ground that they would increase the deficit, but on the ground that they would have adverse distributional consequences, or at least that they might do so, so that incidence studies should precede their introduction¹¹. The Fund has also been very active in pressing for improvements in the institutions governing property rights and market functioning.

D. Ensuring appropriate flexibility in fiscal targets

Two features of this heading may be highlighted. First, as noted earlier, it is rather confusingly excluded in the key features document from the Fund's core areas of expertise. Second, the discussion in the supporting notes restricts the question of flexibility almost entirely to possible variations in external financing. For example, it asks how expenditure might be varied if greater aid receipts became available than those originally projected. The other legitimate concern of fiscal policy, in respect of domestic financing, is not addressed.

These two features lead to two potential problems. The first is that the Fund staff appear to have behaved rather passively under this head. If a government comes forward with alternative fiscal scenarios, that is well and good. If not, then the Fund does not set out to explore them with government. The second is that, even if a government takes it on itself to explore its fiscal options, the key features document implicitly restricts the agenda to the foreign financing dimension. Given the difficulty of these matters, and given the limited technical capacity of several recipient

⁹ Though it is less clear how the benefits are distributed between the poor and the non-poor.

¹⁰ Of course, governments may have considerable influence, for good or ill, in creating or preventing an 'enabling environment' within which the private sector can thrive. But stabilization issues aside (as where the government crowds the private sector out of domestic credit), it is not apparent that this has any identifiable budget implications.

¹¹ Examples of this situation include the proposed introduction of user charges in the health sector a proposed reduction in the top rates of income tax.

governments, this seems unsatisfactory. Of course it is right that the government, and not the Fund, should exercise political choice over its fiscal options within the space of prudent policies. However, in defining the limits of this space, a government may well need sympathetic and competent assistance, which the Fund is well placed to supply.

These issues are far from trivial. To offer a specific example, consider a government which has successfully disinflated the economy, has received HIPC relief, and has secured a substantial net concessional inflow, but still has excessive domestic debt. It has a choice between a more or less rapid retirement of its domestic debt, at the cost of a more or less severe reduction in its social spending. How should it strike the balance. While this is ultimately a political decision, it still needs to be an informed decision, and the likely consequences of different courses of action are not self-evident. (How rapidly may domestic interest rates be expected to fall? How rapidly may domestic private credit and investment be expected to respond?)

Our understanding is that the Fund has not given much thought to the issue of how it should assist countries to explore the issue of flexibility. This seems to be a major lacuna in present arrangements. There are some challenging issues here. It is almost certainly not sufficient simply to suggest that country teams should take the point on board. It would more likely require the Fund to give active and co-ordinated consideration to how best to approach the matter. The in-country vehicle with which this process could most appropriately engage is the Medium Term Expenditure Framework (MTEF). This is now up and running in several countries, and being introduced in a number of others.

E. More selective structural conditionality

This is an area where experience to date has been extremely various, but apparently for good reason. In general, there has been a serious effort to streamline conditionality, but this has been very dependent on context. For example, in cases where the PRGF has been implemented well in advance of any comparable accompanying World Bank programme, the PRGF may include structural conditions which really ought to be the preserve of the Bank under the new protocols. This typically reflects the perceived need to maintain conditionality in the relevant area, rather than any reluctance to 'let go' of conditions peripheral to the Fund's central remit. In other cases, there has been a very marked reduction in the scope of conditionality, with a much tighter focus on quantitative performance criteria (international reserves, net domestic assets, reserve money, and the like).

However, it should be noted that a number of mission chiefs expressed reservations about this change. Their reservations reflected some lack of confidence in the World Bank to deliver on these structural conditions, partly in light of the very wide range of issues that concern the Bank, and the consequent risk of low power in any one of the associated conditions. It should be emphasized that staff in both Fund and Bank stressed the close and co-operative relations between them at the country level. They also, with very few exceptions, claimed that this co-operation had been strengthened by the improved delineation of responsibilities under the new arrangements. Hence these reservations do not seem to reflect any lack of practical sympathy between members of the two institutions 'on the ground' but rather a concern by members of a

rather closely focused institution for the collective characteristics of an institution with a much more dispersed remit.

F. Emphasis on measures to improve public resource management/accountability

Discussion of this heading can be extremely brief. It falls very directly within the core competence of the Fund, and also within the collective preferences of the institution. It has been pursued consistently both prior to and following the introduction of the PRGF. It involves a complicated agenda and a protracted effort, but real progress has been made. Efforts in this area would likely continue unabated under any feasible variation in the PRGF or a successor facility. This is also an area in which the Fund has a shared role with the World Bank, which has taken the lead in organizing public expenditure reviews and in helping countries move to forward budgeting and an MTEF.

G. Social impact analysis of major macroeconomic adjustments and structural reforms

This heading, while appropriate within the broader context of the PRGF, is more than a little idiosyncratic. It recognizes the importance of attempting to assess the distributional consequences of policies, it makes rather specific assertions about the desirable scope of these assessments, and it stipulates that the lead agency for supporting country governments in their conduct should be the World Bank. The Bank itself has been rather more cautious in committing to this programme, for example in its own interim guidelines for the PRSC. It is currently devoting considerable energy to exploring appropriate methodologies for conducting these analyses, a process viewed with some scepticism by several Fund staff ("It's hardly rocket science" was a recurrent theme.) Given the importance of household and other micro data sets to the analysis of social impacts, it is clearly correct that the Bank should be the lead agency here, with the Fund playing a secondary role. However, the current separation seems excessive. There is, after all, a substantial tradition of tax and expenditure incidence whose conceptual roots lie in the type of fiscal arena within which the Fund has substantial expertise. There is also the development of CGE modelling approaches to which the Fund could usefully contribute but from which it seems to have withdrawn, as noted previously.

On the more positive side, there are three features to note. First, Fund staff are clearly prepared to engage in the sort of a priori analysis of distributional impacts which must provide the first step (a sort of 'sighting shot') in this type of assessment. These preliminary analyses have begun to appear in staff reports. Second, as already noted, potential distributional impacts are beginning to be taken seriously in how Fund staff view a desirable programme design, and in the way in which they react with governments. Third, there has been the experiment of appointing two social development advisors to assist in Fund operations. This is a very small provision given the scope of these operations. However, their services seem to have been much in demand, and consequently quite severely rationed. For country teams having access to them, this innovation seems to have had a real impact on the way in which business is conducted. There seems to be a good case for further expansion of this arrangement. On the whole, Bank staff also thought this an improvement, and (with the odd exception), did not see it as an intrusion into their own preserves.

3. Country Summaries

The following country summaries are based on IMF Board documents (recent Article IV Staff Reports and reviews of annual PRGF arrangements) and interviews with IMF staff in Washington DC. Our review is based on the experiences of 10 countries, eight in Africa (Ethiopia, Ghana, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia) plus Nicaragua and Vietnam. All 10 countries currently have (or are in the process of re-negotiating) PRGF facilities with the IMF and all have had previous ESAF arrangements. Only four of the PRGF facilities (Ethiopia, Malawi, Tanzania and Vietnam) are 'new', having been negotiated after the introduction of the PRGF in November 1999. For the remaining six countries the current PRGF facility has been converted from an earlier ESAF arrangement. With two exceptions (Mozambique and Zambia) these rolled-over Facilities are in their final annual arrangement.

Three countries (Mozambique, Tanzania and Uganda) had a full PRSP in place at the time of the review. All other country programmes were based on an interim PRSP. None of the countries in our sample with 'new' PRGF arrangements (Ethiopia, Malawi and Vietnam) have yet published their own PRSP. This is true for PRGF-eligible countries more generally: Uganda and Albania are expected to be the first countries to negotiate a PRGF under a full PRSP some time in the final quarter of 2001.

Our sample contains at least three types of country. The first is a small group of countries entering a 'post-stabilization' phase consisting of Uganda, Tanzania and, to a much lesser extent, Mozambique. In these countries a measure of price stability has been restored, the domestic fiscal deficit (after grants) is moderate, and major structural reforms have been addressed. Though continued macroeconomic stability is far from assured and these economies remain vulnerable to external or domestic shocks, aggressive stabilization through fiscal control is no longer the only game in town. The policy debate here is increasingly focused on issues of medium-term growth and poverty reduction with a strong emphasis on budget composition and the efficiency of public expenditure. In these countries the scope of the IMF's structural conditionality has narrowed considerably and tends to be concentrated in the areas of tax policy, fiscal governance (often concerning the control of domestic arrears accumulation) and the fiscal aspects of financial sector reform.

The second group consists of countries where price-stability has not been (fully) restored, or where low inflation is only being sustained by a fiscal stance that is arguably much tighter than would be desired over the medium term. This group includes Ghana, Ethiopia, Malawi, Nicaragua and Zambia. In these countries the fiscal control imperative that shaped previous ESAF arrangements still takes centre-stage. Thus concerns about expenditure control and structural problems, most notably over issues of privatization, still dominate the policy debate to the exclusion of many of the concerns anticipated in the Key Features but predicated on a degree of macroeconomic stability being in place.

The final group consists of Vietnam and Rwanda. Both countries have enjoyed relatively strong growth and low inflation in the recent past and hence may reasonably be included with the 'post stabilization' countries. But both are still undergoing a process of transition, in Vietnam's case from a centrally planned structure, and in Rwanda's

from the 1994 Genocide. These specific histories give the PRGF programmes a somewhat different character.

The summaries presented in this section, which are grouped according to this classification, are meant to be illustrative rather than comprehensive: they highlight salient circumstances in each country in order to provide a country-specific context for the substantive issues discussed elsewhere in the paper.

'Post-stabilization' countries

Mozambique

- *June 1999 ESAF converted to PRGF July 2000, planned completion April 2003.*
- *SDR 166 million (146% of Quota)*
- *HIPC II DP achieved April 2000. CP achieved September 2001 ('retroactive' since HIPC I CP June 1999)*
- *I-PRSP approved April 2000, PRSP approved September 2001*

Despite the effects of the serious flooding in the early months of 2000, Mozambique's macroeconomic performance since then has been relatively steady. Although real GDP growth was adversely affected (falling from 7.5 percent per annum in 1999 to just over 2 percent in 2000), the tight fiscal and monetary stance adopted by the authorities has limited the impact on inflation (which edged just over 10 percent for 2000) and kept the PRGF on track. Quantitative performance criteria have been consistently met since the floods and in many cases comfortably so.

Superficially, the programme in Mozambique has not changed radically from ESAF to PRGF. In part this is because the adverse effects of the flooding have focused attention back onto short-run fiscal management issues, but the main reason is that, as in Uganda, many of the hallmark features of the PRGF were already in place under the ESAF, most notably in the early engagement in the PRSP process. Mozambique has moved relatively quickly to produce a full PRSP. Although this has received the support of the Boards of both the World Bank and IMF, there is still some concern that ownership of the PRSP does not extend very deep. The PRSP has been driven by technocrats within government (in this sense it is very much locally owned) but arguably involvement with civil society has been principally a process of dissemination rather than consultation.

Running parallel to the PRSP process have been significant (but still substantially incomplete) developments in the areas of public expenditure management and tracking, and a significant investment in poverty and social impact analysis. Although a comprehensive poverty assessment is still awaiting the completion of a new household survey, there has been some analysis of the impact of specific trade reform measures, such as those affecting the cashew nut sector. Mozambique is also one of the countries where the IMF's social development advisors have been integrated into Fund missions and have played a role in clarifying the likely poverty impacts of the PRGF-supported programme.

Fund conditionality has been streamlined quite substantially, but since the programme still faces a substantial risk arising from the parlous financial health of a number of commercial banks, the recapitalization of two of the largest of these failing banks,

Banco Austral (BA) and Banco de Mozambique (BCM), was included as a structural benchmark for June 2001. BCM was successfully restructured and recapitalized but the authorities were unable to conclude negotiations on BA thus delaying the completion of the third review of the PRGF until September 2001, at which time a range of prior actions concerned with the resolution of BA's financial conditions had been put in place. Structural conditions established for the remainder of 2001 focus on tax policy and administration and further financial sector supervision.

Concerns about these structural weaknesses in the economy translate into a relatively cautious fiscal outlook for the remainder of the PRGF. The programme for the medium term anticipates continued fiscal consolidation in the face of high levels of external concessional finance so as to allow a continued reduction in domestic net claims on the government. Since Mozambique had already achieved completion under HIPC I, its achievement of the HIPC II completion point was immediate upon approval of the PRSP by the IMF and World Bank Boards. Second tranche debt relief is, however, relatively modest, reducing the net present value of debt by US\$254 million on top of an initial HIPC I reduction of US\$1.7billion.

Tanzania

- *New PRGF March 2000 – April 2003 (previous ESAF/PRGF completed successfully in February 2000).*
- *SDR 135 million (68% of Quota)*
- *HIPC DP achieved April 2000, CP anticipated November 2001*
- *I-PRSP approved March 2000, PRSP currently being implemented*

The first 18 months of the current PRGF in Tanzania have been relatively successful. The Facility followed directly from a successful ESAF and was developed hand-in-hand with the I-PRSP, itself evolved from the National Poverty Eradication Strategy developed in 1997. The annual quantitative benchmarks have been consistently satisfied and in many cases exceeded, while progress against structural benchmarks has been good. Real GDP growth has been steady if moderate averaging just under 5% per annum over the last three years, while inflation has remained consistently in the low single-digits. Tanzania had not achieved its HIPC I completion point and hence has been obliged to deliver a year's successful performance under its full PRSP to access the HIPC II completion point. This has been achieved, and it is anticipated that the HIPC II completion point will be achieved in November 2001, making Tanzania the first HIPC country to secure full debt relief under the floating completion point arrangements.

The biggest changes heralded by (or at least concurrent with) the new PRSP/PRGF structure are the streamlining of conditionality and the greater transparency in the IMF's operations. The former represents an important check on a tendency towards 'conditionality creep' which, arguably, had characterized earlier ESAF facilities. Under the new PRGF there is an extremely clear delineation of responsibility between the IMF and the World Bank (under its Structural Adjustment Credit). The IMF's structural conditionality focuses predominantly on matters relating to fiscal governance (clearance of arrears, public debt monitoring, revenue and expenditure tracking and monitoring) and, to a much lesser degree, on strengthening the financial sector. In the first year of the PRGF explicit targets for childhood immunisation rates

and for school mapping were included as structural conditions. These reflected specific HIPC requirements and have subsequently been dropped: the only non-conventional quantitative condition remaining in the programme is a targeted floor for government revenue mobilization by the Tanzania Revenue Authority. Overall though the list of conditions has been reduced substantially compared to the ESAF/PRGF completed in February 2000. The World Bank on the other hand has accepted responsibility, at least in principle, for longer-term issues in governance, the development of the MTEF, public utility regulation, privatization, and supply-side developments.

The increased transparency, buttressed by the PRSP, has also helped re-define the space in which the macroeconomic policy debate is conducted. Tanzania is one of the few countries where the PRGF has supported greater flexibility in the Fund's negotiation with the authorities. For example, a looser fiscal stance is programmed for 2001/02 relative to 2000/01 to allow for a significant increase in priority-sector expenditure, although given the high average grant-element in external financing this fiscal stance is still rather tight, from the perspective of debt sustainability if not in terms of the absorptive capacity of the economy.

Uganda

- *November 1997 ESAF converted to PRGF December 1999. Concluded in March 2001 after granting of non-performance waivers.*
- *SDR 100 million (56% of Quota)*
- *HIPC II DP achieved February 2000, CP May 2000 ('retroactive' since HIPC I CP April 1998)*
- *No I-PRSP published, PRSP currently being implemented*

The Uganda experience in the second half of the 1990s has been used as a blue print for the development of many aspects of the PRSP and PRGF processes. Building on an ESAF-supported stabilization and recovery during the 1990s, Uganda was the first country to reach the HIPC decision and completion points for permanent external debt relief. It was the first country to publish a PRSP (based on the PEAP), bypassing the need for an interim PRSP, and was amongst the first to establish a reasonably well-functioning MTEF. The MTEF plays a central role both in the planning and management of public expenditure and as importantly provides an anchor for the budgetary process. As the system matures so an increasing number of donors, including the World Bank and IMF, have started to co-ordinate their activities around the government's own planning cycle. Similar developments have been seen in the area of social impact analysis. The considerable investment in household and facility-level surveys in recent years has allowed the World Bank, other donors, and the poverty monitoring unit (PMU) within the Ministry of Finance to undertake extensive social impact analysis. The PMU in particular seeks to assess the poverty impact of all new spending initiatives emerging from the MTEF.

In many respects Uganda still remains ahead of the curve. As the PRSP/PRGF becomes embedded elsewhere in Sub-Saharan Africa, the debate in Uganda has moved on to the question of the role of the PRGF in a 'post-stabilization' economy. This has two key dimensions. First, in recent years the annual discussions of the macroeconomic framework has seen the Fund relax its previously held position over

the fiscal deficit and commit PRGF resources in support of a strongly expansionary fiscal stance. The wisdom of this strategy has been questioned in some quarters (both within the Fund and elsewhere), but despite these concerns the Fund has given its support to the strategy which is an important step as governments and their development partners explore the limits of feasible post-stabilization fiscal strategies. Second, the conclusion of the PRGF in March 2001 has led to an extensive discussion about the subsequent PRGF. The issue at stake is that while the Ugandan authorities are keen to have a programme with the IMF – for signalling and surveillance purposes -- they do not currently require the Fund's resources. Even though the PRGF is the most concessional of the Fund's facilities it is still relatively non-concessional compared to IDA funds or the grant financing provided by the bilateral donors. A compromise appears to have been negotiated in the form of a 'low resource' PRGF.

Stabilization countries

Ethiopia

- *New PRGF March 2001-March 2004 (previous ESAF completed October 1999)*
- *SDR 87 million (65% of Quota)*
- *HIPC DP anticipated Q4 2001*
- *I-PRSP approved August 2000, PRSP due 2002*

The current PRGF was negotiated in the wake of the cease-fire (June 2000) and peace accord (December 2000) which ended Ethiopia's two-year war with Eritrea. The preceding ESAF arrangement (from 1996-99) was concluded successfully although its final years were characterised by limited progress on structural reforms and rapidly deteriorating macroeconomic performance which by 2000 had manifested itself in a fiscal deficit after grants of around 12 percent of GDP.

The preparation of the new PRGF followed hard on the heels of the I-PRSP and as a result benefited from close collaboration between the World Bank, the IMF and the government. This collaboration has so far carried through to the implementation stage. Mission briefs prepared by the Fund have been routinely circulated to the Bank for feedback, and dialogue with Ethiopian authorities has been productive. The World Bank's intensive sector-level engagement in Ethiopia also provides a basis for effective poverty and social impact analysis (PSIA) of PRSP and PRGF policies, although the capacity of either the World Bank or the government to carry out such analysis has yet to be tested.

The PRGF differs substantially from the earlier ESAF, most notably in the extent to which conditionality has been streamlined. The first-year PRGF arrangement contains only four structural benchmarks and performance criteria limited to three areas: tax administration; the establishment of a management contract for the Commercial Bank of Ethiopia; and the creation of an inter-bank foreign exchange market to replace the current administered system of wholesale foreign exchange allocation. These conditions were supported by a set of prior actions designed to ensure their implementation was feasible within the lifetime of the first arrangement. All prior actions were met on schedule, allowing punctual initial disbursement against the Facility in early 2001.

In contrast to some other post-conflict countries in our sample, such as Rwanda, the PRGF itself does not include any conditionality on the composition of expenditure, either as a quantitative benchmark or structural performance criterion. Rather, the government's intention to restructure the composition of expenditure is reflected in the I-PRSP and explicitly in the budget framework underpinning the PRGF. A reduction in defence expenditure in the order of 8 percentage points of GDP (from 13.3% in 1999/00 to 5.0% of GDP by 2002/03), combined with other smaller reductions in expenditure and improvements in revenue and grants, is anticipated over a three year horizon. This will permit a steady increase in poverty-focused expenditure (from 8.6% of GDP in 1999/00 to 14% in 2002/03) and a sharp reduction in the overall fiscal deficit after grants of around 5 percentage points of GDP over the same period.

Given the focus on restoring a measure of fiscal stability, there is relatively little debate over fiscal choices. Staff analyses do consider the consequences for the programme of changing external conditions (specifically the terms of trade and donor aid flows) but do not consider alternative domestic deficit financing options. The government has, however, recently embarked on work to develop a medium-term expenditure framework which is expected to provide a basis for more comprehensive assessment of alternative domestic financing options in the future.

There is substantial pressure to expedite publication of the full PRSP so as to achieve HIPC decision and completion points. Poor performance under the ESAF has meant that the decision point, originally anticipated for mid-1999, has not yet been reached. Progress on the full PRSP may be difficult though. The publication of the I-PRSP, arguably a much simpler document, was a relatively slow process, with a number of stakeholders, mainly bilateral donors, feeling they were insufficiently integrated in the consultative process. Aside from the question of broad participation, there remains a substantial amount of technical work required to bring a full PRSP to the IMF and World Bank Boards.

Ghana

- *May 1999 ESAF converted in July 2000, due for completion in May 2002*
- *SDR 192 million (71 % of Quota)*
- *HIPC DP achieved December 2000*
- *I-PRSP approved June 2000, PRSP due Q4 2001*

Recent experiences in Ghana reflect deep problems of 'adjustment fatigue'. Weak external conditions in 1999/00 were compounded by a lack of fiscal control in the run up to the December 2000 elections (specifically an unwillingness to implement critical revenue measures). As a result none of the quantitative performance criteria were satisfied in December 2000, and the IMF review originally scheduled for September 2000 was not completed. Following extensive negotiations in early 2001 the staff requested waivers for the slippages against the September and December 2000 performance criteria and benchmarks so as to keep the PRGF on track. This has been supported by extensive structural conditionality through to March 2002 (with further programme reviews anticipated in December 2001 and mid-2002).

Given the circumstances, it is not surprising that the conditionality under the 'revised' third-year of the PRGF is concerned with the same issues identified by a 'traditional' ESAF arrangement (clearance of arrears, divestiture and public enterprise reform, gasoline pricing, VAT reform, and expenditure control). These chronic stabilization difficulties have meant that any meaningful debate on alternative fiscal policy stances is currently otiose. Similarly persistent problems with arrears accumulation, and serious problems with mis-reporting of external debt data, have drawn the IMF and the authorities further into issues of short-run financial control. As a consequence, issues such as the comprehensive analysis of expenditure composition, and the development of a MTEF for public expenditure currently command a much lower priority than perhaps anticipated in the Key Features.

In the light of these developments, it is difficult to discern any radical differences between the PRGF and its predecessor. The I-PRSP has, by all accounts, been well prepared and articulates a coherent medium-term programme for growth and poverty reduction. The problem is that it envisages an environment much closer to the 'post-stabilization' conditions prevailing in Uganda or Tanzania than to the one currently prevailing in Ghana. There also exists a comprehensive body of household-level data which offers a basis for comprehensive poverty and social impact assessments, although again the short-run stabilization focus of the programme has meant that systematic social impact analysis remains on the back burner.

The PRGF process faces an important challenge emerging from the nature of the domestic political process in Ghana. Over the past year, legitimate political considerations have limited the scope for fiscal reform, both by the incumbent government in the run up to the elections in December 2000 and subsequently by the victorious new government. This has required the IMF to cede ground on its preferred fiscal reform programme (specifically a reform of the VAT) in favour of a more gradualist and arguably less effective adjustment strategy. The strategy has received the qualified backing of the IMF Board.

Malawi

- *New PRGF December 2000-December 2003*
- *SDR 57 million (82% of Quota)*
- *HIPC DP achieved December 2000*
- *I-PRSP approved August 2000, PRSP due Q1 2002*

The Malawi PRGF has been negotiated against the background of an I-PRSP which has evolved relatively little from the previous PFP. Moreover, though there was some progress during the early years of the 1995-99 ESAF, fiscal control remained elusive, arrears were growing out of control, and a failure to address persistent structural impediments, particularly in the state owned sector, undercut the positive growth enjoyed early in the ESAF period. Poor performance on all three counts towards the end of the ESAF period drove the programme off track for a short while, requiring a staff monitored programme to be put in place, and meant that the fiscal deficit exceeded its final year target by almost 4% of GDP, despite relatively strong underlying revenue performance. Not only did this delay the negotiation of the subsequent PRGF, but ensured that once agreed it resembled rather closely its

predecessor, particularly in the focus on tight fiscal control (especially in the early years of the Facility) and in the scope and extent of structural conditionality.

The new macroeconomic programme therefore projects a balanced budget (after grants) during the first two years of the programme. This tight fiscal stance is expected to be accompanied by relatively high net foreign financing hence permitting a significant repayment to the domestic banking sector (of around 2.7% of GDP per annum in 2001 and 2002).

Problems of expenditure control plague macroeconomic policy making in Malawi. The MTEF is a long way from being embedded in the budgetary process which remains governed by short-run control mechanisms enforcing a *de facto* cash budget on the government (although imperfections in the control system mean that arrears accumulation remains a perennial problem). Structural conditionality for the 2000-2003 PRGF is therefore heavily skewed towards the improvement of expenditure control which would allow a move away from the rather crude systems currently in use. In addition structural benchmarks provide for a continued push on parastatal reform and privatization, and for the maintenance of an 'open' tobacco marketing system. These latter conditions would fall more naturally into the World Bank's orbit under a streamlined system, but with the World Bank some way from developing a PRSC for Malawi the burden has fallen on the PRGF to reflect the importance of these structural reforms in the interim.

Given the tight fiscal stance, the protection of social spending remains a challenge for the Malawi PRGF. Wages and benefits consume the lion's share of current expenditure, while the very high level of benefits relative to baseline salaries creates a serious barrier to reform. This barrier is reinforced by the alleged lack of support for pro-poor spending amongst key players in government. Although there is some evidence that the PRSP consultation process has increased transparency and popular pressure on government, civil society in Malawi remains relatively disengaged from the policy debate. The PRSP expresses the clear intention to sustain higher levels of pro-poor spending, but the government's apparently lukewarm support for the strategy means that the role of protecting social sector spending in Malawi will still fall on external stakeholders and in particular on the PRGF.

Nicaragua

- *March 1998 ESAF (augmented post-hurricane in 1999) converted July 2000. Review of third year 'not completed' in March 2001, reversion to SMP with view to a new PRGF in March 2002.*
- *SDR 101million (original)+48 million post-hurricane (Total = 115% of Quota)*
- *HIPC DP achieved December 2000*
- *I-PRSP approved September 2000, PRSP anticipated Q4 2001*

The ESAF/PRGF in Nicaragua predates the I-PRSP by more than two years. Initial performance (under the ESAF) was positive and broadly on-track, despite the impact of Hurricane Mitch in early 1999. The post-hurricane reconstruction boom, financed by increased aid and private capital flows, stimulated real GDP growth, supported a reduction in inflation and improved the fiscal position. These gains were rather short-lived. Emergency aid and capital flows tapered off, growth declined sharply, but

public expenditure did not adjust accordingly. The overall public-sector deficit after grants ballooned to 8.3% of GDP in 2000, some two percentage points of GDP above the target.

By June 2001 the PRGF was so far off-track that it was deemed irrecoverable. In its place the authorities and the IMF agreed to a staff monitored programme (SMP) designed to see the country through the November elections and to a point where re-negotiation of a new PRGF with the new government could commence, ideally in early 2002. The benchmarks agreed for the SMP do not differ in any substantial manner from the PRGF conditions. Fiscal control is to be restored through a gradual tightening of expenditure rather than seeking out new revenue measures, while structural benchmarks continue to focus on improved supervision in the financial sector, improved fiscal governance and public sector reform, and the privatization of two public utilities (telecommunications and hydroelectric generation). The presidential and parliamentary elections in November 2001 have, however, impeded the necessary fiscal correction so that the fiscal deficit target of 4.8% of GDP by end 2001 identified in the SMP is likely to be exceeded by a very wide margin.

This history has endowed the PRGF process in Nicaragua with a number of specific characteristics. First, conditionality remains relatively broad and little differentiated from the ESAF. Most notably, privatization remains particularly prominent in the structural benchmarks established under both PRGF and SMP. Second, though the I-PRSP embodies a clearly articulated anti-poverty strategy, which draws quite heavily on the long-term involvement of the World Bank and Inter-American Development Bank in Nicaragua, and particularly on experiences gained during the response to Hurricane Mitch, its impact on the current policy debate is relatively weak given the stabilization requirements. Third, however, anti-poverty safety net and other expenditure programmes developed at that time have been embedded in the I-PRSP and the programme aims to increase social sector expenditures by around 2 percentage points of GDP over the period to 2002 against a more or less constant level of total expenditure. Finally, although the I-PRSP and draft PRSP documents have attracted plaudits for their technical quality, questions remain about the depth of ownership of the PRSP process. As elsewhere, and despite extensive consultation through the establishment of the National Council for Social and Economic Planning, concerns have been expressed that only the authorities had a strong sense of ownership. It has been suggested that the process of consultation placed greater emphasis on dissemination than participation and did not engage particularly deeply with civil society, at least not with all sections of society. Although it did not materialize, an important test of ownership would have been whether the Sandanista authorities were prepared to adopt the full PRSP if they had been successful in the November elections.

Zambia

- *March 1999 ESAF converted in August 2000, planned completion in March 2003*
- *SDR 254 million (52 % of Quota)*
- *HIPC DP achieved in December 2000*
- *I-PRSP approved in July 2000, PRSP due Q2 2002*

The Zambian economy has been grappling with stabilization for almost a decade. The legacy of the heavily controlled regime of the 1970s and 1980s exacerbated the task of stabilization so that despite recourse to draconian fiscal control measures such as the cash budget the economy has not yet succeeded in establishing a degree of macroeconomic stability. Inflation has remained stubbornly high, per capita GDP growth stagnant, and the poor performance of the mining sector has limited the scope for significant increases in the volume of resources that can be allocated to poverty-reducing public expenditure. Hence of necessity the PRGF remains relatively close to the ESAF, at least under the initial arrangements of the facility. As in Ghana, the policy discourse has therefore remained resolutely focused on the first-order problems of fiscal stabilization and privatization. Quantitative performance criteria were badly missed in 1999 but matters improved marginally following the eventual privatization of ZCCM in March 2000. Nonetheless macroeconomic conditions in Zambia still remain very fragile, particularly given impending presidential elections. As a result, the PRGF concentrates almost exclusively on achieving low-inflationary growth as the most direct way to reduce poverty, with the programme for 2001 and 2002 anticipating a tightening of the fiscal stance and only a relatively moderate increase in the share of priority social sector expenditure.

Despite the narrow operational focus of the PRGF, there appears to have been a 'cultural shift' in the Zambian programme, in keeping with the sentiments underpinning the Key Features. Although the I-PRSP was developed rapidly and without extensive participation outside the core institutions of government, it drew heavily on the 1998 National Poverty Reduction Strategy Framework which itself was based on an extensive process of consultation. The development of the NPRSF and the I-PRSP relied heavily on technical input from the World Bank. A by-product of this process appears to have been a deepening of co-operation between the World Bank and the IMF in Zambia. This has been felt at the staff level, where there has been extensive collaboration in designing the structural conditionality for the PRGF, and has helped to delineate the responsibilities between the two institutions. This sentiment is reflected by the Bank, although both parties recognize that the broader mandate under which the Bank operates, combined with its widely publicised budgetary squeeze in the last year, has constrained the Bank's operations to the extent that coordination is less than seamless. Zambia is, however, one of the countries where the IMF's social development advisors have been participating in Fund missions. The initial feedback on this initiative has been positive. The social development advisor has supported closer liaison with the World Bank, other donors, and the authorities, and has also initiated social impact analysis of the consequences of the closure of the Zambia National Commercial Bank rural branch network.

During the first years of the PRGF conditionality was relatively broad. However, with the privatization of the mining sector now completed the authorities' policy horizon has been extended somewhat. This improves the prospects for greater streamlining of conditionality in the future, and, if the progress recorded in 2000 on the macroeconomic front can be consolidated, for broadening the scope for macroeconomic policy debate in the future.

Zambia illustrates most starkly the tension that has arisen in HIPC countries where the PRSP is being relied on to fulfil two functions. On the one hand the full PRSP is assumed to serve as a domestically generated anchor for policy formulation, but on

the other hand satisfactory macroeconomic performance under a full PRSP is required to trigger the HIPC completion point (at which point debt relief is 'locked-in' through an irreversible write down of debt). Given the size of external debt in Zambia, interim debt relief is very large, and as such the government (and external partners) are keen to lock-in HIPC relief. Not only does this put considerable pressure on the government to generate its full PRSP as rapidly as possible (not to mention the pressure it puts on the Washington institutions to approve it), it also puts pressure on the IMF to keep their programme on track even in circumstances where a disinterested party might counsel disengagement or renegotiation.

Transitional countries

Rwanda

- *June 1998 ESAF converted July 2000 (planned completion January 2002).*
- *SDR 71 million (120% Quota)*
- *HIPC DP achieved December 2000*
- *I-PRSP approved December 2000, PRSP anticipated Q4 2001*

The Rwanda PRGF is intimately linked with the country's post-conflict 'special case' status. Following a staff monitored programme from 1996-98 the authorities negotiated an ESAF with the IMF in 1998. Economic performance in the years following the Genocide has been reasonably good. GDP growth has averaged around 8% per annum, although this has slowed sharply in recent years. Over the same period inflation dropped rapidly (from around 70% per annum in the immediate post-Genocide period) and has been consistently in the single-digit range since 1998.

Given this macroeconomic background, it is surprising that the relatively broad-based conditionality that characterised the initial ESAF arrangements has been carried through to the PRGF. The current Facility is not only much more conditional than anticipated by the Key Features documents but quantitative performance criteria and benchmarks are somewhat more extensive, and the list of structural conditions is longer and its scope wider than similar countries in Africa.

It is argued that this reflects the concern on the part of the IMF that the authorities' commitment to reform is limited. Though performance against the structural and quantitative benchmarks was initially reasonably good, the programme experienced a marked slippage in 1999/2000. This concern is reflected in the current-year PRGF arrangement which now includes a minimum level for the ratio of social-to-defence expenditure as a quantitative performance criterion, while prior actions and structural benchmarks cover a wide range of measures including the privatization of Rwandatel and issues concerned with public sector reform as well as core concerns such as tax reform.

Local commitment to the preparation of the I-PRSP (and current PRSP) has been extensive. The government consulted widely with local civil society and donors as well as with the World Bank and IMF although as elsewhere the extent to which consultation translates into strategies reflecting the concerns of those consulted remains moot. The PRGF is certainly embedded in the PRSP and is, in principle, a key instrument with which to give substance to the general poverty-reduction

objectives articulated in the I-PRSP. However, the fact that the PRGF places such strong emphasis on the protection of social spending may reflect a lack of genuine commitment to these objectives by the authorities, or at least a perception by the Fund that this is so.

The PRGF process has been accompanied by a marked increase in flexibility. Specifically, the IMF is increasingly willing to accept a slower fiscal adjustment path if there is a clear case that there is a demonstrable poverty reduction gain from higher expenditure. A corollary of this flexibility is that it is harder for the mission to argue the case for aggressive fiscal adjustment even when it may be the optimal (poverty-reducing) strategy. This tension was illustrated in the last fiscal year where the IMF has adopted a relatively strong stance over revenue productivity despite strong opposition from the authorities. In the event the Fund's position appears to have been vindicated and the revenue targets were met relatively easily.

Reflecting the Bank's and DFID's deep engagement in Rwanda since the Genocide, the Fund has been able to draw on extensive support in the area of poverty and social impact assessment. The government has set up a 'poverty observatory' and, with external support, is in the process of completing a national household survey and a demographic and health survey, both of which will feed into an updated poverty profile. Work on developing a comprehensive MTEF and expenditure tracking systems is also in hand.

Vietnam

- *New PRGF April 2001-April 2004*
- *SDR 290 million (88% of Quota)*
- *Non- HIPC country*
- *I-PRSP approved March 2001, No timetable for PRSP*

Vietnam negotiated an ESAF in 1994 following a long period of non-involvement with the IMF. The ESAF was negotiated against the background of relatively low levels of trust between the government and the IMF and focused principally on issues of macroeconomic stabilization to the exclusion of any structural reforms. Nonetheless, sustained by high levels of FDI, the ESAF from 1994-97 was extremely successful, supporting a period of consistently high growth. By the end of the first ESAF the IMF were keen to push for deeper structural reform, especially in the SOE sector. The government was unprepared to move quite so fast and a successor ESAF could not be negotiated. The Asian crisis over the next two years exposed the structural weaknesses in the Vietnamese economy, providing an opportunity for the IMF to push more aggressively on structural reform. The new programme took two years to negotiate. A domestic consensus for reform has been slow to emerge, although it is argued that the change in the culture at the IMF has created greater negotiating 'space'. This has allowed the IMF to accept a somewhat more gradualist path to structural reform than it might otherwise have required, thereby bringing a negotiated PRGF to completion.

The Vietnam PRGF embodies a number of important features. First, Vietnam is not a HIPC country: the pressure to reach the HIPC completion point has not distorted the rhythm of the PRSP-PRGF-PRSC processes. Second, there has been an unusual

degree of cooperation between the World Bank and IMF. The Bank has simultaneously negotiated a PRSC with Vietnam at the same time as the PRGF. Coherence has been imposed through the authorities' insistence on tripartite negotiation. This required the Washington institutions to develop joint negotiating positions, particularly over structural conditionality. This cooperation has extended into deep collaboration in the development of mission briefs, the coordination of technical assistance (on SOE and banking sector reform), and in PSIA.

Third, given the lack of a 'classical' civil society in Vietnam, consultation in the development of the I-PRSP differed greatly from the standard model. Effective consultation relied heavily on the World Bank and DfiD's deep involvement in grass-root poverty analysis in Vietnam.

Fourth, there is some evidence of greater flexibility under the PRGF than was present under the ESAF: a more relaxed fiscal stance may be countenanced in the presence of weak export performance, especially oil (this was put in place after 11 September 2001). Despite this, relatively slow implementation in key structural areas has meant that a range of structural conditions has been retained, although these remain firmly within the Fund's traditional areas of responsibility.

Finally, the World Bank has taken on a large amount of the PSIA, even though many reforms in Vietnam are rather marginal (and hence difficult to assess). Through their grass-roots work, the World Bank coordinates a range of work on the social impact of SOE reforms, trade reforms etc, through the Poverty Working Group.

4. Placing the PRGF in context

Any examination of how the PRGF is operating needs to place this facility in a wider context. This context includes the central questions of what the IMF is trying to do, and what it should be trying to do, in its dealings with low income countries. The second of these questions has attracted much attention in recent years, a major example being the analysis of the Meltzer Commission which reported in March 2000. The commission recommended that "the IMF should cease lending to countries for long-term development assistance (as in sub-Saharan Africa) and for long-term structural transformation (as in the post-Communist transition economies). The Enhanced Structural Adjustment Facility and its successor, the Poverty Reduction and Growth Facility, should be eliminated." The Fund's role should be restricted to acting as a quasi-lender of last resort to solvent emerging economies, data collection and dissemination, and the provision of economic policy advice as part of its regular "Article IV" consultations¹².

In practice, the IMF's dealings with low-income countries to date have involved not only the provision of loans and advice – rendered the more forceful by conditionality – but also the process of monitoring and surveillance of the adequacy of economic policy. Both multilateral institutions, including the World Bank, and bilateral donors

¹² These recommendations were accompanied by the suggestion that "the IMF should write-off in entirety its claims against all HIPC countries that implement an effective development strategy in conjunction with the World Bank and the regional development institutions." In turn, these institutions should limit their activities to lower income countries, and provide performance-based grants rather than loans (except, rather oddly, for institutional reform).

have come to rely on this surveillance, especially in respect of macroeconomic policy, even when they might have had misgivings about the detailed judgements made.

Given the limited scope of macroeconomic analytic capacity in some of the low-income countries themselves, and the relative disengagement from macroeconomic issues in the main aid agencies, it seems crucial that the Fund continue to exercise these roles as adviser, critic and assessor, signalling the adequacy or otherwise of a country's policy. While in recent years there have been encouraging signs in a number of countries that macroeconomic stability has been achieved and maintained, these successes may well not be robust¹³. They often rely on rigid mechanical systems such as cash budgets rather than any underlying change in fiscal 'culture', and pose difficult problems of how the transition to more flexible arrangements can be managed without endangering fiscal control. In any case, the challenge to the authorities following successful stabilization is not only to maintain it, but to use the space thus gained to foster the conditions for growth and poverty reduction. This is bound to be an ongoing and long-run process, and there is likely to remain an important role for the Fund for many years to come. Despite the three year horizon built into any programme under the PRGF, the very name signals that the true policy horizon is much longer.

Accepting that the Fund should retain its current intense involvement in the policy issues of low-income countries, it remains to consider what should be the vehicle or vehicles for this involvement. Where, as in many cases, the central problem remains one of stabilization, the PRGF seems to be an appropriate instrument. However, several countries have now achieved a real measure of stabilization, and it is to be hoped that this will increasingly become the norm amongst low-income countries. This raises the question of how best to organize the Fund's continued involvement in the case of post-stabilization countries. Here two alternatives to the PRGF are briefly considered, before a somewhat more extended discussion of the PRGF itself and possible revisions to it. The first alternative is to maintain the process of advice and scrutiny while abstaining from lending altogether; the second is to move to a more fully concessional form of lending.

Scrutiny without lending

The first alternative is essentially that proposed by the Meltzer Commission, namely to detach the advisory process from any loan at all. This could take place simply in the context of the usual Article IV consultations, typically on an annual basis. However, it would be desirable to envisage something more frequent and more forward looking. The Fund already has a category of involvement called a staff monitored programme (SMP) which involves no transfer of resources, but a relatively detailed timetable of benchmarks, typically on a six month cycle. It is utilized either to establish preconditions which will subsequently permit the introduction of a programme such as the PRGF, or it may be used when a PRGF has gone off track, with a view to getting it back on track. In principle, it would be possible to envisage replacing the PRGF with an SMP, so maintaining close inspection and targeting

¹³ There are also many countries which have not yet achieved an adequate degree of stabilization, for which the Fund's more traditional preoccupations remain central.

without a corresponding transfer of resources¹⁴. Compared to existing arrangements, this would have four disadvantages, one advantage, and one feature that could go either way.

The first disadvantage is that the Fund as an institution might find it difficult to maintain the same commitment of staff resources and intensity of scrutiny if its own resources were not at risk¹⁵. The second, and related, point is that even if this reduction in involvement did not result from the internal dynamic of the Fund, it might become so as a result of outside pressure. Those who would like to see the Fund's activities reverting to a narrower focus also argue for a reduction in its size. These pressures would be harder to resist if the present commitment of staff resources to low-income countries was 'merely' advisory. The third disadvantage is that, even there was no reduction in the intensity or quality of scrutiny, other institutions and donors might be concerned that there was. If the Fund did not 'put its money where its mouth is', its role in signing off on a country's policy stance might be compromised. A country which did not need the Fund's resources because of the availability of other, more concessional sources, might still need the Fund's imprimatur to obtain them. And this imprimatur might only carry weight if the Fund's own resources were at risk. The fourth possible disadvantage is that, if the Fund had no active lending programme, the country's own authorities might be less prone to participate in constructive dialogue with it. To the extent that the authorities are already committed to prudent policies and have the capacity to analyze alternative strategies, this may not be problematic; otherwise, it may be a cause for concern.

The possible advantage to an arrangement which did not utilize own resources is that it removes a potential conflict of interest. Consider the circumstance where the Fund is receiving net repayments from a country which is the recipient of large net inflows from other donors. Any decision by the Fund that the programme is no longer on track may lead to a cessation or reduction in this inflow, and jeopardize the repayments to the Fund. Given the de facto seniority of IMF loans and the relatively small scale of the current PRGF lending relative to other donor flows, this danger is relatively muted in most cases. However, it does place the Fund in a somewhat uncomfortable position, though not one that seems to be of active concern to most staff.

Finally, there is the loss of the loan itself, and the accompanying resource implications. As implied earlier, these are ambiguous. Given current interest rates, the PRGF no longer qualifies as concessional lending according to the Fund's own minimum criterion that this implies at least a 35% grant element¹⁶. Some countries can currently obtain very large volumes of aid in the form of grants or of loans with a much higher grant element than this. For them, the relevant constraint may be absorptive capacity rather than the availability of aid. For them, the PRGF provides relatively expensive resources, which they might do better without. However, there is

¹⁴ For this proposal to have sufficient leverage, it would be necessary for this type of SMP to constitute formal IMF endorsement of a country's policies. This is not the case for current arrangements, either for informal staff monitoring, or for the enhanced surveillance procedure.

¹⁵ In our conversations with mission chiefs, we had a mixed response to this proposition. Some felt strongly that committal of Fund resources was crucial, while others felt that it was unimportant.

¹⁶ There is a widespread view, shared by some Fund staff, that this lower bound on concessionality is too low for the poorest countries, and should be raised, for example to 50%. There is also the view, exemplified by the Meltzer Commission, that transfers should be restricted to grants, i.e. with a concessionality of 100%.

a pay-off to being within a Fund programme because of its signalling properties, so they may incur these (relatively) expensive debts all the same. For them, replacing the PRGF with an SMP would be advantageous, but only if the latter provided an equally viable signal¹⁷. For other countries, which are less happily placed with respect to donor access, the PRGF funds may still be welcome. However, this suggests that the 35% limit on concessionality is at least somewhat too tight. It is an irony of the present arrangements that, if another agency provided funds on identical terms to those from the PRGF, it would be necessary for the Fund to explicitly exempt them from the restriction on non-concessional borrowing that is typically built into the PRGF conditions.

On the balance of these arguments, the proposal to separate the functions of advice and scrutiny from the provision of funds seems unattractive, so that some sort of connection should probably be maintained.

Highly concessional loans

The second alternative goes to the other extreme. The lack of concessionality in the PRGF comes not from high interest charges (the rate is typically only 0.5% per annum), but from the relatively short repayment horizon (5½ -10 years). The only ways to raise the concessional element substantially are either to include an explicit grant element, or to extend the horizon substantially, for example to something like IDA terms. This would be well beyond the capacity of as well as the philosophy behind the current PRGF Trust, which emphasises the revolving use of the trust funds. However, since the volume of resources likely to be involved in PRGF type programmes is relatively small compared to the total aid flow, such a transformation of the loan instrument would not necessarily pose insuperable problems. However, it would require a major re-routing of current bilateral transfers, and also a seismic shift in the Fund's perceptions of its role. Of course, it could be argued that this shift has taken place already, cumulatively over the last fifteen years, and starting with the establishment of the Trust Fund in 1976. On this view, what is required is to will the means, rather than to accept the principle, of long-run involvement.

The counter to this type of argument is that the consensus underpinning the Fund's medium and long-run involvement in development and adjustment issues is far from universal and is potentially fragile. Pressure to modify the Fund's architecture in ways that may improve the implementation of this commitment may therefore be counterproductive. However, there is no escaping the fact that there are tensions between this commitment on the one hand, and present arrangements and their likely evolution on the other.

The PRGF facility as a loan instrument

This discussion is not concerned with the mechanics of the loan, but some wider considerations relating to it. The typical arrangement is for a three year programme, reviewed every six months, with seven tranches released, one after the initial agreement, the others conditional on performance over the preceding six months. In practice, these arrangements have been extremely flexible. If performance criteria are missed, in some circumstances they may be waived, so that the programme is still

¹⁷ For example, rescheduling under the Paris Club currently requires that the Fund has an active lending programme in place.

deemed to be on track, and releases made. Alternatively, releases can be withheld pending achievement of these criteria or updated versions of them, with the programme coming back on track after a delay. In this way, the three year life of the programme may be extended to up to four years. Even if a programme is effectively abandoned, it is possible to negotiate a new one, possibly after certain preconditions are met¹⁸; it is not, in general, necessary to rescue the previous arrangement before becoming eligible for a new one¹⁹. On successful completion of one PRGF, it is the typical expectation that the country will proceed to a second; and then perhaps a third.... The actual amounts loaned are limited in ratio to the size of a country's quota, with the amount tapering between successive programmes.

One feature of these arrangements is that they are far less rule-bound than is popularly supposed; indeed they permit the staff of the Fund – provided they can carry the Board with them – to exercise very substantial discretion. Another feature is that they permit a continued and intense dialogue to take place even when the programme is far off track; there is no implication that the dialogue must wither even if the authorities persistently fail to meet the agreed performance criteria. Of course this flexibility, particularly if enhanced under the PRGF, may have weakened the Fund's hand (and the perceptions of this in-country) in respect of its ability to press for reforms and for fiscal discipline²⁰.

Against these broadly desirable features, it is necessary to set a number of reservations. First, there is the issue of concessionality discussed earlier. Despite the Fund's own habit of referring to the PRGF terms as 'highly concessional', they can hardly be considered so by the standards of most official transfers to low-income countries. For a country with access to more concessional funds, but needing the Fund's validation, it would in principle be possible to negotiate a low access PRGF, with a very small loan, or even a standby arrangement, which need not be drawn down at all. However, a standby arrangement would require funds be set aside in case of draw-down, thus preventing them from being actively used elsewhere. And it is not clear that a low access arrangement would be much better at solving the Fund's commitment/credibility problem than an SMP with no funds at risk at all.

Second, and in line with the Fund's underlying focus, the purpose of the PRGF is "to support programs to strengthen substantially and in a sustainable manner [qualifying low-income members'] balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty." In some respects the juxtaposition of balance of payments support with the longer run agenda is unfortunate. There has been a welcome shift within the donor community from perceiving resource transfers as primarily a balance of payments issue to a perception of them as primarily a budgetary issue. Of course the two perspectives are closely related, but they can lead to confusion, and in the interests of transparency, there would be much to be said for the Fund adopting an explicit budgetary approach as

¹⁸ Use may be made of the type of Staff Monitored Programme referred to earlier, which enables the authorities to demonstrate that they have re-acquired the characteristics which would make a PRGF viable, prior to the commitment of any funds.

¹⁹ Of course, the unreleased funds in the abandoned programme are forfeit.

²⁰ Fund staff were ambivalent on this point, some feeling that there had been little change, others that it had become more difficult to 'hold the line'. It is also possible to be ambivalent about whether such a change would be for the better or the worse, judgement varying on a case by case basis.

providing the rationale for the PRGF²¹. More importantly, for a number of low-income countries, balance of payments support is really not the issue. To the contrary, aid inflows at levels which can usefully be absorbed within the budget may be also be at levels which force an uncomfortable degree of real exchange rate appreciation. More generally, balance of payments support typically has a short horizon, potentially at odds with the longer horizon implicit in the PRGF's name. That is why a revolving fund approach is perfectly sensible in the context of balance of payments rectification, or stabilization more generally, but unsatisfactory in the context of long-run development.

Third, and arising directly from the previous point, is the issue of either continuation with or exit from the PRGF in future. If the IMF is seriously engaged in issues of growth and policy reduction in low-income countries, it must be in for the long haul. Even optimistically, the horizon for this engagement must run into decades, rather than years. This requires some machinery that will run over this horizon, even if it evolves substantially on the way. However, the cast of potential recipient countries is already assembled. It is not the case that whole cohorts of countries at different stages can successively graduate through a relatively stationary system²². Roughly speaking, the evolution of the system will be parallel to what is experienced by a representative country as it graduates through successive programmes. There seem to be only two possibilities of real substance, short of the more radical alternatives discussed earlier. Either a country graduates out of the system after a few cycles, so that the Fund's *de facto* involvement evaporates within the next decade, and is followed by a period in which net transfers flow from the countries to the Fund: or a country remains within a repetitive cycle almost indefinitely. Even assuming abandonment of the feature that leads PRGF loans to taper over time, the short grace period and rapid repayment horizon implies that this option at reaches a zero net transfer position rather quickly, again after around a decade.

Since the PRGF can appropriately be viewed as a modification of the ESAF, it already the case that some countries are coming up to the third rotation of this type of facility, so it is hardly premature to give some thought to the future evolution of the scheme. The choices include whether a country which has achieved macroeconomic stabilization should be expected to exit from the facility, and if so what the nature of its continued involvement with the Fund should be; or whether it should continue, post stabilization, to remain within the facility for the foreseeable future.

5. Conclusions

This paper has discussed a wide range of issues. Rather than attempting to summarize them all here, this section emphasizes three central conclusions.

- First, while the picture is not consistent, our impression is that the Fund has made substantial progress in implementing both the letter and the spirit of the PRGF. We do not doubt the sincerity of this commitment, both for the institution as a whole, and for the overwhelming majority of the staff members we met. Where in some cases (particular key features in particular countries),

²¹ Of course, the operational emphasis within the PRGF is already, quite appropriately, on budgetary magnitudes and their financing; they dominate amongst performance criteria for example.

²² As might, of course, be the case if the issue were simply one of stabilization.

progress has been slow, this has often been due more to the difficulties of coordinating with the often incomplete actions of the Fund's partners in the process, rather than due to any reluctance on the part of Fund staff. In addition, while some features of the documentation supporting PRGFs show substantial continuities with that supporting ESAFs, this partly reflects the extent to which the Key Features represented a codification of best previous practice rather than a radical break from it.

- Second, there does appear to us to be one general exception to this conclusion, and that relates to the issue of fiscal flexibility. We feel that the Fund could with advantage adopt a more pro-active stance, and set out to create a dialogue with recipient governments, with a view to mapping out and exploring the boundaries of this flexibility. This suggestion is not intended to usurp the process of in-country political choice, but to help establish, to the extent possible, what are the technical/prudential limits on this choice, and the likely scale of the trade-offs within these limits.
- Third, there must be some concern about the appropriateness of the PRGF as currently constituted to be the main vehicle for Fund involvement with low-income countries into the longer term, particularly where they have been successful in achieving macroeconomic stability. This issue is a delicate one, and will require extensive efforts in a constructive spirit, but in our view needs to be confronted. Satisfactory resolution will require wide involvement of donors as well as the Fund itself, and will also require flexibility and open minds in both.

REVIEW OF PRSP APPROACH
Comments by BARBARA MBIRE BARUNGI

- *Have Governments effectively taken the lead on PRSPs and to what extent have they internalised the process?*

Many Governments have effectively taken a lead in the advocacy and facilitation of the PRSP approach at the country level. There has been political support from highest levels of Government e.g. In Rwanda the process was launched by H.E. the President on June 1, 2000 in the National Assembly. This was a symbolic gesture of endorsement and commitment to the process and recognition of the necessity for partnership with all stakeholders. It also served to legitimise a country –driven process and to give it the much needed politically induced momentum for sustainability.

With regard to internalisation of the process, this has been rather slow. The PRSP is largely perceived as a time bound exercise that is strongly linked to the HIPC initiative. The PRSP approach can only be fully internalised if it is regarded in a more holistic manner as part of sustainable national action plans rather than as a prerequisite to receiving additional resources under the HIPC initiative. Furthermore the role of the PRSP is not fully understood and appreciated by all quarters of Government, in many instances it is viewed as a conditionality imposed by the Bretton Woods institutions and embraced by the finance ministries that manage the economic management programs on behalf of their countries. In other cases, it is viewed as running parallel to traditional national development plans rather than as a mechanism for making these usually ambitious national plans a more manageable development policy package. There is urgent need for PRSP sensitisation within government - line ministries, cabinet and parliament - spearheaded by finance ministries that are usually the first to internalise the process.

- *Have Governments engaged in participatory consultations, and have they affected the PRSP content?*

There are four issues raised in my response to this question hence the sub- titles:

Government advocacy of participatory consultations: Democratic Governments have overall advocated for and encouraged national participatory consultations. Local government structures have played an important role in facilitating the process. Beyond this, it has been left to social ministries to jump-start the process and endorse partnerships among NGOs, bilateral donors, civil organisations, academia, and private sector agencies to undertake participatory consultations. Governments have not fully engaged in the process. This has in many instances resulted in a clear polarisation of interests of Government vis a vis the other stakeholders. For most countries that have undertaken PRSP consultations there has been concern on the part of the various stakeholders with how best to mainstream the results of the participatory poverty assessment (in many cases published as independent documents from the PRSP) into key government policy

apparatus. Thus far, in many cases it has been difficult to determine how much of the PPA results are included into the PRSP document for implementation. There is a danger of selective integration of results from the PPAs to avoid large conflict of interests between government and other stakeholders.

Democratisation and government engagement in the participatory process: The impact that government partnership with the people at the grassroots level is likely to have on the content of the PRSP depends on the level of democratic governance. The participatory process is unlikely to be deep enough in the cases where government agents are deployed at local level as opposed to democratically elected leaders right from the grassroots levels to the highest levels of governance. Governance systems based on Universal electorate rather than indirect electorate is bound to have a higher degree of stakeholder partnership and effective participation. There needs to be a strong bottom-up linkage right through from the grassroots to the executive as depicted by the case of Uganda local governing council structure which has enabled government to better engage in participatory consultations with the people and sustained a continuous dialogue and feedback from the communities (particularly with regard to identification of priority public actions) to government at the highest levels. The local council committees in Uganda constitute the political organisation established at each level, and are linked to administrative government structures that implement decisions of the people as established during participatory consultations.

Post conflict transitional governments and participatory consultations: The case for effective engagement of government in the participatory consultations is somewhat different and more complex where there is transitional governments in place. These governments start by operating in a fragile political and social setting and the democratisation process in most cases is delicate. In some countries, transitional governments do not have fully elected parliamentary representatives and the system of local government is not fully developed. In some countries, there is a handful of elected parliamentarians that represent target groups for example, the youth, and women alongside parliamentarians that represent various political groups and there is relative devolution of powers to local government structures. In both scenarios, participation of local government is limited and their engagement in the participatory consultations closely stage-managed by the centre. A true reflection of the dialogue with all stakeholders particularly at grassroots level and decisions made during the participatory consultations may not be possible. In addition, serious questions are raised as to what stage in the PRSP process should parliament be involved and whose interests does an unelected parliament represent? More specifically what guarantees does the Finance Ministry have that its budget allocations to priority public actions identified during participatory consultations (and form an integral part of the national budget) will be approved by Parliament (transitional National assembly in some countries)? In this situation who represents the people better cabinet (which adopts national budget) or Parliament (which is charged with responsibility of passing the budget)? what checks and balances are there to ensure that these expenditures are effectively implemented? How can accountability and transparency be guaranteed?

Decentralisation and participatory consultations: Government engagement in the participatory consultations is enhanced in the cases of fully operational decentralisation and evolution of power to local levels of government. Local authorities are better positioned to facilitate the process, also to participate in the discussions on poverty diagnostics, which take into account regional and social disparities, and to fully engage in monitoring expenditures and service delivery. In such cases, the PRSP content is positively affected through a clear transmission mechanism from the bottom-up. The local development plans identified within the participatory consultations are fed with the guidance of local level government into sectoral plans at the line ministry level and integrated into the MTEF within which the financing plans of the PRSP are drawn up. It also makes it much easier to identify monitorable outcomes and targets, and creates partnerships with communities for feedback purposes on ongoing anti-poverty programs and holds local authorities accountable to the communities they serve.

- *Has the PRSP approach improved co-ordination between aid donors and recipients, as well as between Finance ministries and line ministries?*

The PRSP has definitely provided an opportunity for all stakeholders to come together and focus on a commonly shared global challenge. It has resulted in dialogue that is more transparent and will improve co-ordination between donors and recipients especially with regard to agreed upon guidelines for disbursements and monitoring of expenditures on

priority public actions. Bilateral donors should take the lead in working with country teams of developing indicators within the overall framework of the International Development Goals. There is room for improvement and further exploration on setting of realistic targets and on identification of simple country specific monitorable indicators.

Co-ordination between Finance ministries and line ministries has progressed at a slower pace in part due to the less resourced line ministries (weak technical capacity). However, the PRSP approach as served to further indicate the significance of better co-ordination through the ongoing reforms like the budgetary planning under the MTEF and the decentralisation to local government levels, which are crucial to the PRSP implementation.

- *Have countries prioritised and costed their reforms and policy actions?*

The prioritisation and costing of reforms and policy actions has been partially done and has yielded mixed results. Prioritisation of programs has been relatively simple and well done for countries that had previously undertaken public expenditure review exercises for the main sectors and then embarked on the MTEF. The costing of policy actions remains a difficult task. For many countries, ballpark costings have been done for key programs for example the cost of delivering Universal primary education over a certain period of time. However not enough time is spent on this aspect of the PRSP both by national authorities and the Bank and Fund staff. This has resulted in unrealistic costings that cannot be accommodated within the resource envelopes as presented in the macroeconomic framework at country level.

- *Has the push for speed in the HIPC process affected quality of PRSPs?*

YES. The time frame within which countries have been required to move from the stage of the I-PRSP to the PRSP has been restrictive in the sense that governments focus on producing a document within a certain deadline so as to qualify for HIPC. The preoccupation by governments on the links between the HIPC and PRSP has resulted in certain aspects of the PRSP content and process not being fully dealt with. In particular the following are observed:

- (i) Unrealistic estimates and costings of priority program areas, which make the financing plans unviable and difficult to fit into the overall budgetary framework. This results in the allocations to these programs being lower than the effective minimum required to implement anti-poverty programs.
- (ii) 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 programs which in turn impact on local development plans that embrace priority public actions as identified in the participatory consultations.
- (iii) Weak analysis of institutional constraints to poverty reduction and on sequencing of recommended structural and sectoral policies.
- (iv) Not enough time spent on identifying and developing a set of specific measurable outcomes that can be regularly monitored at the lowest cost possible. Regardless of the data paucity and lack of technical capacity of poverty observatories many

countries should be encouraged to use existing information and data and to invest more in translating the International Development Goals into country specific indicators and set simple measurable targets within realistic time frames. This exercise is continuous over the medium to long-term and will improve as the PRSP approach is internalised. It cannot be done in a stop-go fashion.

- *How well has the Fund and Bank staff supported the PRSP?*

The PRSP is a learning experience for Governments on the one hand and the Fund and Bank staff on the other. It is a learning curve that has created an amazingly candid dialogue between the staffs and national authorities and has made it easier for governments to appreciate the technical support and expertise of the staffs.

The Fund and bank staff have done considerably well in providing technical guidance to governments on developing and formulating coherent and well articulated poverty reduction strategies. The PRSP source book is an essential reference book that needs to be better disseminated to country teams working on PRSPs.

There are certain areas that Bank, Fund staff can further support country teams, and these include:

- (i) Further guidance on deeper analysis of the links between poverty reduction and the macroeconomic framework. In many PRSPs, this aspect is a purely descriptive and a direct reproduction of the MEFP and PFP documents rather than an analysis of the linkages between micro and macro levels. Granted many countries face a paucity of the relevant data however simpler analytical models than what is presented in the PRSP sourcebook macroeconomic section can be developed with the technical expertise of the Bank and Staff. In addition, further support can be provided in collaboration with research agencies like the African Economic Research Consortium through workshops at country level.
- (ii) The staffs need to do further thinking on the approach to the costing of PRSPs and provide technical guidance to country teams.
- (iii) There is need for strengthening the articulation of structural and sectoral policies in the PRSP. Technical work on this area is still unsatisfactory. Government structural and sectoral policies need to be all encompassing and well sequenced and taking into full account various donor supported programs including Bank-supported programs as outlined in the CAS and aligning them better with the PRSP. This is important so as to enable effective allocation of limited external resources crucial to the implementation of the PRSP.

Poverty Reduction Strategies

– A Possibility for Participatory Economic Policymaking? –

The Central American Experience.

Preliminary Report: the Case of Nicaragua.

**Elaborated by:
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1. INTRODUCTION

As a Highly Indebted Poor Country (HICP) Nicaragua has been part of the new experience with elaboration of a nationally owned, participatory Poverty Reduction Strategy. This report is not going into details about the content of the approach initiated by the World Bank and the IMF in 1999 as several reports have analysed the theoretical background on the PRSP approach¹.

Instead this report aims at analysing what the initiation of the approach has meant in the case of transforming it into a concrete strategy for Nicaragua and more specifically what possibilities the new approach has given for civil society to gain more influence on national economic policy planning. Participation by civil society is one of the key elements of the Poverty Reduction Strategy Paper (PRSP) approach, yet it still seems to be relatively unclear what is actually meant by participation and the different actors seem to have different interpretations of what civil society participation implies. However, despite of this, there seems to be a notion among the central actors of the process, that the PRSP could be a window of opportunity for civil society organisations to gain influence on national economic policy making. This report intends to investigate this possible window of opportunity in the case of Nicaragua in relation to the specific field of elaborating national economic policies in a participatory manner. An analysis from the WIDER Development Conference on Debt Relief has concluded that the policy content of the Poverty Reduction Strategies does not constitute a major change from the past and that underlines the interesting aspect in investigating how different actors actually comprehend participation in this area².

However, we believe that when focusing on national economic policy planning it is crucial also to look at the Poverty Reduction and Growth Facility (PRGF), as these two initiatives are closely interlinked - both in the policy outline and in the actual process of formulating national economic policies. The question is whether this interlink between the policies in the case of Nicaragua is functioning as the IMF and the World Bank has outlined. We believe that this is an area, which has not been investigated very extensively, and we thus in this report also wish to shed some light on the link between the PRGF and the macroeconomic aspects of the PRSP.

1.1 The specific focus of analysis

It is obvious that looking at the elaboration of the PRSP in itself is a very broad focus, and thus further narrowing is needed. The Nicaraguan PRSP document is divided between a general strategy and a project portfolio, and this report works only with the general strategy and not any of the specific projects to be implemented or continued on the basis of the strategy. Furthermore we have tried to narrow our focus down by concentrating on the macroeconomic part of the PRSP. However, it is always difficult to separate this part from the rest. One way to separate it is by looking at the composition of the PRSP document as it

¹ WIDER (2001), Christian Aid (2001), Bretton Woods Project (2000), CAFOD (2000), Eurodad (2000), IDS (2000).

² Marshall, A.; Woodroffe, J.; Kjell, P. / WIDER Development Conference on Debt Relief (2001): *Policies to Roll Back the State and Privatise?: Poverty Reduction Strategy Papers Investigated*.

is made out of four pillars of which the first is called “Crecimiento económico de base amplia y reforma estructural”³. We have thus decided to focus primarily on the work with the first pillar in the document and the way in which this pillar has been elaborated.

When looking at the process of participation in the elaboration, we have furthermore made a distinction between broadness and depth of the process and chosen to focus on the depth. By broadness of the participatory process we mean the investigation on how many people have participated, how many workshops and focus groups have been made, how have they been arranged, who have been involved in the process, when were the different documents published, who have had access to the documents at what time of the process etc. These are all aspects that are important, but which we find have already been covered quite well by other organisations. By depth we mean to limit ourselves to one specific area, national economic policy making, and within this field analyse how the possibilities of influencing decision making for civil society organisations have been and what have been the limitations taking as our point of departure the findings of the above mentioned studies.

We see the area of national economic policy making as an area which both the PRSP and the PRGF is part of. We therefore try to look at the zone, where the two programmes interlink and in what way the two programmes determine the possibilities of participation within the area.

In order to further enter the area of macroeconomic policymaking and the impact of the new policies (as a continuation of the structural adjustment programmes) we have decided to look further into privatisations of state owned enterprises and more specifically that of Empresa Nicaragüense de Electricidad (ENEL),⁴. This privatisation has been part of the former programme negotiated between the government and the IMF and as we will return to later it is also an important part of the new programme negotiated between the two. In that way it serves as an example of an external conditionality, which at the same time should be an element of a country-owned participatory poverty reduction policy and therefore we find it a useful case in order to examine how the concepts of country-ownership and participation work in the field of national economic policy making with the conditionality of the International Financial Institutions (IFIs) as an external factor.

1.2 Methodology

The preliminary report was elaborated over a six-week period of time from mid July to end August 2001 when we were in Nicaragua. We interviewed 16 persons representing different sectors of society. We have categorised the sectors in three general levels: the IFIs, the government/state, and civil society.

The IFI country representations are important actors in the processes of elaboration of PRS and PRGF in Nicaragua as initiators of the strategies and the ones having to approve of them in the end. We interviewed four persons from the IFIs representing the IMF, the

³ Broadly Based Economic Growth and Structural Reform. The other three pillars are; 2. Mayor y mejor inversión en capital humano (More and Better Investment in Human Capital); 3. Mejor protección a grupos vulnerables (Better protection of vulnerable groups); and 4. Gobernabilidad y desarrollo institucional (Governability and Institutional Development)

⁴ The Nicaraguan Electricity Company

World Bank and two representatives from the Inter-American Development Bank (IDB). We also interviewed a representative of United Nations Development Programme (UNDP), as the organisation has been actively involved in the process and thus provided us with useful information. However, we do not consider UNDP to be an IFI.

At the government/state level, which according to the policy papers from the IFIs should lead the processes, we interviewed four persons representing the three key institutions in the elaboration of the PRSP and PRGF: La Secretaria Técnica de la Presidencia (SETEC)⁵, the Central Bank of Nicaragua and the Ministry of Finance and Credit. Due to our focus on privatisations of public entities as an example of structural adjustment we also interviewed a representative of Unidad de Reestructuración de la Empresa Nicaragüense de Electricidad (URE)⁶.

At the level of civil society we put emphasis on La Coordinadora Civil de la Emergencia y la Reconstrucción (CCER)⁷. It is a major network of civil society organisations and has furthermore elaborated its own consultation process and strategy and has thus assumed a large responsibility in the process. We interviewed three persons, which we see as core representatives of CCER, chosen because of their role in CCER, although they are also from different member organisations. These were the coordinator of CCER, CCER's representative in Consejo Nacional de Planificación Económica y Social (CONPES), and the representative of CCER's macroeconomic group. CONPES is the government appointed counsel for civil society participation, where civil society organisations are represented through CCER's two representatives in the counsel⁸.

Furthermore we interviewed three representatives from other smaller civil society organisations that were recommended to us mainly as observers with great insight in the process. Two of these organisations, Grupo Propositivo de Cabildo (GPC) and Fundación Augusto C. Sandino (FACS)⁹, are also members of CCER, but we do not consider them as part of the core political decision makers of CCER but have rather interviewed them as interesting actors in their own right. It also seems obvious to us that their political opinion differ in several areas from that of the official standpoint of CCER. The last organisation, Centro de Relaciones Internacionales (CRI)¹⁰, was chosen because the representative is an economist having long been involved in both the macroeconomic debate as such and in the process of privatising the energy sector more specifically.

Last but not least due to the focus on privatisations as an example of structural adjustment we made an interview with two representatives from Federación de Sindicatos de Trabajadores de la Energía en Managua, FESTEM¹¹. We have chosen in our study not to include another, though important actor in the process, the coalition of four municipalities

⁵ The Technical Secretariat of the Presidency

⁶ The Unity for Reconstruction of the Electricity Sector in Nicaragua

⁷ The Civil Coordinator of Emergency and Reconstruction

⁸ The National Council of Economic and Social Planning. As CONPES is appointed by the government the legitimacy and the role more broadly of the counsel could be interesting to discuss in more detail, but this is not an area we will go into a more profound discussion on.

⁹ Progressive Advocacy Group and Foundation A.C. Sandino

¹⁰ Center of International Relations

¹¹ The Federation of Unions of Electricity Workers in Managua

of León Norte, as our focus is on the national level and not the municipal level.

2. THE COUNTRY CONTEXT

The following chapter aims at giving a brief view on the economic and political situation in Nicaragua and on the process the country has gone through in terms of privatising public enterprises. This should serve to give a general frame in which to place the analysis in order to better understand the impact that this context has on macroeconomic policymaking in Nicaragua.

2.1 *The Economic Crisis*

Nicaragua is a classic example of a less developed economy with a low diversification of its productive structure. The country is not able to supply itself with basic products such as rice and beans. Much of the country's agricultural production is oriented towards export crops with four principal products representing more than 60% of the country's earnings on exports¹². This means that the Nicaraguan economy is very vulnerable and affected greatly by the development of the prices on the world market. Of the four principal products coffee is the most important and the country has been severely affected by the declining prices of this product on the world market. The above factors along with the rising prices on fuel and lubricants have caused Nicaragua's trade deficit to reach unprecedented levels.

However, trade deficit is not a new phenomenon for Nicaragua and together with foreign debt Avendaño has identified declining terms of trade and the poor diversification of the productive structure as the main structural problems related to the trade deficit. In 1995 Nicaragua was recorded to have a deficit of USD 466 mill, a figure that has worsened markedly every year since¹³ and in 2001 it is forecasted to reach a deficit of USD 1.300 mill. in 2001¹⁴. This underlines the highly unsustainable situation of the Nicaraguan economy.

Another problem that the Nicaraguan economy has been facing is the crisis in the financial sector, which has led to the closing of eight commercial banks between 1996 and 2001. In 2000 this meant that the Central Bank of Nicaragua had to assist the sector with USD 139 mill¹⁵. This again has been the principal reason for a drastic decline in the amount of international reserves held by the Central Bank. By the end of 2000 the bank's holdings had decreased with USD 38 mill. in spite of an income of USD 115 mill. for the privatisation of the electricity distribution that was bought by the Spanish company Union Fenosa¹⁶. The government and the IMF have calculated with the income from the privatisation of the last 60% of the national telephone company (ENITEL) and the electricity generation to increase the levels of foreign reserves. The last part of ENITEL was privatised on August 31, 2001 but so far it has not been possible for the Nicaraguan government to privatise the electricity generators (we will return to this point below).

¹² Avendaño, Néstor (2001): *"La Economía de Nicaragua, Prognóstico 2001, Informe Especial"* Friedrich Ebert Stiftung.

¹³ UNDP, 2000 *"El desarrollo Humano en Nicaragua, Equidad para superar la vulnerabilidad"* UNDP, Managua.

¹⁴ Avendaño, Néstor (2001): *"La Economía de Nicaragua, Prognóstico 2001, Informe Especial"* Friedrich Ebert Stiftung.

¹⁵ Ibid.

¹⁶ Ibid.

These elements in common have led the Nicaraguan economy into a very deep economic crisis, which is the context in which the PRSP has been elaborated and the agreement with the IMF has been negotiated.

2.2 The political crisis

Apart from the economic crisis Nicaragua can also be said to be facing a political crisis. The presidential elections in 1996 split the country in two almost equal parts of supporters of respectively the Liberal or the Sandinist candidate¹⁷. Some political observers have argued, that the motives of the voters are less driven by whom they find can represent their interests best and more by “irrational emotions” such as pure anti-sandinism on the part of the Liberal voters and loyalty and a fixation on the myth of the revolution and its leaders on part of the Sandinist voters¹⁸. And the draw between the two parties was also relatively close in the elections of November 2001. This describes a country, which is deeply polarised between the choice of two different political ideologies and many, as we shall come back to, refer to this polarisation as one of the reasons why it is difficult for the CSOs to influence political decisions.

Furthermore, what has become known as ‘the pact’ is a related political event, which has had an enormous effect on the Nicaraguan society in the last few years. “The pact” refers to a more or less official alliance entered between Ortega and Alemán and thereby between the Liberal and the Sandinist party. The most visible effects of the pact are fundamental changes in the Electoral Law and the Political Constitution, in both cases with the intention of strengthening the power of the two parties while weakening that of all the other parties. In the National Assembly where seats are almost equally divided between the two parties, the passing and reforming of laws have been reduced to a formality where the pact prevents opposition to a law proposed by the other party. Another consequence of the pact has been an increase in the number of members of the Supreme Court and in the Supreme Electoral Council dividing the seats between the two parties with the majority to the Liberal Party as they hold the government. At the same time the Supreme Electoral Council was deprived of the right to appoint electoral staff on the basis of technical and professional skills and instead it was obligated to select them from the lists that the two parties presented to the council. This last case shows as an example of the indirect consequences of the pact, that it has now become easier for the two leading parties to place members of the parties on official posts.¹⁹

There are different opinions on the reasons for the two parties to enter negotiations and subsequently a pact with the competing party. The official argument from the Liberal party is that it was for the common good of Nicaragua to avoid uprisings and armed confrontations and to promote governability. From FSLN the official arguments were that the party had a long history of pragmatic negotiations and believed that this was the right way to do politics and furthermore if the party negotiated now, that would guaranty them the victory in the following elections. Most observers, however, point to the economic gains for both parties by the pact as the main reason, as the pact as mentioned brought

¹⁷ Arnaldo Alemán and Daniel Ortega, respectively

¹⁸ Roque, Yadiva, “Pacto: frutos amargos y hondas raíces” *Nitlapán-Envío*, julio 1999.

¹⁹ *Ibid.*

many appointments of political associates to official posts and furthermore it curbed the problems of property rights having long ridden Nicaragua, leaving much of the land in the hands of either Liberals or Sandinists. An even more covert explanation might lie in the fact, that while Alemán was facing serious accusations of extensive fraud while holding the position as mayor of Managua, Ortega was accused of sexual abuse of his stepdaughter. The pact has secured immunity to them both.

The pact has obviously been met with opposition from other sectors of society. A group called Acción Ciudadana had been formed with the objective of fighting the pact and the corruption, which is seen as a consequence of this. It holds members such as CCER, Movimineto Renovador Sandinista and more than 50 Unions and social organisations, many of them with Sandinist roots. CCER is one of the leading critics of the pact, as they find that the pact excludes the broad interests and needs of a broad range of society and furthermore closes the potential spaces for political and institutional participation²⁰. We shall later return to how the pact also according to CCER has got influence on the possibilities for civil society to participate in the elaboration of the PRSP and macroeconomic policies in general.

2.3 Background on the Privatisations

The process of privatising public enterprises in Nicaragua was initiated after the elections of 1990 and the conservative lead coalition “UNO” taking over government power, but has to be viewed also in the light of the preceding Sandinist period. After the revolution in 1979 a series of structural transformations were initiated of which the most important was the confiscation and nationalisation of all of the Somoza family’s property and the nationalisation of a number of sectors including all the public services. By the end of the 80ies the Sandinist government had created the largest state apparatus of the American continents, possibly with the exception of Cuba²¹. According to the same study a large number of these state owned enterprises were characterised by a redundant number of employees, poor management, low production and productivity, obsolete machinery and equipment and a high level of indebtedness. By April 1990 the state owned corporations and enterprises had accumulated very large debts, which many of them were unable to repay. Many of these companies had inadequate or no data whatsoever of their transactions. Furthermore in the 80ies they had operated within protected markets and with large subsidies, so when these conditions were changed with the introduction of the first adjustment program in 1988 and reinforced with the following adjustments in 1990, many of these companies were forced to shut down or continue the work with decreased capacity²².

With the conservative lead coalition and president Violetta Chamorra having won the elections in 1990 the new government presented strong aspirations for far-reaching privatisations. Their arguments for privatising were of an ideological kind – they found that there was a need for a reconstruction of the economy from a state oriented to a market oriented economy. Privatisations were perceived by the government as one of the principal

²⁰ Ibid.

²¹ De Franco, Mario A. (1995): “*Nicaragua: experiencia de privatización de empresas públicas*”, CEPAL, Seminario Nacional sobre privatizaciones organizado por ASDI y PNUD, Managua 12. junio de 1995.

²² Ibid.

instruments in the development strategy, and they were seen as a means to 1) reconvert and modernise the productive system; 2) the sanitation of public finances; and 3) increase the generation of employment, investments, production and exports²³.

However, it is also evident, that there was a strong pressure from the IFIs through their structural adjustment programmes, as well as bilateral donors – most notably USAID – to privatise. After the new government was in place USAID and the World Bank established goals in terms of numbers of companies that were to be privatised within a certain timeframe. The pressure to privatise was especially turned towards the monopoly state enterprises²⁴.

The decision to privatise was met with quite a lot of opposition by workers and labour unions as well as other civil society organisations. Especially the partial privatisation of the post and telecommunications company TELCOR²⁵ (of which 40% were sold to a foreign company) was met by public protests, as this was one of the few profitable state owned companies. In the period of the partial privatisation of TELCOR, there were a number of strikes, demonstrations and riots taking place in the country. However, after the sale in 1994 the protests seemed to be reduced substantially.

We will not go into much detail with the general process of the privatisations as our focus is more specifically on the energy sector, but it is worth noting that the process was quite swift. However, the process has also been criticised by many. One of the main points of critique has been that the process was subject to almost no legal control and not in any way transparent²⁶. Furthermore one of the main objectives of the privatisations was the sanitation of the public finance sector, but according to De Franco there was almost no positive affect to be seen on the public finances. The only clear fiscal benefit from the privatisations was that the state got rid of a large number of firms, that were generating deficit for the state, and thus the pressure on the fiscal deficit of the public sector through transfer of government resources, subsidies etc, was lowered after the sales²⁷.

However, after the big wave of privatisations in the early 90es, the goal of privatising the public services such as water, energy and telecommunications had still not been accomplished except for the privatisation of 40% of the post and telecommunications company.

The Energy Sector

In 1991 the government, with the financial support of IDB initiated the plans to restructure the energy sector on the basis of a study carried out by Instituto Nicaragüense the Energia

²³ Ibid.

²⁴ Ibid.

²⁵ The name was subsequently changed to ENITEL

²⁶ Cupples, Julie (1992): "Ownership and Privatisation in Post-revolutionary Nicaragua", *Bull. Latin Am. Res.*, Vol 11, No. 3, 1992

De Franco, Mario A. (1995): "*Nicaragua: experiencia de privatización de empresas públicas*", CEPAL, Seminario Nacional sobre privatizaciones organizado por ASDI y PNUD, Managua 12. junio de 1995

²⁷ Ibid.

(INE)²⁸. The study showed the necessity of broadening the capacity of the energy system, improve the efficiency and repayment of debts, meet the growing demand and supply this demand with quality. In order to meet the costs that these investment programmes would mean, the government found that private financial resources were needed²⁹.

A number of studies (financed mostly by the government or the World Bank) were conducted on models of reorganisation of the sector and the way private capital could be incorporated, and these studies formed the basis for the future actions within the sector. In 1996 it was decided to separate the normative and operational functions of the sector, so that INE was kept as the regulating entity and ENEL as the generation, transmission, distribution and commercialisation company. In 1998 URE was created with financial support from IDB as an entity independent of the government with the purpose of restructuring, segmenting and selling ENEL. It was formed by a presidential decree. This entity has the responsibility of segmenting ENEL according to the recommendations made by one of the studies carried out. It was decided to divide ENEL into three separate parts; transmission, distribution and generation. Furthermore the study recommended cutting down the number of employees by more than 40%, something, which has not yet been carried through. The union groups believe, that their strong opposition on this point has so far been preventing the cut downs³⁰.

The transmission of energy has remained in the hands of the state. The distribution of energy was split into two companies; Dissur and Disnorte. The distribution was the first part of ENEL to be privatised, and this was done in September 2000, when both Dissur and Disnorte were sold to the same company, the Spanish "Union Fenosa" for US\$ 115 mill. Not included in Dissur and Disnorte is most of the Atlantic zone, which has been termed free area (área libre) by the government, and which is still administered by the state. This is due to the sparse population in this area meaning that the costs of distributing electricity in here are very high and thus not of interest to a private company. Therefore a state subsidy is still necessary in this area, where big plants providing energy for large areas are not economically sustainable and instead small generators must be placed near the inhabited enclaves³¹.

The third part of ENEL was the generation of electricity, which was split into 4 separate generators all of which were to be privatised after the privatisation of the distribution. At present the government is still trying to privatise the generation part of the electricity sector. The privatisation of the generators has been delayed because the companies interested in purchasing were afraid that the purchase might be in conflict with the constitution. After 10 months of processing the case in December 2000 the Supreme Court of Justice passed a judgement in favour of the privatisation. The process has now been delayed further as latest date for interested companies to present offers was passed on August 15, 2001 without any offers. URE and the government in cooperation with the IFIs were to decide on a new date.

²⁸ Nicaraguan Energy Institute.

²⁹ FESTEM (2001): "*Situación del sector eléctrico en Nicaragua. Proceso de privatización a Junio del 2001*".

³⁰ Ibid.

³¹ Interview with URE, 280801.

Before the deadline for offers was passed three companies had showed their interest but none of them presented an offer by the set date. Two of the companies decided not to present their offers because they wanted more time and furthermore requested a contract of fiscal stability from the government, which the latter could not give. Earlier there had been a law guarantying foreign companies an interest rate of 25%, so that if the interest rate should rise above this rate, the state would guaranty that the company's interest rate were kept at 25%. However, this law has now been changed so that this is no longer possible, and therefore the government could not issue the guarantee, that the companies requested. URE is now considering whether an economic compensation can be given instead of the interest guarantee but the government has not been willing to do so³².

³² Ibid.

3. THE MACROECONOMIC PART OF THE PRSP

As mentioned earlier we have focused mainly on the level of participation in the macroeconomic framework and thus in our interviews we have made a distinction between participation in the overall document and participation more specifically in the macroeconomic part of the PRSP, which can be identified primarily as the first pillar in the document. This chapter looks into the views on the level of participation in the macroeconomic aspects of the strategy and the question of how to define participation and how the different actors view this concept, as this is of course central to the perception of the process. We also view the actors' evaluation of the constraints of civil society and the prospects in terms of future possibilities of participation.

3.1 The macroeconomic part of PRSP participatory?

As one would expect, there are various interpretations of the level of participation in the overall document ranging from very little over better than could be expected to very high levels. However, it was clear that most actors actually agreed that the participation in the macroeconomic part of the PRSP had been less than in the elaboration of the rest of the strategy. The World Bank representative, while seeing the overall level of participation as much better than could be expected considering the lack of tradition of participation in the country, acknowledges that civil society participation in the macroeconomic framework has been much less. When we asked the representative of the Central Bank she referred to how this field was still mostly in the hands of the Central Bank, and that this was perhaps an area, where the Central Bank ought to try to involve civil society more.

Civil society organisations' interpretation of the level of participation in the macroeconomic framework is by no means more positive. CCER's representative in CONPES finds that the macroeconomic part is still very closed; "no se ha abierto esa discusión a las políticas macroeconómicas y a los programas de ajuste, nosotros hemos estado insistiendo desde el CONPES y desde la sociedad civil afuera de CONPES que no podemos seguir con esa dicotomía"³³. She also finds that the first pillar of the document is by far the weakest. This point is backed up by the coordinator of CCER, who states that the macroeconomic part has been the least discussed and describes participation in this area as practically zero.

On the basis of our interviews we have found that one can thus see the level of participation in the PRSP as a pyramid, where the level of participation decreases as you reach the top of the pyramid. In the bottom you have the project portfolio, and here it has been possible for civil society to give a reasonable level of inputs³⁴. At the same time, it is at this level, where the strengths of civil society traditionally have been most recognised. When arranging the discussions in the workshops and focal groups SETEC has been concentrating largely on this level, arguing that this was the field of most interest for the participants. Furthermore, it seems likely that the area of the future implementation and monitoring of these projects is the area where civil society will have most possibilities of participating.

³³ "The discussion on macroeconomic policies and adjustment programmes has not been opened, on the part of CONPES and civil society outside CONPES we have been insisting that we cannot go on with this dichotomy" (Interview with CCER representative in CONPES, 070801).

³⁴ However, there still seems a long way to go in this area as well in the opinion of most CSOs.

The next level in the pyramid is the more profound discussions of priorities partly related to the content of the four pillars in the PRSP, and especially the second, third and fourth pillar. According to CCER's representative in CONPES working groups were set up in CONPES with themes such as social issues, the national budget etc with the purpose of discussing these themes in relation to the strategy. In this way the members of CONPES have had at least some possibility of discussing the priorities of the strategy and the content of especially the second, third and fourth pillar.

However, as mentioned above the first pillar and the macroeconomic framework as such has been the least discussed and not been open for much participation. We thus see this as a further step up the pyramid. It seems that the introduction of the PRSP has thus meant an increased level of participation in the project portfolio and a possibility, although somewhat limited, for civil society as represented in CONPES to discuss the priorities and goals of the strategy in terms of education, health, national budget etc, but the area of macroeconomic policy making to us still seems almost completely closed for CSOs. This is further illustrated by an interview with the representative of SETEC, who explained to us how the PRSP should be seen as the social part, and separately SETEC is elaborating a strategy of development, which is supposedly a more visionary document for how to create economic development in order to set the economic framework for the PRSP. In this way the social and the economic issues are totally divided, and thus what civil society has been able to participate in, has only been the social part, the PRSP.

3.2 Perceptions of Participation

Of course the way one views the level of participation is directly related to what people understand by the concept, and it seems to us, that there are diverse understandings among the actors. Something, which is immediately notable from our interviews, is the variation among the interviewed in the use of the words participation and consultation, respectively. When describing the process, which SETEC has carried out in terms discussing the strategy with civil society, both representatives of SETEC referred to this as consultative. At the same time one of the representatives described the actual process as "a los pobres se ha preguntado su opinión, se les ha presentado su estrategia."³⁵ To us this describes a consultative process quite well, where the document has more or less been made, and then SETEC meets with people to ask them their opinion on this document afterwards. However, this procedure does not seem to imply participation in the actual elaboration of the document or in the discussions forming the basis for it.

This observation is backed up by the representative of FACS, who says that for the people of SETEC participation is the same as consultation. He refers to the dialogue on the strategy as a dialogue of deafs, as the points brought forward by civil society are not being heard or are being misunderstood. The representative of CCER's macroeconomic group expresses something similar: "hicieron una consulta, pero los resultados no están realmente incorporados"³⁶.

³⁵ "The poor have been asked their opinion and have had the strategy presented to them" (Interview with SETEC, 040801).

³⁶ "They made a consultation, but the results were not really incorporated" (Interview with representative of CCER's macroeconomic group, 220801).

The CCER representative in CONPES has a clear definition of participation, which she underlines is different from consultation. To her participation is the right and the obligation of the citizen to take politics in his or her own hand and to have the power in decision making to influence decisions that affect this citizen's own life, and this to her is not simply a question of consulting people. When asking the World Bank representative what she understood by participation, she interestingly enough asked us if this was a trick question. This shows that what is actually meant by civil society participation is still somewhat blurred. One of the representatives of SETEC even "confessed" to us, that civil society had not been part of his vocabulary before entering the work with the PRSP.

At the same time as the concept is not very clear, however participation is still a central aspect of the policy outlines by the IFIs and thus something, which the government is obligated to insure in order to have the strategy approved by the two organisations. However, after we had insured the representative of the World Bank, that it was not a trick question, she explained to us that the staff of the World Bank had been informed, that they were not supposed to define what participation is, but rather only describe how the specific processes have been. This can be said to give the government more space in terms of how to meet the demand for participation. When explaining the level of civil society involvement, the representative of SETEC, for example refers to the large number of people consulted as the key indicator, stating that the Nicaraguan consultancy process had been the only one amongst all the HIPC countries³⁷. In relation to this, the representative of IDB's social group makes an interesting distinction, when she says that in terms of people met, the process has been participatory, but in terms of the substance somewhat less. This is related to what the representative of CRI refers to, finding that the government has a number of representatives of civil society formally taking part in discussions, but actually having no influence on the final document, in order for the government to legitimise their document. Thus the relatively large number of people consulted in the overall document is used to justify the process as being participatory. Looking at the response of the IFIs, it also seems that this is "enough" in the sense that both the representative of the World Bank and the representative of the IMF as mentioned found the overall document participatory and the latter also referred to how other donors liked the outcome.

3.3 The arguments for the lack of civil society involvement

Concluding that civil society participation in macroeconomic policies is still very limited leads us to looking at the reasons for this. The different actors have different explanations, though some of the explanations are certainly related. The IFIs often refer to the problem that most commonly representatives of civil society are not economists, and thus it is difficult to have technical discussions with representatives of civil society³⁸. The representative of the World Bank refers to the problem of civil society using a different language, thus making it hard to communicate, and that they often lack the knowledge to comprehend complex matters such as macroeconomic issues.

³⁷ El proceso de nosotros ha sido muy amplio, creo que es la única experiencia que hay entre todos los países HIPC sobre la consulta" (Interview with SETEC, 230801).

³⁸ (Interview with IMF, 150801), (Interview with representative of IDB's social group, 060801), (Interview with World Bank, 140801).

This argument relates to another reason, which both government and IFI representatives refer to, namely the politicisation of the Nicaraguan society and of the different organisations of civil society. The representative of the Ministry of Finance and Credit expresses how each organisation or group of civil society wishes to promote its own course instead of focusing on the common interest of the country, as for example the unions wishing a 100% increase of salaries or the private sector wanting taxes to be lowered. Also the representative of IDB's social group mentions this problem, referring to the Nicaraguan civil society as very fragmented. She goes on by saying; "no hay cohesión de la sociedad civil.../...tal vez hay demasiadas y cada quien representa su mismo al final".³⁹ The IMF representative states something similar, when he says "as soon as you talk to other groups they are talking against the government and therefore they will bring in arguments that are non economic, that reflect special interests and will make it difficult to get your points across"⁴⁰. He finds that the politicisation of the Nicaraguan society is much more explicit than in other countries.

It is interesting to relate this argument to one brought forward by the Coordinator of CCER, who says that they have problems communicating with the government because the government sees them and treats them as political opposition rather than as an organisation of civil society. This makes it very hard to have serious discussions with the government. CCER's representative in CONPES expresses something similar, and underlines that they are not against the government per se, but for better opportunities for the weakest in the Nicaraguan society, but this is often misunderstood.

At the same time as IFI and government representatives find that civil society representatives do not have the sufficient economic skills to contribute significantly in the macroeconomic debate, some of them acknowledge that there might be a lack of information to civil society on their part. The World Bank representative for example expresses how sometimes civil society has not been informed enough, and sometimes discussions with civil society have been too few and not profound enough. The representative of the Ministry of Finance & Credit also acknowledged that civil society had been given too little information on the process of the privatisations thus making it hard for them to contribute to the discussions.

Talking to civil society organisations they naturally feel, that it is an unjust verdict that they do not have the knowledge to participate in macroeconomic issues, and furthermore not true that there are no economists amongst them, as most of the organisations have economists employed. The representative of CCER's macroeconomic group for example finds that the strategy that they have made on poverty reduction "La Nicaragua que Queremos"⁴¹ proves that they do have the capacity to contribute with valuable inputs to the macroeconomic debate, but the problem is that they do not have the same resources as the government has to develop it further and implement it. The representative of CRI expresses something similar, when he says that one has to remember, that there are not the same

³⁹ "There is no cohesion among civil society.../...maybe there are too many, and everyone is representing itself in the end" (Interview with representative of IDB's social group, 060801).

⁴⁰ Interview with IMF, 150801.

⁴¹ CCER (2001): "The Nicaragua We Want".

amount of resources available for civil society as is the case for the government. He, for example, participates in any kind of activity where civil society has the opportunity to be heard and influence, but if he has to make the choice between participating in such an event and a job he is paid for, he has to choose the latter in order to feed his children. This opinion is backed up by the representative of FACS, who says that the work done by civil society in terms of carrying out an analysis and presenting alternative suggestions often needs to be on a voluntary basis, and an economist qualified to make such an effort generally wishes to be paid for it.

3.4 Perceptions on the possibilities of more civil society participation

As many of the actors interviewed thus recognise that the level of participation in the macroeconomic part of the PRSP is somewhat limited, we thus asked for their suggestions as to how civil society could participate more on the area of macroeconomic policymaking. There were different suggestions, although some of them were similar in character. Both the World Bank and the IMF mentioned the idea of creating a think tank. The IMF representative refers to the experience in other countries “where they draw the best people from several groups who are qualified, who are trained economists to understand the trade offs between increases here and decreases there and if you have such a group that acts not only out of political considerations”⁴². We mentioned this idea to some of the representatives of CSOs, who were generally positively oriented towards the idea. The representative of CCER’s macroeconomic group expressed how he believed that there would be people interested as was CCER as an organisation.

In line with the think tank suggestion he also mentions that CCER is currently working on a project aiming at creating a technical team of macroeconomic experts who could discuss and present suggestions and recommendations to the national economic policymaking. CCER already has a group of economists meeting once in a while to discuss some of these themes, but it has yet to be formalised and specialised more. Also the representative of CRI sees the creation of a group of economists and other experts from civil society with the capacity to discuss and negotiate with the government and IFIs as a way for civil society to participate more in the macroeconomic framework.

CCER’s representative in CONPES mentions how she sees internal capacity building as an important requirement for the future possibilities for civil society to participate more. She finds that especially some parts of Nicaraguan civil society need to strengthen its capacity in advocacy, recommendations and negotiation. The World Bank representative also stresses this need to strengthen Nicaraguan civil society so that they are better equipped to contribute to macroeconomic policies, than she feels is the case at this point.

The coordinator of CCER has a more concrete suggestion as to how civil society could participate more in economic policy making. She finds that civil society organisations should accompany the government at negotiations with IFIs. She confirms that this is one of CCER’s suggestions, and in that way they could contribute with concrete recommendations and Nicaragua would be strengthened in their negotiations with the Fund

⁴² Interview with IMF, 150801.

compared to the country's position now. However, she also states that it is most unlikely that the government will ever allow this.

The representative of CCER's macroeconomic group discusses the balance that civil society needs to find between the protest and the formulation of actual alternatives. The protest is important, but it is not enough, and if the Nicaraguan civil society wants to have more influence, they really need to have well formulated alternatives to the policies of the government and IFIs. He also underlines the importance of trying to influence macroeconomic policies in ways where the macroeconomic stability is not brought in danger. What they want is a change in the structural adjustment programmes so that they do not undermine the efforts to reduce poverty, but this does not mean that they wish to return to the situation in the late 80ies with an inflation rate of 33.000%. However he feels that these problems of the past have made it difficult to bring a little more flexibility into the monetary framework, as people are still very afraid of the consequences.

4. THE INTERIM PROGRAMME AND THE LINK TO THE PRSP

As mentioned in the introduction we find that in analysing whether a participatory economic policymaking can be a possibility within the PRSP framework it is necessary to take into account also the IMF supported PRGF programme. In the following we outline the significance of the negotiations between the Government and the IMF as a central element in understanding the level of participation in this area.

4.1 The Interim Programme:

Nicaragua negotiated its last programme – an ESAF – with the IMF in 1998 and if following the normal cycle, a three year PRGF should have been negotiated by the end of 2001. However, this has not been the case. Instead the IMF and the Nicaraguan Government have negotiated a so-called Interim Programme. According to the IMF representative, the institution is planning to negotiate a formal programme with the new government around March or April 2002.

The representative of the IMF describes the Interim Programme as a “staff monitored programme” which legally or in the strict sense has nothing to do with the HIPC process. Furthermore the Interim Programme does not imply any release of funds from the IMF. This kind of programme is not normally taken to the Board of Directors for approval but because it will send an ‘important signal to other donors’ in this case it is being brought to the Board anyway. The signal is particularly important in relation to IDB as it will release a loan from this institution on US\$ 80 mill.

The most important elements in the Interim Programme are not surprising and a few have been inherited directly from the former ESAF. First of all the IMF has been worried about the approval by the parliament of a record high budget deficit and it has therefore been cut down because the IMF did not ‘find it realistic’⁴³. After the new negotiations have been completed the Nicaraguan Government has committed itself to “maintaining fiscal discipline”⁴⁴. This implies that the public spending this year is lower than originally planned in the budget.

Another very important element is that the privatisations of ENEL and ENITEL should be completed to secure an inflow of foreign reserves to the country that had been reduced due to the crisis in the financial sector. The privatisation process was announced to culminate on August 15, 2001 for ENEL and August 24, 2001 for ENITEL and a delay would only be accepted if it was due to ‘technical problems’: “...la razón por el retraso tiene que ser técnica, no tiene que ser una decisión, por ejemplo de ya no privatizar, porque ahí si causa problema al programa.”⁴⁵

⁴³ Chamorro, Carlos F (2001): “FMI dará luz verde el 12 de septiembre”. *Confidencial*. Vol. 6, no. 253.

⁴⁴ Gobierno de Nicaragua (2001): Nicaragua – Letter of Intent (available at www.imf.org).

⁴⁵ “...the reason for the delay should be technical and not a decision for example not to privatise at this point because then it would cause problems for the programme” Chamorro, Carlos F (2001): “FMI dará luz verde el 12 de septiembre”. *Confidencial*. Vol. 6, no. 253.

It is debatable why the IMF and the Nicaraguan Government have chosen to depart so openly from the PRGF framework and negotiate the Interim Programme. The official explanation from both functionaries of the Government and Central Bank and from the IMF is that the Government did not feel able to negotiate a three year programme as a new government is taking office in the beginning of 2002. The representative of the IMF described it as being necessary in order to bridge the period of the outgoing government. A representative of the Central Bank elaborated on this point that the candidates running for the presidency in Nicaragua were very close, which created a high level of uncertainty in the country. However, it also seems to relate to the different ideologies that the candidates in Nicaragua represent. In any case it means that the incoming government is dependent on negotiating with the IMF because it will need a formal programme with the IMF to move on towards HIPC debt relief. This again means that the government will have to comply with the conditionalities within the programme negotiated with the IMF, which makes the IMF the principal gatekeeper for the HIPC and the PRSP process. As the representative of the Ministry of Finance and Credit said: “Cualquier gobierno que venga va a tener que firmar un programa con el Fondo”.⁴⁶

4.2 Exclusion of Civil Society in the Elaboration of the Interim Programme

The elaboration of the Interim Programme in Nicaragua raises a lot of questions of which a good deal are still unanswered. How does it relate to the guidelines established within the PRGF framework in relation to participation? IMF claims in their policy papers that foremost among the key features of PRGF-supported programmes are broad public consultation and increased national ownership⁴⁷. Another relevant question is if these guidelines are only applicable in relation to a formal PRGF and can thus be neglected in such special kinds of negotiations. If this is the case when can the IMF or a government decide to depart from the PRGF framework? Is an upcoming election a valid reason? If yes, does that then imply cyclic departures from the framework in countries every time there are elections?

Whatever the case may be the elaboration of the Interim Programme has meant a complete exclusion of civil society in the planning of the country’s macroeconomic framework in Nicaragua thereby confirming our findings in chapter three that national economic policy-making is almost completely closed for civil society participation. The negotiations between the Government and the IMF have been going on behind closed doors without any kind of public consultation. This is acknowledged by the representative of the IMF, who distinguishes between openness and participation. He believes that there has been openness in the process through Government declarations and interviews that he gives. In this manner the main elements of the programme have been known to the public. However he does not believe that you can have participation in the negotiations with the IMF: “I think the openness can only go so far, I don’t think we can sit down with the labour unions or with civil society to negotiate macroeconomic variables.”⁴⁸ Furthermore he does not

⁴⁶ “Whatever government that comes will have to sign a programme with the Fund” (Interview with the Ministry of Finance and Credit 280801).

⁴⁷ IMF (2001): *IMF Lending to Poor Countries – How does the PRGF differ from the ESAF* (available at www.imf.org).

⁴⁸ Interview with IMF 150801.

believe that this will ever change, he thinks that while the negotiations between a government and the IMF are developing it will always be behind closed doors.

The Interim Programme has been broadly criticised by representatives of civil society organisations. One of the strongest points of critique came from the president of CRI, who first and foremost criticised it for not having ownership. It is not known to many people in the country and civil society experts have not been involved in the process. Another point of critique was that the Interim Programme is seen as a mere continuation of the structural adjustment programmes. In this way the PRSP is subordinated to the logic of structural adjustments, which means that the PRSP will have the same problems of reducing poverty as the structural adjustment programmes, which have not been able to do so. Finally, another more general account brought forward by the representative of GPC was that even though the IMF through the PRGF claims that it is promoting growth, the fact is that the programme that Nicaragua has negotiated with IMF is not promoting growth. Rather it is creating a recession in the economy because it is not encouraging investment in factors that promote development. It is for example difficult to obtain credit because of the high interest rates that are a direct consequence of the strict monetary policy and the Government keeps cutting down spending on education, security and health. As expressed by the representative of GPC this hard line is driving the economy into recession: “Entonces en el PRGF yo encuentro una contradicción; dice que hay que reducir la pobreza con crecimiento pero te implementa una política que te hace recesiva tu economía y no te deja respirar.”⁴⁹

4.3 The link between the two programmes

The link between the PRGF and the PRSP arrangements has been discussed often since the programmes were introduced in 1999. Often civil society organisations tend to interpret the policy papers as if the PRGF should derive from or be subordinated to the PRSP. However, it is not entirely clear what the two institutions have agreed upon on this delicate subject. If one looks at the ‘PRSP - Operational Issues’ document the civil society interpretation is to some extent confirmed. Here the link between the two programmes is described to be that “All PRGF-supported programs would stem from, and be drawn from, the PRSP...” and furthermore “...that most targets and policies embodied in PRGF programs will emerge directly from the country's poverty reduction strategy.”⁵⁰ When looking at the document on Operational Issues for the PRGF, however, things become a bit more blurry. Here it is just described that the PRGF “must support and be consistent with the overall poverty reduction strategy.”⁵¹ This seems to be less clear than in the PRSP document and it illustrates that there is a bit of inconsistency between how the two institutions view the linking of the two approaches.

In Nicaragua CCER interpret the link between the PRSP and the PRGF to be that the PRSP should determine the PRGF and not the other way around and it is criticised that it is not

⁴⁹ “So, in the PRGF I encounter a contradiction; they say that you have to reduce poverty through growth but they make you implement a policy that pushes your economy into recession and does not let you breathe.” (Interview with GPC 270701).

⁵⁰ IMF/IDA (1999): Poverty Reduction Strategy Papers – Operational Issues (available at www.imf.org).

⁵¹ IMF (1999): “The Poverty Reduction and Growth Facility (PRGF) – Operational Issues” (available at www.imf.org).

like this in reality⁵² What is somewhat more surprising is that the IMF representative acknowledged that up to this point the civil society organisations are absolutely right in this critique. However, he claimed that in the next PRGF cycle this will change and the PRGF will be based on the PRSP. Elaborating on this the representative referred to making the macroeconomic variables as much as possible *consistent* with the PRSP and that the inconsistencies should be removed in the new cycle. More generally he sees the relation between the PRSP and the PRGF as the latter being the “envelope within which the PRSP of the government is to be executed”⁵³. These points by the IMF representative contribute to the comprehension of the link as somewhat blurry. On the one hand the PRGF is to be based on the PRSP and stem from it but on the other it is a question of removing some inconsistencies and the PRGF is to be an envelope within which the PRSP should be carried out. In this manner it is rather unclear to which extent the PRSP will actually be the principal tool for poverty reduction and especially for determination of national economic policies or if it will be the PRGF, which is even more closed for civil society participation.⁵⁴ At the same time, as we will discuss in the next part, the PRGF is still very much subject to a monetary philosophy.

4.4 The continuous primacy of monetary policies

The scope for a different and more profound approach to poverty reduction is further narrowed by the fact that not only has the ESAF/PRGF and the Interim Programme been determining the PRSP but moreover the macroeconomic approach is strictly monetary.

One of the representatives of SETEC described how it had been necessary to create an institution, which is able to coordinate the PRSP with the macroeconomic framework because this continues to be strictly monetary, to which he added that the IMF is never going to change. This means that the PRSP is created within a macroeconomic framework that is determined by a very short term economic policy with a monetary focus, which aims at maintaining low inflation, monetary stability etc. In describing the change that the introduction of the PRSP and PRGF has brought in the work of the Central Bank, the representative of this institution described that obviously the main preoccupation of the Central Bank is the monetary stability. Because of the economic crisis the country is facing it has not been possible to introduce flexibility in the macroeconomic objectives.

What is happening in Nicaragua with the PRSP is that all the projects, which the Nicaraguan Government is carrying out have been ranked by SETEC in relation to their poverty focus, which has meant that some projects are now protected. When there is an economic crisis in the country the Government would normally just cancel a project somewhere because it is the easiest way to cut expenditure, but this is not possible now. Instead what suffers are the public investments, which are apparently not considered to be poverty reducing. This illustrates the narrowness of the conception of the PRSP at Government and IFI levels in Nicaragua. It is seen more as just a big project that receives a

⁵² Interview with the coordinator of CCER 090801.

⁵³ Interview with IMF 150801.

⁵⁴ As referred to earlier in the document the IMF representative does not see any future possibilities of involving civil society organisations more directly in negotiations with IMF.

certain amount of money to finance some projects and less as a vision on how things could be made different.

5. THE PRIVATISATION PROCESS

As mentioned in the introduction we have been focusing on the privatisation of the national electricity company ENEL as an example of structural adjustment, which supposedly should be handled in a different manner under the new approach. The privatisation of ENEL is as we have described above along with the privatisation of the telephone company one of the most central elements in the Interim Programme agreed upon with the IMF. Other sectors are on the drawing board for privatisation or leasing as e.g. water and port facilities⁵⁵.

We have mainly been interested in whether there has been any public debate about the privatisation and if the points of view of civil society have been taken into account. However this research question turned out to be complicated by the fact that plans to privatise ENEL goes back to the beginning of the 90ies. As mentioned in chapter 2, the process was railroaded in 1998 when URE was formed. The fact, however, that it has not been privatised yet and that it is a fundamental part of the recently negotiated programme with the IMF makes it interesting to analyse whether civil society can have a say on the issue.

5.1 The debate about privatisation

CCER officially state that they are against the privatisations. In their document 'The Nicaragua We Want' it is written that the organisation believes that the privatisations should be curbed, especially that of companies, which create profit and the ones, which ought to assure a service to the population. In several interviews the people from CCER elaborated this stance. First and foremost the representative of CCER's macroeconomic group explained that the organisation does not have any predetermined ideological conviction on privatisations, some sectors might be worth privatising and others not, the main concern is if people's basic needs are satisfied.

Also the unions in Nicaragua have been opposed to the privatisations but interviewing FESTEM it became clear that they have more or less given up the struggle against the privatisation of ENEL. In the beginning of the 90ies the unions arranged gigantic protest marches and elaborated counter proposals to the privatisations, but these efforts have not been able to stop the process. The workers got their final blow when the Supreme Court of Justice rejected the appeal they had made on the privatisation of the distribution of electricity. The workers had argued that the privatisation was in conflict with the constitution, but the Supreme Court gave their approval to the continuation of the privatisation of the generators in December 2000. According to FESTEM this decision is mainly political rather than technical, economic or social as the Supreme Court due to 'the pact' is shared between the Liberals and the Sandinists. An effect of 'the pact' is for example that one party cannot vote against the other and this seems also to be the case between the judges in the Supreme Court, which is what makes the people from FESTEM criticise the decision as being political⁵⁶.

⁵⁵ IDA/IMF (2000): "Nicaragua, Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative".

⁵⁶ See chapter two for details on the pact between the liberals and the sandinists.

In spite of these arguments put forward by parties opposing the privatisations several representatives from civil society said that the privatisation process has not been discussed publicly at any point. One described the process as dark, secret and silent⁵⁷. And it seems that the recent emphasis on broad public participation of programmes⁵⁸ has not changed this fact. The representative of the IDB in charge of the privatisation programmes funded by the IDB was of the opinion that there is no such thing as popular participation when entering discussions about privatisations in Nicaragua.

5.2 *The concerns*

In spite of the missing public debate of the privatisations, the Nicaraguan CSOs have a number of concerns about the privatisations. The principal concern is the way that they are being carried out. The process has been accused of lacking transparency with only a small group of persons controlling the process⁵⁹. However, representatives from the Government and IFIs broadly reject this. The representative of the IDB in charge of the privatisation programmes funded by the IDB e.g. claims that the process has been very viable and transparent. The country representative of the IMF stated that the privatisation process with the support from IDB has been prepared purely on technical grounds.

An important aspect of the concern about how the privatisation is being carried out is that often what happens when a state enterprise is privatised is that a public monopoly is replaced by a private monopoly, which leaves the people with a service that is not improved but still they have to pay more for it⁶⁰. This is also one of the specific points of critique in the case of ENEL. In an interview the president of CRI, who is former minister-director of INE, described the original idea with the privatisation as to introduce competition, eliminate the vertical integration and the monopoly and make a strategy to sell the electricity company as a 'combined menu' where the good parts were sold together with the bad parts⁶¹. What happened was, as described in the background on the privatisations, that both Dissur and Disnorte were sold to the same company, thereby creating a private monopoly. Furthermore the distribution is considered to be the most profitable part of the electricity sector and selling that off leaves the state with the generators that they are now trying to privatise so far without success (see background on privatisations). This was picturesquely described by the president of CRI as starting by selling the tenderloin and then see who would like to buy the bones afterwards⁶². Moreover privatisation as a solution to the energy problem in Nicaragua (only 43% of the population has access to electricity⁶³) is criticised because private companies are only interested in investing in areas densely

⁵⁷ Interview with GPC 270701.

⁵⁸ As described in numerous IMF/World Bank papers e.g. IMF (2001): *IMF lending to the Poor Countries – How does the PRGF differ from the ESAF.*

⁵⁹ Interview with GPC 270701

⁶⁰ Interview with the representative of CCER's macroeconomic group 220801.

⁶¹ The president of CRI is also the author of the National Energy Development Plan 1997 – 2002 (Plan Nacional de Desarrollo Energetico 1997 – 2002"

⁶² Lo que se hizo aquí fue vender la carne, el tenderloin, y ahora ¿quien va a comprar los huesos? Interview with CRI 170801.

⁶³ Gobierno de Nicaragua (2001): *Estrategia Reforzada de Crecimiento Económico y Reducción de Pobreza.*

populated with good infrastructure where profit can be made⁶⁴. This is reflected in Nicaragua by the fact that the state still has the responsibility and the costs related to electrifying the ‘free area’ of the Atlantic zone.

The counter argument to the critique of the privatisations creating a private monopoly is that it is difficult to create ‘pure competition’ on a small market like the Nicaraguan and that the state therefore is to be the regulator of the sector. This will prevent the companies from increasing prices irregularly⁶⁵. However, both representatives from the World Bank and the IDB acknowledged that the capacity of the institutions to support and monitor the private companies need to be strengthened if they shall be able to live up to these expectations.

Another more general concern is that by stopping to subsidize public enterprises and letting the market forces take over the state loses the ability to use this as a tool to promote development. This is seen as a problem because a private company for example will never engage in the electrification of the Atlantic regions in Nicaragua but without electricity it is difficult to promote development. More generally expressed the energy sector is one of strategic importance for the production and economy of the country, which creates concerns about privatising it⁶⁶.

5.3 The Official Discourse

The main official reason put forward by the IFIs and the Nicaraguan Government for privatising ENEL is that the public enterprises are an economic burden for the state because they are running with huge deficits and that it is better to let the private sector handle the production which they can do better and cheaper. There is some disagreement about whether the enterprises are profitable or not e.g. the representative of CCERs macroeconomic group claims that it is a myth that the enterprises are not profitable. FESTEM asserts that ENEL has been running with deficit because it has been run in a ‘political manner’ and never as a state enterprise. However, these arguments are generally rejected from official hold for example by the representative of the Ministry of Finance and Credit, who argues that the Government has had to take over a debt of the telephone company to make it more attractive to potential buyers.

Furthermore there is a need for additional resources for investment which neither the enterprises themselves nor the state have got. According to the World Bank in Nicaragua the state is not creditworthy enough to receive private sector financing and bilateral and multilateral institutions do not have the resources available to invest in the energy sector. Privatisation is therefore seen as a way for the Government to save scarce resources, resources that can then be spent on social programmes.

The need to privatise has been further reinforced by the macroeconomic situation in Nicaragua. The diminishing level of foreign reserves held by the Central Bank due to the crisis in the financial sector has created a demand for an inflow of foreign reserves to the

⁶⁴ Interview with the representative of CCER’s macroeconomic group 220801.

⁶⁵ Interviews with IDB (privatisation) 090801 and with IMF 150801.

⁶⁶ Interview with the representative of CCER’s macroeconomic group 220801 and FESTEM 160801.

country. In an interview with a representative of the Central Bank this was the first reason mentioned for the privatisation.

In spite of the strong Government – IFI consensus on the virtues of privatisations one Government official from SETEC expressed a somewhat critical point of view. He mentioned that at times the privatisations have been negative for the country because of its starting point as an economy in transition from a socialist economy to a market economy. The state has had to clean up the internal debt in the companies, capitalize them and make investments to make it attractive for private companies to buy. Therefore the net result has been negative for the country but the process was necessary for the country to return to a market economy and get agreements with the World Bank and the IMF.

5.4 The Need for a Social Impact Assessment

Another aspect of the privatisation as an example of structural adjustment we investigated was if a social impact assessment of the consequences of the privatisation of ENEL had been made. The reason for our interest in this aspect derives from the World Bank and the IMF's recommendations on this issue as they write that it is an essential component of the country's overall poverty reduction strategy to assess the impact on the poor of the policy measures implemented by the governments in support of the poverty reduction and growth objectives⁶⁷.

The privatisation of ENEL falls within this category of policy measures especially for two reasons; first, the importance of the energy sector as a promoter of economic and social development (and thereby a means to reduce poverty) as underlined by the concerns above, and secondly because it is a central element in both the Interim Programme and the Government's full PRSP.

However, when we asked whether such an analysis had been carried out in the case of the privatisation of ENEL we were met almost with surprise on behalf of the representatives from the IFIs that we interviewed. The IMF refers to the World Bank and a public expenditure review, which had touched upon some of these elements. The World Bank though, refers to a review and evaluation of the public utilities prepared somewhere around 1993 and refers to the IDB for a more recent evaluation. However, the IDB has not been able to confirm whether a social impact assessment has been made either. The same confusion was presented by the Government officials we interviewed about the question, which has lead us to conclude that a such an assessment has not been carried out in the case of the privatisation of ENEL, most likely because the condition is one inherited from the ESAF.

5.5 The impossible debate:

As mentioned the plan to privatise ENEL goes back to the beginning of the 90ies in Nicaragua and this is one of the principal arguments from the authorities and the IFIs not to look for public participation in the privatisation process. It is true that first the Conservative and then the Liberal Government, which have had the office for the last 10 years have had

⁶⁷ Development Committee (2001): "*Poverty Reduction Strategy Papers – Progress in Implementation*", April 20, 2001(available at www.imf.org)

as a declared goal to get the market forces back after the economic collapse in the end of the 80ies and that part of this strategy has involved privatising the state companies (see background on privatisations). The question is if this legitimises not to discuss the elements of the actual Interim Programme with civil society organisations, who are as described above still concerned about the privatisations and more than anything else the way the privatisations are being carried out.

Confronted with this argument the representatives of the IFIs took different positions. The World Bank representative acknowledged that this is a difficult issue, but that one of the actors in such a process naturally had to take the lead. In her opinion it was obvious that the Government as legally elected should take this lead. The IMF representative was of the opinion that work needed to be done to make CSOs understand the necessity of privatisations because he did not hear any sound technical reasons for why they should not be privatised. Finally the representative of the IDB in charge of the privatisation programmes funded by this institution found that people are against the privatisations first and foremost because they are afraid to lose their identity.

At Government level one of the representatives of SETEC expressed that the missing debate had to be seen in the light of the few years of democracy the country has experienced, which makes it difficult to discuss such matters with civil society. He also referred to the polarisation of the Nicaraguan society and supported the view of the representative of IDB by relating the critique of privatisations to a resistance to selling something that is considered to be national wealth. The possibility of debating privatisations in Nicaragua is also related to the fact that they have been conditionalities in all the programmes with the IMF, World Bank and IDB. Thus the representative of the Ministry of Finance and Credit explained that the privatisations have been a demand for the IFIs and that in Nicaragua things have been privatised because they say that it needs to be privatised⁶⁸. The same representative acknowledges that there has been very little information about the privatisation process and that civil society ought to be better informed, which would make them understand the situation of the public enterprises better. If the Government initiated such an act it could be the first step in meeting the demand from civil society for a more profound and serious debate about the future of the provision of basic services⁶⁹.

⁶⁸ "...las privatizaciones vienen como una exigencia de los organismos multilaterales, aquí se ha privatizado porque dicen que hay que privatizar..." (Interview with the Ministry of Finance and Credit 280801).

⁶⁹ This was a point put forward by the representative of CCER's macroeconomic group.

6. THE POSSIBILITIES FOR CIVIL SOCIETY PARTICIPATION

In this last chapter we intend to elaborate on the key issues of the last 3 chapters in order to discuss the possibilities for civil society participation in Nicaraguan macroeconomic policymaking taking point of departure in the three levels of actors, we have identified and the interaction between them on this issue.

6.1 What changes have the new policies brought

When the PRSP and PRGF programmes were introduced it marked a substantial change of policy by the two institutions. The question is whether this change is also substantial in the actual formulation of the strategies at country level. Asking the people interviewed what it had meant in the case of Nicaragua gave us quite diverting answers, many finding that it is hard to put the finger on what exactly has changed. The immediate answer from the World Bank representative, for example, was that she had not really observed major changes and only when we referred to participation as a new theme, she agreed with us in seeing this as an important change. As discussed in chapter 3 and 4, what we have found is that there is still very little civil society participation in macroeconomic policy making and as discussed in chapter 5 the specific case of the privatisation of ENEL has not been consulted with civil society either. In that sense the introduction of the new policies does not seem to have brought much change to Nicaragua in the sense of a major involvement of civil society in national economic policymaking. A crucial point here seems to be that the IFIs have not become more open in relation to alternative approaches to macroeconomic planning. Both in the case of maintaining a very strict macroeconomic stability and in order to favour market solutions of problems with provision of public utilities as water and electricity especially IDB and IMF seemed very conservative. As the representative of the IMF quite clearly expressed: "...it is true that for now at least we still have a tendency to favour free market solutions over centralised government control – I acknowledge that". It appears to us that as long as the IFIs maintain their neoliberal vision of macroeconomic policymaking it will be very hard indeed for civil society organisations to get through with alternative ideas on how to reduce poverty. This is not only the case in front of the IFIs but also in front of the Government, who is generally very reluctant to go against the economic direction pointed out by the IFIs.

However, several of the people interviewed were of the opinion that considering the complete absence of civil society participation, which they found to be prevailing before, at least some change is traceable both in relation to the IFIs and the Nicaraguan Government. CCER's representative in CONPES, for example refers to the political tradition of the country as completely centralised, and thus one has to take that into consideration when assessing the level of participation.

The question is however, whether the country's tradition of centralised government and lack of democratic tradition before justifies the low level of participation now. On the one hand it seems understandable that such a process in a country also going through a general process of democratisation takes time. On the other hand, however, it seems to us that the government uses this argument as an excuse or legitimisation for not involving civil society more and an excuse, which the IFIs seem to accept. This makes it harder for civil society to enter the scene of economic decision making. The representative of SETEC brings forward

an interesting point in connection to this, saying that before the PRSP nobody felt excluded, because there was no process of consultation whatsoever and therefore in his opinion the PRSP with its possibilities of consultation has also brought a greater dissatisfaction with not being consulted than before the consultation process was initiated. This is an example of the government discourse pointing out that civil society should be satisfied with what they get, and furthermore that the only reason why CSOs are focusing on the flaws of the consultation process is because the government initiated it in the first place. However, the point of the SETEC representative also refers to the space that the PRSP after all seems to have created. It has given civil society a possibility not existing before of putting forward some of their points and strategies although their points are often still not taken into account. The representative of CCER's macroeconomic group expresses it as follows; "detectar un gran cambio es difícil, no, pero a lo menos ha permitido tener un proceso"⁷⁰. The next step is how to develop this space or opening into more than something, which serves to legitimise the government document and maybe gives more project participation.

What the PRSP has furthermore given in terms of changes is according to CCER a better possibility of communicating with other members of civil society, which are not part of CCER, primarily through CONPES. The representative of CCER's macroeconomic group, for example, explains; "nosotros en ese espacio tenemos la posibilidad conversar con otras personas de la sociedad civil, con los empresarios, las fuerzas que tienen Nicaragua, ellos también tienen grandes preocupaciones sobre la política macroeconómica"⁷¹. The coordinator of CCER also refers to these advantages of CONPES, and that apart from being able to communicate with the other members it has sometimes been possible for CCER to make the other members adopt the proposals and plans of CCER. Furthermore she points out how CONPES has served as a way to obtain information on the government's plans. However, in terms of serving as a means to influence the government more, the coordinator finds that it has had its limitations, and that this has been very difficult.

6.2 Fixed Perceptions

When interviewing representatives from the three different levels on their perceptions of the process of elaborating macroeconomic policies one thing, which becomes interesting to observe is the way each level of actors perceive the other two, and how the communication between the levels works.

Something, which becomes obvious through the interviews, is the way each group of actors has somewhat fixed perceptions of the other groups. As we have already discussed in chapter 3 the IFIs, for example, refer to civil society as generally lacking economic insight and as not being able to discuss technical matters. In that way they have a somewhat one-sided view on the capacities of civil society. The representative of the Ministry of Finance & Credit expresses a similar view on civil society stating that civil society never sees the problems of the inflation, the international reserves etc, but only focuses on their own

⁷⁰ "To detect a great change is difficult, but at least it has permitted the existence of a process" (Interview with CCER's macroeconomic group, 220801).

⁷¹ In this space we have the possibility of talking with other people of civil society, the business associations, the forces that Nicaragua has got, they also have great preoccupations concerning macroeconomic policies. (Interview with CCER's macroeconomic group, 220801).

interests leaving all the worries to the government. However, as we saw in chapter 3 the representative of CCER's macroeconomic group specifically mentioned how they were very concerned with not bringing the macroeconomic stability out of balance by no means wishing to return to the enormous inflation rates of the late 80ies, showing that the statement by the representative of the Ministry of Finance might not be completely nuanced. In relation to this it is also interesting to see the way the representative of SETEC refers to the policy of the IMF. When discussing how he finds that the economic debate is still very much focused on the monetary area, as described in chapter 3, he is very set on the position of the IMF; "El fondo no va a cambiar nunca"⁷².

At the same time the CSOs also seem to be quite fixed in their view on the government and the latter's lack of willingness to allow more participation on the macroeconomic area. This shows for example by a statement of the coordinator after referring to her suggestion that the government should be accompanied by CSOs to negotiations with the IMF; "Pero el gobierno nunca lo va a permitir"⁷³ She is already completely certain of the attitude of the government on this subject.

It is obvious that the above statement and the perception of the government as very closed in terms of letting civil society participate in the macroeconomic debate is build on the past experiences that CCER has had in the area. And the same is presumably the case with the IFIs and government respectively, and their perceptions of the other actors meaning that their perceptions are probably to a large extent derived from their experiences with the other actors. However, there also seems to be a grain of stereotyping of the others in the sense of seeing the others in a somewhat rigid predetermined way. This might hinder the communication between the levels and block for an opening in terms of more civil society participation.

6.3 Communication Between the 3 Levels of Actors

Generally there seems to be a lack of communication between the three levels, which has made CCER suggest the establishment of a communication system between the IFIs, the Government and the civil society organisations⁷⁴. Both in the case of the privatisation of ENEL and the negotiation of the Interim Programme civil society has been kept largely in the dark making it impossible for them to determine their position in relation to the issues being discussed.

The representative of CCER's macroeconomic group refers to an interesting observation, when he says that when they talk to the government, the latter says that their policy is determined by the conditions imposed on them by the IFIs and when talking to the IFIs they say that it is in the hands of the government to decide upon the policy of the country; "o sea los dos dicen que el que tiene la culpa es el otro"⁷⁵. This observation seems to be confirmed by what we saw in chapter 5 with the representative of the Ministry of Finance

⁷² "The Fund is never going to change" (Interview with SETEC, 230801).

⁷³ "But the government is never going to allow this" (Interview with the coordinator of CCER, 090801).

⁷⁴ Interview with CCER's representative in CONPES 070801.

⁷⁵ "Both say that it is the other one who is to blame" (Interview with representative of CCER's macroeconomic group, 220801).

saying that the privatisations are carried through because the IFIs say that Nicaragua should privatise, thereby expressing that the IFIs are very determining in their policy toward the country. Looking at the interview with the representative of SETEC something similar seems to be conveyed. He says that by entering HIPC Nicaragua has to follow certain rules predetermined by the IFIs. Interestingly enough he continues by saying that the government tries to position itself between civil society and the IFIs, as the interests of those two groups often clash and thus the government tries to mediate. This seems to underline the necessity for a kind of 'neutral' information or communication system that could make it more obvious who is actually promoting which policy and why as a further step in the new openness promoted by the IFIs.

Sometimes it seems to us that all three parts tend to loose their perspective somewhat and focus on other things than what should be the overall aim of all three levels of actors, namely that of reducing poverty through the elaboration of a nationally owned, participatory strategy. The government seems to a considerable extend to view the poverty reduction strategy as a condition, which has to be complied with in order to get access to the very needed HIPC funds. The representative of SETEC, for example, mentioned how the principal concern is that the strategy should be initiated immediately, so that the clock starts ticking towards completion point for HIPC debt relief, and then afterwards there would always be time to readjust the document later and maybe have more participation. The IFIs on their part seem very focused on the perception of the strategy by other donors. The representative of the IMF, for example referred to how the other donors liked the PRSP and found it participatory several times during the interview⁷⁶. The World Bank and the IMF have internationally been under pressure for delivering debt relief and have been interested in showing efficiency in this area. However, many critics have pointed to the problem of the link between HIPC and the PRSP, which seems at least up to this point to have damaged the possibility for more profound participatory processes. Furthermore it is also worth noting, that the mandate of the IMF as stated in their Articles of Agreement has not changed with the introduction of the new policies and thus their primary focus continues to be that of securing macroeconomic stability. This seems also to be a concern that is quite prevailing in the World Bank at country level⁷⁷. The question is whether the concern of securing macroeconomic stability and that of reducing poverty are positively correlated as argued by the IMF or if there can be costs for the poorest part of the population related to a policy that aims at maintaining macroeconomic stability as the principal objective. We find that the privatisation of ENEL is an example of this where the longer term benefits for the broader population can be questioned especially when the way it has been carried out is taken into consideration. At the moment, however, it is necessary to privatise to maintain the macroeconomic stability of the country, which is endangered by the low level of foreign reserves.

⁷⁶ Interview with IMF, 150801

⁷⁷ For example the country representative of the World Bank in Nicaragua is very straightforward in his support to ensure macroeconomic stability (even if it is a rigid approach) and privatisations of public utilities. (Interview with the World Bank by Eva Rasmussen 120901, Bodan, Oliver (2001): Ulrich Lächler, Representante del BM: Privatizaciones: proximo paso clave. *Confidencial*. Vol. 6, no. 253.

The civil society organisations to us most certainly seem to be the ones of the three levels of actors who are most closely connected to the objects of the strategy, the poor, in their approach. However, at times one also get the idea that the struggle for participation becomes an aim in itself and not just a means to insure more poverty reduction. To us it seems important that civil society organisations are conscious about what it is that they want with participation, and how it is that they believe that more participation can strengthen the strategy.

6.4 Civil Society Capacity

As we discussed above, many actors refer to the lack capacity to understand macroeconomic issues on the part of civil society as an explanation of why participation is still limited in this area.

Our observation is that this is only partly true as there are many capacities within the Nicaraguan civil society and the perception of them as being unable to understand macroeconomic complexities prevailing in the Government and the IFIs is actually inaccurate, as illustrated throughout this report. However, it does seem that the work in this specific area could be strengthened with a more concrete strategy on part of civil society.

Specifically in relation to the privatisations neither the unions that we interviewed nor CCER have a concrete strategy. In FESTEM it looks as if they have given up trying to stop the privatisation after their defeat in the Supreme Court and they are now only focusing on trying to defend the workers rights within the new framework. This is certainly a very legitimate choice, as any effort to stop the privatisations has seemed to be in vain but it means that there is one less critical voice in the debate. CCER writes in their document “The Nicaragua We Want” that they are against privatisations but in the case of ENEL they have not had a specific strategy or worked with other groups opposing the privatisations⁷⁸.

More problematic it seems, though, that the macroeconomic thematic group in CCER has not yet been very well organised: “Hay un grupo de economistas que se reúnen de vez en cuando para discutir algunos de estos temas, no, pero lo que queremos es un equipo que específicamente este trabajando sobre eso.”⁷⁹ The importance of having a well-organised group of people, who have the insight to criticise the prevalent economic discourse and come with alternative suggestions cannot be underestimated. This was emphasised for example by a representative of UNDP, who said that it is not necessarily the whole population, who has to express its opinion about the macroeconomic framework but that it is important to have a specialised group. However, CCER has chosen to prioritise its efforts differently in Nicaragua for example by elaborating the document ‘The Nicaragua that We Want’ which without doubt is a valuable document but too broad to provide a basis for influencing the macroeconomic policymaking. The representative of the organisation FACS, which through the network organisation FONG is a member of CCER for example pointed out that the document needs to be more focused in some areas. It seems though that

⁷⁸ Interview with the representative of CCER’s macroeconomic group, 220801.

⁷⁹ “There is a group of economists that meet occasionally to discuss some of these issues, but what we want is a team that is working specifically in this area.” (Ibid.).

this is a work that is under way, both in making the document more profound in some areas and a better organisation of the thematic group on macroeconomics.

A specific point that could be part of a more concrete strategy is to insist on the elaboration of social impact assessments of the programmed privatisations. The elaboration of social impact assessments with civil society participation would oblige the Government and the IFIs at least to provide information to the civil society organisations. This could create a platform on which a serious debate about the future of the provision of basic services as water, electricity and healthcare in the Nicaraguan society. However, it is of utmost importance that such an analysis would have a broader vision related to poverty reduction and not simply be a discussion of the profitability of the public utilities.

As mentioned in chapter 3, one of the concrete suggestions as to how to make more use of the individual capacities of civil society was to create a think tank. It seems to be a good way to create a forum for economists of civil society to discuss macroeconomic themes and when needed try to develop well thought through alternatives to the government policies. An assembling of specialists from different sectors of civil society would also strengthen the voice of civil society by making it less fragmented. Furthermore it would also undermine the argument put forward especially by the IFIs that civil society representatives are not economists and lack the knowledge and capacity to give valuable inputs to the macroeconomic discussions. At the same time as a suggestion originating from the IFIs one could anticipate that such a think tank would have a chance of being institutionalised and obtain a certain weight in terms of being able to really influence economic policy making.

However, the suggestion also raises a series of questions and preoccupations. One of these questions is that of how to elect the people to constitute this think tank. A think tank selected by the government or by the IFIs would already from the outset be questionable from the view of civil society as has been the case with CONPES. Furthermore an important question is whether it should be constituted solely by members of civil society or should count also members of government or IFIs. If the latter is the case, there is a risk that the possibilities of freely discussing alternatives to the government policies will be limited. However, if the former is to be the case – a think tank formed purely by civil society members - there is a risk that it will be difficult for this group to get its points across and be taken seriously by government as well as by IFIs in terms of having substantial influence on macroeconomic decision-making. Related to this is also the question of representation. What is the democratic justification for a group of specialists to represent civil society as an entity in macroeconomic issues? Furthermore the question also arises on what strategy this think tank should apply – should it try to seek dialogue with the government aiming its work at supporting the government work or should it rather seek confrontation trying to put constant pressure on the government in order for this to change its policy? These questions and preoccupations are not meant to discourage the idea of creating a think tank, but merely to underline the need to thoroughly discuss the issue and the best way of designing it before committing the potential mistakes that we see connected to the creation of a think tank.

On the basis of chapter 3 and the above discussion it is interesting to note, that almost all the suggestions as to how civil society can participate more in macroeconomic

policymaking are centred around how civil society can change its way of operating through forming think tanks, making macroeconomic teams, building more capacity and so on. The discussion is much less focused on how IFIs and government could improve their ability to make more use of the resources and skills of civil society. As we have discussed above, there is undoubtedly a need for creating more direct channels of civil society participation and target capacity building, but without a change in the “receiving end” the effort might very well be largely in vain. The focus should not only be on the capacity of civil society to contribute in the economically correct language but also on the capacity of the IFIs and government to listen to the concerns of civil society actors and interpret these into concrete action. The problem illustrates that the approach to economic policymaking is still characterised by a strict top-down approach where it might be more in line with the basic idea with participation if a bottom-up approach was prevailing.

6.5 Provisional Conclusion

Civil society and participation are two of the most central concepts in the PRSP approach and understanding the reach of them has been one of the aims with our research. We have been able to document that the reach of participation within the field of influencing national economic policymaking in Nicaragua is not very far. So far it has not been possible to change the neoliberal course preferred by the IFIs and the liberal Government in Nicaragua. This is the main conclusion from investigating both the more general elaboration of the macroeconomic part of the PRSP and the Interim Programme as well as it is the case in relation to the discussion of privatisation of the Nicaraguan electricity sector.

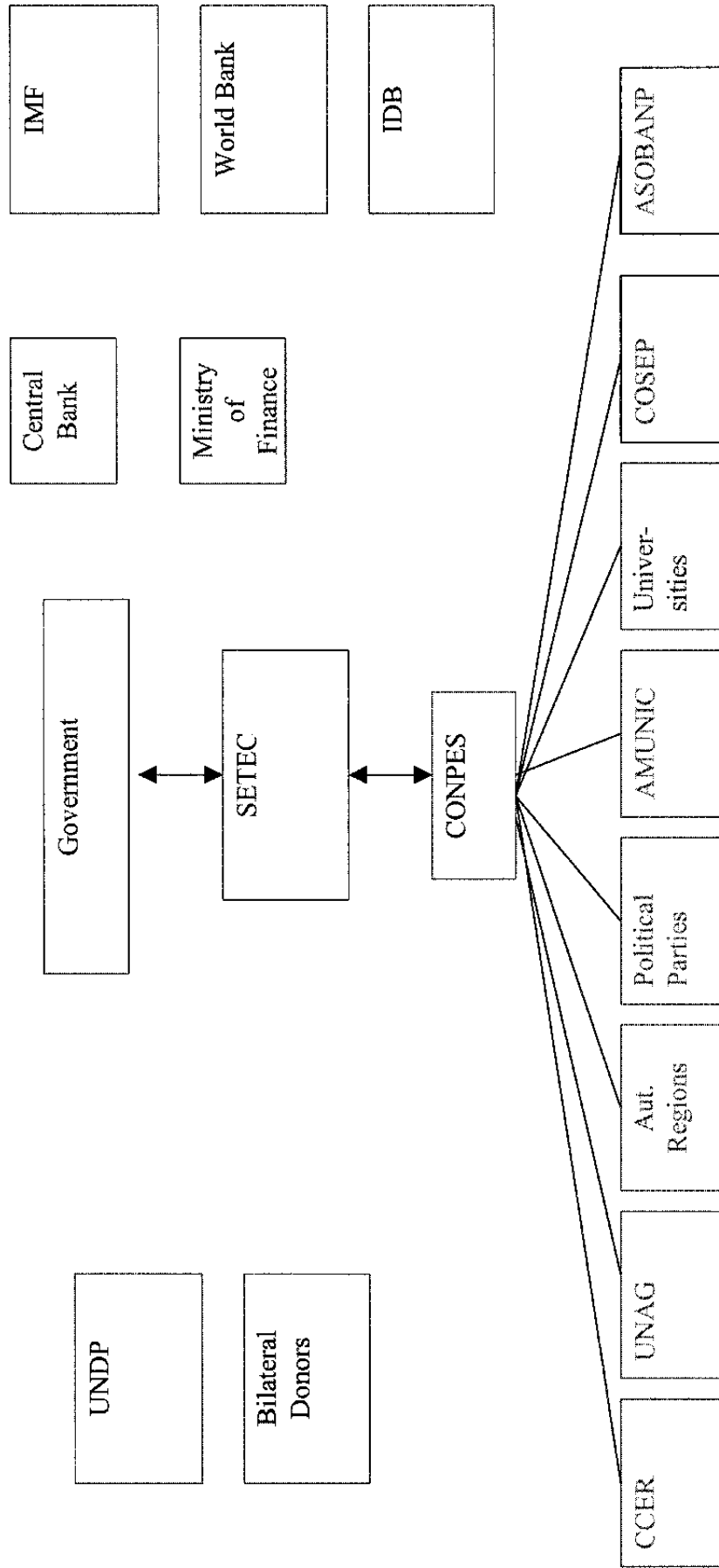
As we have seen there is a general agreement among the actors we have interviewed on all three levels that the macroeconomic part of the PRSP has been less participatorily elaborated than the rest of the document, which in some observers’ opinion is equal to nothing. The elaboration of the Interim Programme has closed the discussion even further as this does not live up to the principles set up for the elaboration of PRGF. The main elements in the Interim Programme have *not* been publicly consulted rather they were almost unknown to the public before the programme was approved. Furthermore the position of the IFIs does not give much hope for a change in this area, as it is one of strict monetary conviction and belief in market solutions as the best way to promote economic development. In the case of the privatisation of ENEL we also saw that the new approach by the IFIs has hardly lead to any change. The arguments for privatising are still based on an ideological belief in the primacy of the market forces rather than derived from the conclusions of a broad public consultation, as none has taken place. We also found that although the IFIs promote the elaboration of social impact assessments in connection with structural adjustments, no such assessment has been carried out in Nicaragua in the case of the privatisation of the electricity sector, nor are any on the drawing board. This means that the privatisation is carried through without direct studies to assessment the consequences of the privatisation for the poor and for the possibilities of reducing poverty in the future.

This indicates that alternative paths and alliances have to be sought in order gain influence on the national economic policymaking. Foremost among pending issues in Nicaragua is the elaboration of a strong group of critical observers of the national economic line, a group that must be able to come up with alternative economic suggestions and approaches.

It is clear that there are many different conceptions of what participation is and how profoundly civil society organisations ought to be allowed to influence economic decision-making. We are however uncertain as to whether a solution would be to insist on a better definition of what is meant with participation or if civil society is better off with a flexible definition. We find that this is something that needs to be discussed more profoundly among groups involved in the PRSP process.

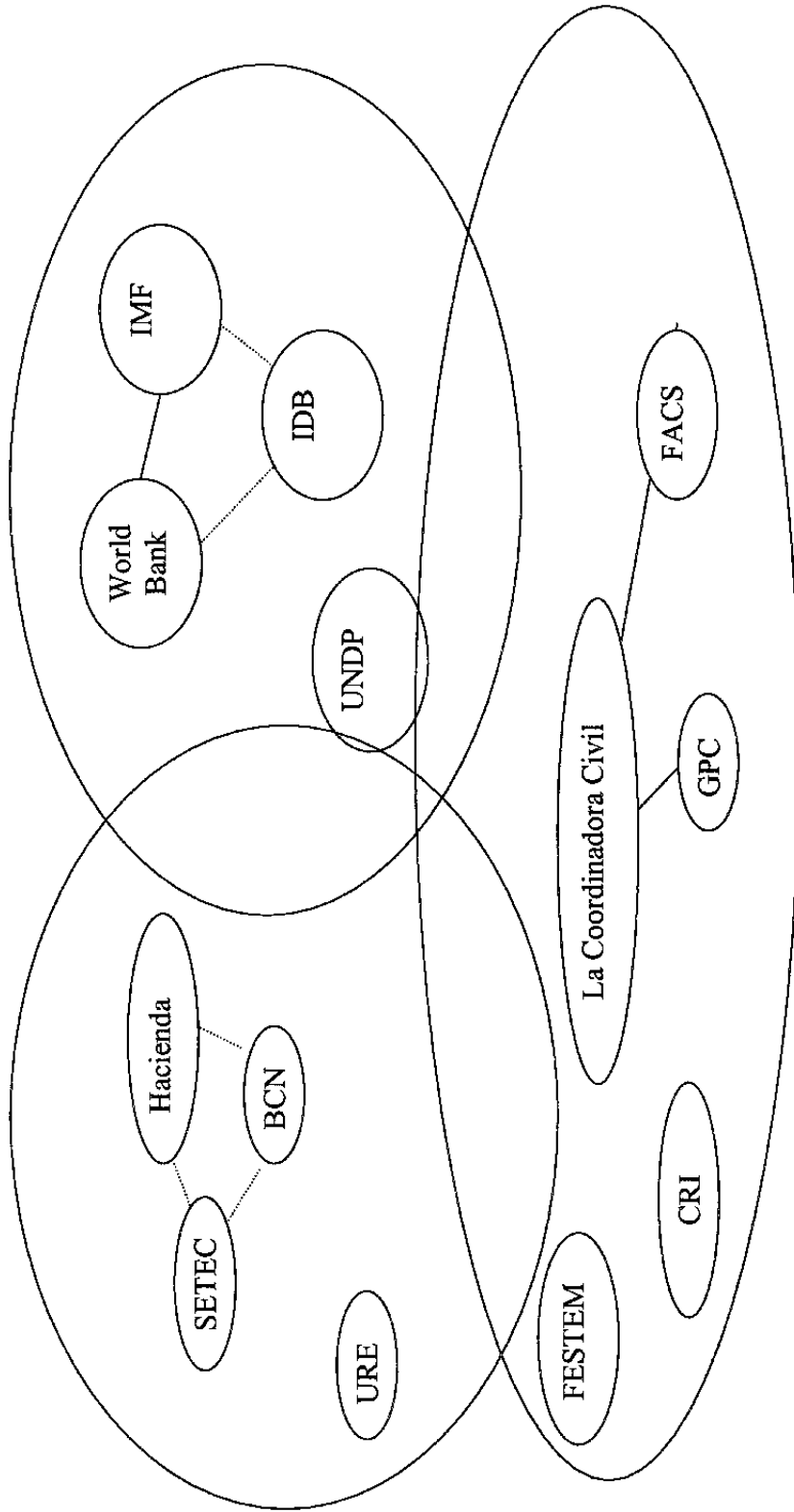
APPENDICES

Appendix 1: Mapping of the central organisations in the PRSP and PRGF process



Red – Government
 Blue - International (financial) Institutions
 Green - Civil Society

Appendix 2: Mapping of organisations interviewed:



January 3, 2002

Subject: Review of Poverty

I am writing this e-mail from South Africa as member of civil society. I have a keen interest on how the government operate vis-a-vis poverty reduction.

My assessment to the present government is the slow delivering including poverty reduction. The system itself is riddled by problems. When tenders are issued they are not properly scrutinized. They tend to be more on self agrenandization than to deliver and to benefit the poor of poorest. Ultimately most money is used to fight corruption, than to reduce poverty.

Participation on PRSP's has been very minimal, hence the program is not rigorously implemented. The process was bureaucratic and hence it could not relate with the people on the ground.

The coordination between Aid donors and the recipient has been great. Most funds from donors are spent on salaries and little is received by the poor of poorest.

The push for speed in the HIPC has adversely affected their PRSP's. They are dictated through structural adjustment program to cut expenditure on the social welfare programs. The poor of the poorest are greatly affected by SAP, because they benefit from poverty reduction.

Ideally the bank staff and the fund were supposed to contribute in reducing poverty. Funds are spent on projects(eg, hydro-dams) that are not self-sufficient to countries. This does not help the course which PRSP intend to achieve.

Hope my contribution will share some light.

I thank you,

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December 20, 2001

To: Mr. Brian Ames, IMF, and Ms. Jeni Klugman, World Bank
 Washington D.C.

Subject: Comprehensive Review of the PRSP Approach

I had the pleasure of advising on the formulation of IPRSP in Kenya (November – December 1999) building upon my work on the National Poverty Eradication Plan; and the National Action Plan for Poverty Eradication and PRSP in Yemen (February - March 2000). Further, I have been following up on progress on PRSP formulation in various countries through such NGO networks as the PRSP-Watch. Most recently, I attended the Regional Conference on Poverty Reduction Strategies in Hanoi (4-6 December 2001) organized jointly by IMF, WB, UNDP and AsDB. The following observations are offered for consideration and use as appropriate.

The main achievements of the PRSP Approach include (i) placing poverty reduction as an important focus area in the formulation of national policies and planning; (ii) opening avenues for civil society to participate in the PRSP formulation exercise. Much of the emphasis to date has been on the formulation of the PRSP.

The PRSP is the main vehicle for poor countries to secure concessional funds from the Fund and the Bank. The substance of the IPRSPs and PRSPs continue to reflect the emphasis on macroeconomic policies, although a fair bit of “prose” is devoted to poverty reduction and delivery of basic social services, especially education and health. In fact, many of the policy matrixes in the IPRSPs and PRSPs seem to have very few “new” elements as compared to the predecessor PFPs.

The main challenges at the formulation stage include (i) establishing/building and presenting in the IPRSPs/PRSPs a transparent link between the macroeconomic policies and poverty reduction;¹ and (ii) ensuring that the inputs of non-government stakeholders are integrated and/or reflected in the documents.

As with many development activities supported by the IFIs, the major emphasis in the PRSP approach seems to be on formulation (both process and content). Greater focus on implementation of the IPRSP/PRSP is needed. Some of the poverty targets set in the

¹ It is recognized that various econometric models are being explored in this regard. This may be augmented with country-specific analysis that provides a more comprehensive view of the causality of the relationships postulated in the models.

policy matrix may be difficult to achieve in the three-year time frame. However, governments seem to report progress on and/or fulfillment of the targets, which raises serious concerns about the credibility of the data compiled by the government agencies. However, in the absence of other independent sources, no alternative data are available to question the veracity of the figures provided by the government.

The participation of non-government stakeholders in the implementation of the IPRSP/PRSP seems to be either limited or missing. Such participation is crucial in order to augment the capacity of the government agencies and ensure greater transparency.

The monitoring and evaluation mechanisms are quite varied across countries, but rely largely on government agency reports. These should be augmented with independent assessments by clients (the poor) through such mechanisms as the Report Card.² The monitoring and evaluation mechanisms should have strong feedback links to the government, especially the government agencies that facilitated the formulation of the PRSPs (e.g. Ministries of Finance and Planning).

Virtually every IPRSP/PRSP mentions private sector led growth as the main thrust. However, the involvement of the private sector (indigenous and foreign) in the formulation of the PRSP is limited or absent in most cases. The private sector's role in implementation is seldom discussed. This is a major lacuna in the PRSP approach. While the private sector is spoken of (usually in a negative light) by civil society organizations/NGOs and spoken for (in a patronizing manner) by government representatives in the national and international forums on PRSP, the private sector representatives are rarely invited! We could all benefit from the perspectives of the private sector.

Overall, it is fair to say that the PRSP Approach has been a useful innovation and the Bretton Woods Institutions should be complemented. It is important to improve the approach and enhance its impact on poverty reduction through stronger linkages between the macroeconomic policies and poverty reduction and the involvement of "all" stakeholders.

² For example, see World Bank, *Philippines: Filipino Report Card on Pro-Poor Services*, May 30, 2001. I was involved in its preparation.

Poverty in the Eyes of Poor Kenyans

An Insight into the PRSP Process

By Tony P.M. Sisule¹

October 2001

¹ *The author is a researcher at Tegemeo Institute, Egerton University. He worked with the PSF Secretariat that coordinated private sector consultations in the development of the PRSP. He was also a consultant in the design of the funding proposal for the implementation of the PRSP by civil society organisations in Kenya. He can be reached at sisulet@accamail.com*

1. Introduction

- 1.1 Poverty, the undignified material deprivation that afflicts so many people in the world, when stated in statistical terms is but an aberration. It is the lives of the poor people and their heart-rending tales that bare the depth of poverty. The Poverty Reduction Strategy Paper (PRSP) process in Kenya brought out the reality in people's lives and made it easier to understand what the 56 per cent of Kenyans living in abject poverty go through. On becoming a republic in 1964, Kenyan leaders vowed to eradicate poverty, disease and illiteracy. Today the proportion of the population living on less than one US dollar a day, that is the poverty line, is higher than that of thirty-eight years ago.
- 1.2 The recently concluded stakeholder consultations for the development of the PRSP provided a good opportunity to review the needs and aspirations of Kenyans. Failure in Kenya's development process has in many cases arisen, not from lack of good policy recommendations, but from a hopeless absence of the political will to implement policy.
- 1.3 The PRSP process provided a good opportunity for the private sector, Civil Society Organisations (CSOs) and common people to participate in policy formulation.
- 1.4 The private sector, which simply describes all private efforts aimed at wealth creation as delineated from public services by government plays a vital role in economic growth and national development. It is the engine of the economy as it were. Government policy can depress or stimulate private sector activities and thereby the rest of the economy. It is for this reason that the private sector should be involved in policy formulation and in monitoring implementation of such policies.
- 1.5 CSOs work with, and represents a huge constituency comprising most of the poor and marginalised people. Their participation in the process was vital.
- 1.6 The Government of Kenya (GOK) has stated its commitment to the PRSP and that the document formed the basis of the 2001/02 budget and is expected to influence the three-year rolling Medium Term Expenditure Framework (MTEF).
- 1.7 Whereas lack of adequate funds is a major obstacle to the implementation of the PRSP, the government has to make a real effort to achieve the priority objectives outlined by the people in the document.
- 1.8 Pragmatic strategies have to be put in place to ensure that given the limited resources, hard choices based on the top priorities are made. Measures to shift funding from personal emoluments to operations and maintenance in the civil service are crucial. In a nutshell, political correctness should not be the criteria for allocating resources but rather, national priorities outlined in the PRSP should form the basis for government expenditure.
- 1.9 Government and development partners have to pay more attention to crosscutting issues. Efforts need to be invested in improving governance, making the private sector vibrant,

reforming the civil service, managing the HIV/Aids pandemic and creating a working partnership with stakeholders in the development process.

1.10 There is a great need to widen space for engagement between government and other stakeholders in efforts to reduce poverty. This would entail:

- (a) Establishment of a legitimate institutional framework for poverty reduction at the national, district and sub-district levels;
- (b) Assessment and enhancement of the institutional and organisational capacity of government and stakeholders to effectively engage in poverty reduction efforts;
- (c) Appraisal, mobilisation and use of resources to achieve poverty reduction;
- (d) Analysis and dissemination of the PRSP, national, local authority plans and budgets at the district and sub-district levels to empower people;
- (e) Negotiation and implementation of an effective framework for participatory poverty reduction monitoring and evaluation.

2. Background

- 2.1 Poverty in Kenya has been growing at an alarming rate. In 1990 Kenya had a Gross Domestic Product (GDP) per capita at current prices of US \$ 355². This declined to an estimated US \$ 294 in 2000. The population living on less than one US dollar per day, that is those who are below the overall poverty line, has risen drastically from 40 per cent in 1994³ to an estimated 56 per cent in 2000.
- 2.2 Some comparisons between Kenya and developed countries help put poverty levels in perspective. According to the UNDP reports, life expectancy at birth in Kenya stood at 51 years in 1998 compared to 76 years in the Organisation for Economic Co-operation and development (OECD) countries. In the same year, adult literacy in Kenya was 81 per cent of the population of 15 years and above compared to 97 per cent in the OECD countries.
- 2.3 The economy has been in a steady decline for the last five years, with GDP growth slowing from 4.6 per cent in 1996 to -0.3 in 2000⁴. Over the same period, annual population growth has averaged 2.5 per cent, implying that real GDP per capita has been seriously eroded⁵.
- 2.4 Over the years, GOK has launched many policy papers designed to spur sectoral and overall economic growth but apparently, most have come to naught. Many analysts and observers now agree that the root cause of policy failure is lack of political will and the institutional framework to implement policy, monitor progress and take corrective action in a timely fashion.

3. PRSP Implementation challenges in Kenya

- 3.1 Policy formulation and implementation has hitherto been done without involving all stakeholders, resulting in the hopeless situation of policies that are disowned by the beneficiaries and implementation agents. It is in recognition of this anomaly that lately, and with the support of development partners, participatory methods of policy formulation have become vogue. The development of the PRSP in 2001 was the first major case of this approach in Kenya where all stakeholders, notably the poor people themselves, marginalised groups, civil society, the private sector and government came together to consult and write a policy paper.
- 3.2 The next stage in this process is the implementation of strategies to reduce poverty based on the priorities identified by stakeholders in the PRSP and monitoring progress. This is the most critical stage of the entire process and participation of stakeholders is vital.

² United Nations Development Programme (UNDP) (2000), *Human Development Report 2000*.

³ Ministry of Finance and Planning, Republic of Kenya (2000), *Second Report on Poverty in Kenya*. Volume I.

⁴ Ministry of Finance and Planning, Republic of Kenya (2001), *Economic Survey 2001*.

⁵ See Annex I to this document for further details on the economic factors underlying poverty in Kenya.

- 3.3 Government has indicated willingness to ensure the participation of all stakeholders in the implementation and monitoring exercises⁶.
- 3.4 The growing problem of poverty in Kenya emanates from two major underlying causes. Firstly, policy formulation has not been adequately consultative and implementation has in many cases been haphazard with policy reversals sometimes occurring for no good reason. Secondly, due to civic inertia people and their representatives have failed to influence decisions and allocation of resources leaving central government administrators as the sole decision makers in pertinent matters at the national, local authorities and community level. This has to be reversed for policy implementation to be successful.
- 3.5 The National Poverty Eradication Plan (NPEP) outlines the goals GOK hopes to achieve in poverty alleviation, notably a drastic reduction in the proportion of people living below the overall poverty line by 2015. The PRSP and MTEF budgets provide, respectively, the tactical and operational strategies to achieve this goal. However, these plans can only work if the institutions and organisations performing this onerous task are effectual. It behoves government and development partners to help create an institutional framework to enable all stakeholders to be involved in efforts to alleviate poverty in Kenya.
- 3.6 In recent policy pronouncements, GOK has stated that it intends to pursue a balanced budget regime starting from the end of the 2001/03 MTEF period. The main difficulty in alleviating poverty in Kenya lies in attempting to achieve the PRSP objectives without upsetting the macro-economic fundamentals. Despite the short-term gains of running budget deficits for social objectives, a balanced budget could result in sustainable growth and social welfare in the longer term. It is clear then that the efforts and resources of development partners, civil society and the private sector are desperately required to augment severely limited GOK resources in order for poverty to be reduced.
- 3.7 Empowerment of people to participate in this process not only sits well with current development thinking, but has also been accepted by the government as a cause of past policy failings and therefore an approach to be pursued now⁷. Participatory processes are known to empower people and enable development agents to identify effective strategies for poverty reduction⁸.
- 3.8 Poverty reduction in Kenya can be achieved if the following key implementation and monitoring tasks are carried out properly:
- (a) Establishment of a legitimate institutional framework for poverty reduction at the national, district and sub-district levels. The institutions thus created should facilitate engagement between government, civil society, private sector and other stakeholders and

⁶ Ministry of Finance and Planning, Republic of Kenya (2001), *Poverty Reduction Strategy Paper for the Period 2001-2004, Volume I*.

⁷ Republic of Kenya (1999), *National Poverty Eradication Plan 1999-2015*.

⁸ Tegemeo Institute, Egerton University (2000), *Policy Analysis for Participatory Poverty Alleviation. A Paper for Non Governmental Organisations*.

ensure participation of poor and marginalised people in the poverty reduction efforts. An appropriate policy and legislative framework to ensure this has to be put in place;

- (b) Assessment and enhancement of the institutional and organisational capacity of government and stakeholders to effectively engage in poverty reduction efforts. This should be geared towards ensuring that the institutions and organisations involved in the process demonstrate improved capacity to carry out poverty reduction tasks and strategic partnerships with other stakeholders are developed;
- (c) Appraisal, mobilisation and use of GOK resources, both national and local, private sector and civil society resources to achieve poverty reduction. This would lead to improvements. Support should also be lend to efforts to organise people around common interests to influence decision making and resource allocation;
- (d) Analysis and dissemination of the PRSP, national and local authority plans and budgets at the district and sub-district levels to empower people to understand and influence resource allocation and use;
- (e) Negotiation and implementation of an effective framework for participatory poverty reduction monitoring and evaluation. A framework for participatory monitoring and evaluation should be established, engagement broadened and information systems developed to ensure effectiveness.

3.9 The challenge of poverty reduction in Kenya is enormous. The enthusiasm displayed by stakeholders in developing the PRSP can be built upon and sustained to ensure successful implementation and monitoring of poverty reduction strategies.

4. Appraisal Issues

4.1 Institutional appraisal

- 4.1.1 The greatest challenge in this project lies in establishing an institutional framework and building the capacity of institutions and organisations to participate in the implementation and monitoring of poverty reduction strategies. The poor people have to be empowered to break through local barriers in the government decision-making organs in order to articulate their aspirations in policy making and implementation.
- 4.1.2 The institutional capacity to successfully implement the PRSP hinges on an unwavering focus on the strategic vision of poverty alleviation. Progress towards this should be monitored closely and a review of strategies based on objective evaluations conducted regularly.
- 4.1.3 Linkages between stakeholders is important to ensure that the strategies designed to alleviate poverty are practical and satisfactory to the greatest number of people and groups.

- 4.1.4 The need to develop social capital further in communities cannot be gainsaid. Poor people have been unable in the past to influence resource allocation in Kenya. Deliberate efforts should be made to organise and empower people to have a say in decisions on resources allocation and use at the community level and, through effective linkages and representation, at the district and national levels too.
- 4.1.5 Government policies have in some cases failed due to lack of an institutional framework that allows wider participation of stakeholders. The strategies designed in such processes are, as a consequence, disowned by key stakeholders and development agents. The District Focus for Rural Development (DFRD) strategy in Kenya failed for this reason⁹. The remnants of DFRD structures, especially the District Development Committees (DDCs) are active but do not have wide representation and government officials wield disproportionate clout at the cost of inclusiveness in decision-making. The structures established for the PRSP process were quite participatory and represent a good alternative as a framework for development planning, implementation and monitoring of poverty reduction strategies.
- 4.1.6 There is a great need to entrench the institutions established in the policy and statutory framework of the country. This will help focus efforts on set goals and give decisions legal force, hence more effectiveness.
- 4.1.7 Most transitional economies have experienced costly setbacks in their development due to inadequate institutional development manifested in weaknesses in policy formulation, public service delivery, oversight and accountability¹⁰.
- 4.1.8 Broad-based rapid growth requires effective government and community-based institutions. Such an approach inevitably entails civil service reforms to improve efficiency of public services and broad decentralisation to influence the way in which resources are allocated¹¹.
- 4.1.9 Weak social capital and dissolution of bonds of trust between individuals and social groups and a weak civil society are detrimental to economic growth. Prosperity for a majority of people can only be attained if investment in social capital is made¹². It follows that institutions that provide access and representation to all people are the

⁹ Republic of Kenya (1999), *National Poverty Eradication Plan 1999-2015*.

¹⁰ The World Bank/International Bank for Reconstruction and Development (2000), *The Road to Stability and Prosperity in South Eastern Europe*. A Regional Strategy Paper.

¹¹ The World Bank/International Bank for Reconstruction and Development (1996), *Uganda: The Challenge of Growth and poverty reduction*. A World Bank Country Study.

¹² The World Bank/International Bank for Reconstruction and Development (2000), *The Road to Stability and Prosperity in South Eastern Europe*. A Regional Strategy Paper.

underpinning for multi ethnic, socially diverse societies to operate in a peaceful and sustainable manner.

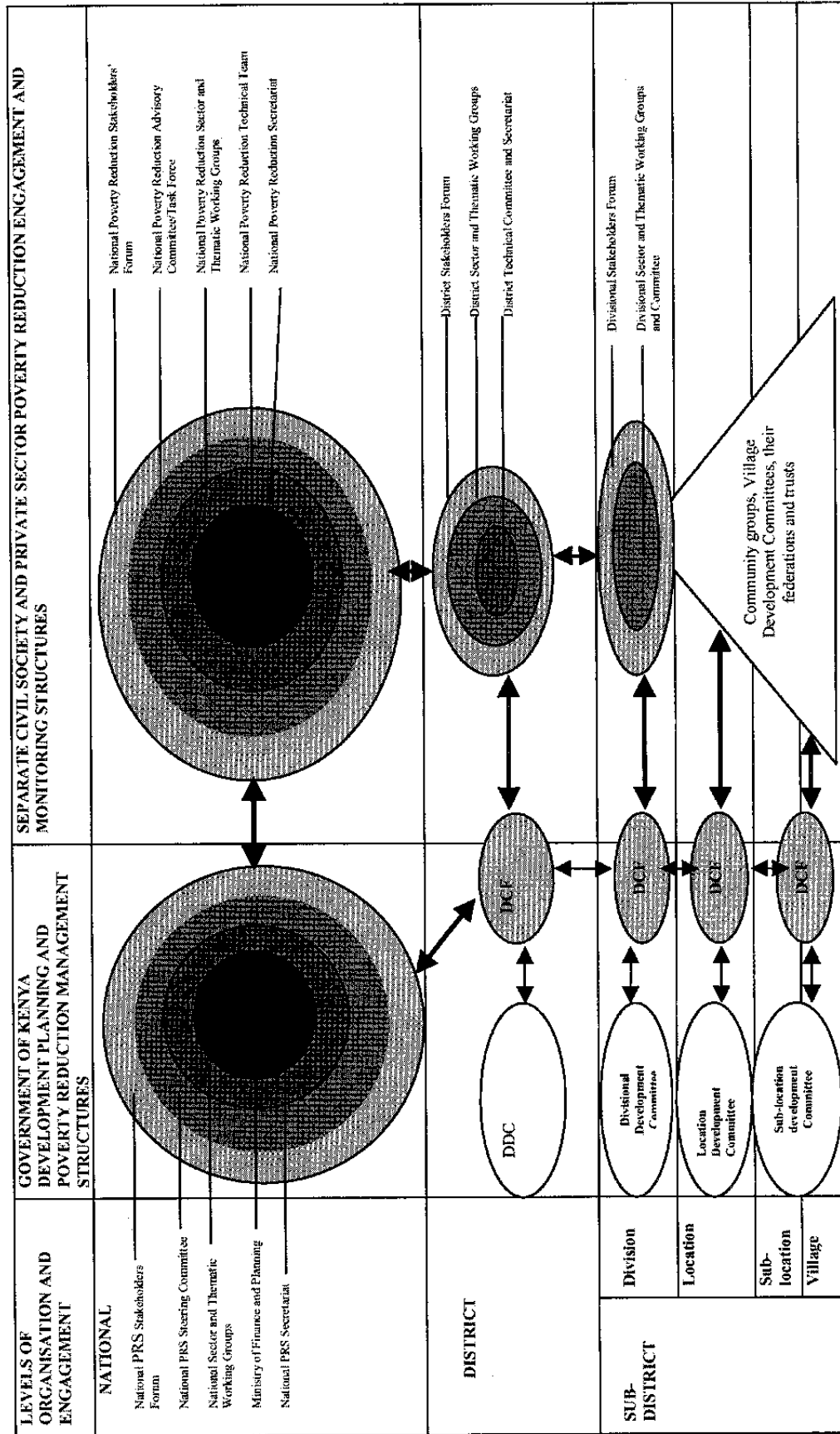
4.1.10 A recent study conducted in different sites in Kenya by policy researchers at Egerton University found that it is not possible for central government to effectively plan for poverty alleviation while excluding the people from the process¹³. The study asserts that involving the poor people themselves results in improved setting of priorities. Poverty reduction strategies should therefore:

- (a) Make poverty the overriding objective;
- (b) Deepen decentralisation to lower levels of local government to promote bottom-up and top-down planning and budgeting;
- (c) Empower people to take part in planning and implementation strategies.

¹³ Tegemeo Institute, Egerton University (2000), *Linking Poor Households to National Policy Agenda*. PAPPA Conference Paper No. 2.

4.1.11 A diagrammatic illustration on the institutional framework is shown below:

Institutional framework for participatory planning, management and monitoring of the poverty reduction strategies



4.2 Social appraisal

- 4.2.1 The social dimension of poverty in Kenya is manifested in an inability to engage in productive endeavour, poor access to essential needs, especially food, shelter, education and healthcare, among a host of other problems poor people grapple with. The social consequences of poverty permeate the entire society afflicting even the affluent, hence the need to involve all stakeholders to deal with this problem.
- 4.2.2 Policies in Kenya have in many cases depended on which group of people has the greatest influence in articulating its interests. For instance, structural causes of poverty in Kenya include poor market conditions arising from liberalisation of the economy carried out without adequate consultations with farmers, small-scale traders and other grassroots groups. Often, organised, well-connected groups get their way to the detriment of poor and marginalised people who are the majority. This is because most poor people are not well organised and have little influence over decisions at the local and national levels.
- 4.2.3 The social context of poverty reduction strategies based on a participatory approach is a more credible way of achieving ownership of policy and increasing the chances of the successful alleviation of poverty.

4.3 Financial and economic appraisal

- 4.3.1 Poor management of public resources in Kenya¹⁴ has contributed to economic decline and an increase in poverty. Financial probity, good management of public resources and accountability in public affairs are key to poverty reduction.

¹⁴ See various Auditor General's reports and Parliamentary Public Accounts Committee and Public Investments Committee reports released annually in Kenya.

5. Conclusion

- 5.1 The PRSP must be implemented to the letter for Kenya to prosper. The private sector and civil society should henceforth be continuously engaged in the process of formulation, implementation and monitoring of policy. Negotiation and implementation of an effective framework for participatory poverty reduction monitoring and evaluation.
- 5.2 Kenyans are waiting with bated anticipation to finally see the government shift the policy dispensation in favour of pro-poor initiatives. This country is brimming with human, entrepreneurial and natural potential. All that is needed is an enabling environment to exploit the opportunities that exist.

Annex I: Economic factors underlying poverty in Kenya

- 1.1 Kenya has registered a serious economic decline in the last five years with GDP growth in 2000 recorded at -0.3 per cent. All key sectors registered declines in the year 2000.
- 1.2 Agriculture remains the most important sector in the Kenyan economy and many of the poor people eke a living from agricultural activities. Agriculture directly contributes one quarter of the country's GDP and 70 per cent of all Kenyans are involved in the sector. Growth in agriculture was recorded at -2.4 per cent in the year 2000. All agricultural sub-sectors except coffee and horticulture registered decreased incomes and productivity. In the 1970s, Kenya was exporting processed beef and yet today, not a single beef processing plant in the country is operational, exports having stopped. In 1983, Kenya produced more sugar than it could consume and exported the surplus, proof that it could competitively be self-reliant in the product and sell abroad. Today, the country can barely meet half the domestic sugar demand and the product sells at an exorbitant price.
- 1.3 Manufacturing declined by 1.5 per cent in 2000. Production costs are high due to poor infrastructure and high energy costs. Profits and productivity in the sector are on the decline and job losses on the rise. The service sector has more or less stagnated.
- 1.4 Research done countrywide during the PRSP process by a consultant for private sector organisations revealed that the overriding constraints to private sector performance were high interest rates, limited access to credit and high taxation levels. Over-regulation of business, unfair competition, poor and costly physical infrastructure and insecurity were decried¹⁵.
- 1.5 During the district consultations problems afflicting people were outlined and several priorities identified. Generally, the urban poor were concerned with unemployment, constraints to small business, poor sanitation and healthcare and inadequate housing facilities. In the rural areas, people felt constrained by the difficulties they face in trying to satisfy their basic needs. Lack of agricultural extension and credit, poor roads and lack of good markets for produce were cited as major problems. People were also concerned with lack of affordable healthcare, the high cost of education and poor governance manifested in inefficient and corrupted public services. Kenyans want these obstacles removed urgently.

¹⁵ Raphael G. Mwai, Private Sector Forum (2001), *Private Sector Forum Submissions to the National PRSP Secretariat*.