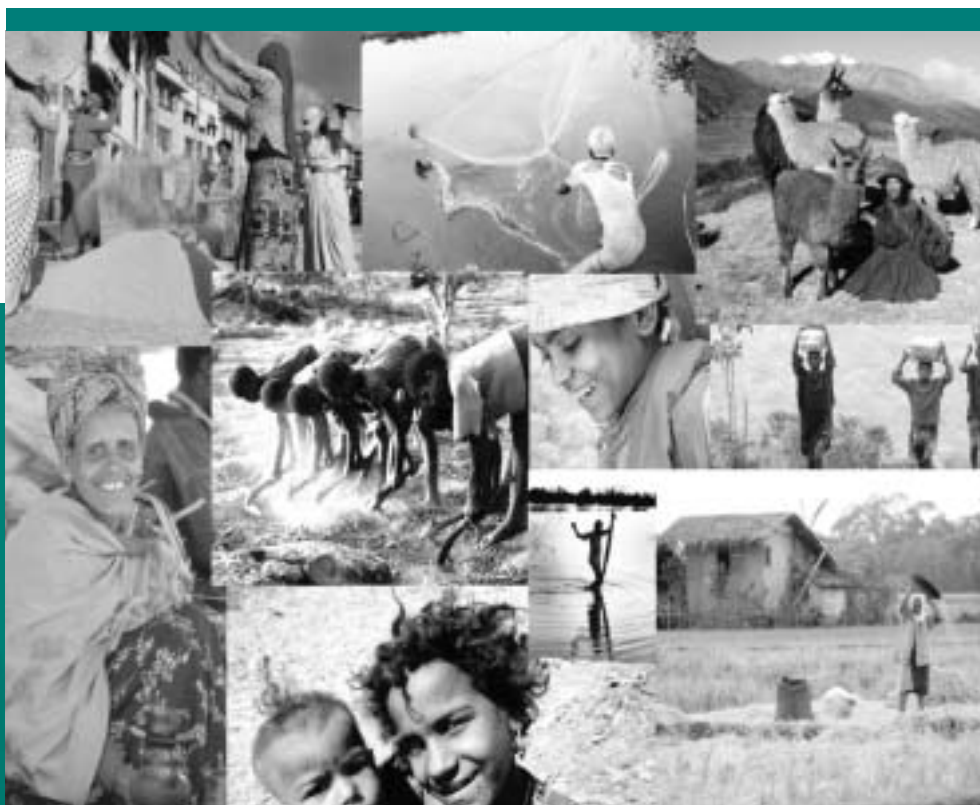


PRSP as Theatre — backstage policy-making and the future of the PRSP approach

A CIDSE — Caritas Internationalis Background Paper

September 2004



This paper was written by Caoimhe de Barra, Trócaire, for CIDSE and Caritas Internationalis.

Acknowledgements:

Particular thanks to Gwen Barry, CAFOD, members of CIDSE's Task Group on Debt and Structural Adjustment and Kevin Carroll, Earnán Ó Cléirigh and Gerard Considine of Development Cooperation Ireland.

For further information on this paper please contact CIDSE (see back cover) or:

Caoimhe de Barra
Policy and Advocacy Coordinator
Trócaire
Maynooth
Co. Kildare
Ireland
Tel: 00353 1 629 3333
Fax: 00353 1 629 0661
Email: cdebarra@trocaire.ie
www.trocaire.org

Contents

| | |
|--|----|
| List of Abbreviations | 1 |
| Executive Summary | 2 |
| 1 Introduction | 4 |
| 2 PRSP: Outcome of the IEO & OED Reviews | 5 |
| 3 PRSP as Theatre: bringing policy-making centre-stage | 8 |
| 4 What's missing in the PRSP approach | 15 |
| 5 Alignment under an Alternative Architecture | 29 |
| 6 Conclusions and Recommendations | 35 |
| References | 38 |

Acronyms

| | |
|----------------|--|
| AFRODAD | African Network on Debt and Development |
| APR | Annual Progress Report |
| BWI | Bretton Woods Institutions |
| CCJDP | Catholic Commission for Justice, Development and Peace |
| CIDSE | International Cooperation for Development and Solidarity |
| CPIA | Country Policy and Institutional Assessment |
| CSO | Civil Society Organisation |
| CSPR | Civil Society for Poverty Reduction |
| ESAF | Enhanced Structural Adjustment Facility |
| EURODAD | European Network on Debt and Development |
| GDP | Gross Domestic Product |
| HIPC | Heavily Indebted Poor Country |
| IEO | Independent Evaluation Office |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| JCTR | Jesuit Centre for Theological Reflection |
| JSA | Joint Staff Assessments |
| JSAN | Joint Staff Advisory Notes |
| LICs | Low-income countries |
| MDG | Millennium Development Goals |
| MTEF | Medium-Term Economic Framework |
| NGO | Non-Governmental Organisation |
| OED | Operations Evaluation Department |
| PEM | Public Expenditure Management |
| PRGF | Poverty Reduction and Growth Facility |
| PRS | Poverty Reduction Strategy |
| PRSP | Poverty Reduction Strategy Paper |
| PSIA | Poverty and Social Impact Assessment |
| SWAP | Sector Wide Approach |
| TASOET | Tanzanian Social and Economic Trust |

Executive Summary

This paper looks at the question of whether the Poverty Reduction Strategy Paper (PRSP) approach has been adopted by donors and low-income country governments as a genuine framework for policy-making. It finds that this is rarely the case.

PRSPs have in many cases become 'theatre'. The processes fulfilled have little bearing on the actual policies implemented. The real decisions are taken elsewhere, such as through national budget implementation and trade negotiations. Most significantly however, International Monetary Fund (IMF) and World Bank processes displace the PRSP. Poverty Reduction and Growth Facility (PRGF) negotiations and Country Policy and Institutional Assessments (CPIAs) predetermine governments' policy choices and are inconsistent with the PRSP approach.

This paper finds that the PRSP approach will increasingly lose public support and political traction unless the real debates are brought centre stage. Those debates centre around: (1) ownership and conditionality; (2) participation and accountability; (3) resources for PRSP implementation and 'signalling'; and (4) PSIA and the analytic basis for poverty reduction and pro-poor growth.

The PRSP is fundamentally compromised by being a donor-imposed conditionality. This paper finds that the IMF and World Bank response to the Independent Evaluation Office (IEO) and Operations Evaluation Department (OED) PRSP reviews is short-sighted and will be ineffective. It is limited to superficial changes to the system of reporting on PRSP implementation. The IMF and World Bank fail to appreciate that country-owned strategies for poverty reduction cannot be imposed through a framework which is still predominantly set up to give feedback to donors and determine the regulation of resource flows

The second round of PRSPs in many countries and the forthcoming (2005) World Bank and IMF

PRSP review process provide vital opportunities for reform. This paper recommends a radical revision of the architecture of PRSPs, which would bring all donors (including the IMF and World Bank) inside a national, partnership-based, decision-making forum.

The paper recommends that where the PRSP runs parallel to or displaces domestic decision-making processes, the latter should be reformed by governments and reshaped in a manner which integrates the unique characteristics and objectives of the PRSP approach. This decision-making process should be supported through the institutionalisation of a joint donor / government harmonisation and performance assessment agreement and formal participation by parliaments and civil society.

This would involve the government identifying key objectives under the national development strategy and the main indicators of progress. A harmonisation matrix for donor-supported programmes would be jointly agreed. Donors (including the IMF and World Bank) and government would agree a conditionality matrix around the governments' indicators, to include macroeconomic and structural reforms.

Donors and government would agree the conditions under which aid would be reduced, suspended or increased, replacing the IMF's signalling role. Annual independent reports on both donors' and government's implementation of commitments under the harmonisation framework would be the basis for dialogue on making progress in the following year, replacing the Annual Progress Report and Joint Staff Assessments. Parliamentary and civil society input and oversight would be built in through formal, rule-based participatory processes.

A number of immediate actions are required by donors in particular in order to establish an environment in which a partnership framework for poverty reduction can flourish. These are:

- increasing the transparency of conditionality and limiting its scope;
- opening up the PRGF negotiations to participation; carrying out a fundamental review of the purpose and uses of the CIA;
- mobilising increased and more predictable resources for poverty reduction, including through debt relief;

- promoting public expenditure management (PEM) which is pro-poor and focused on downward accountability;
- replacing the IMF's signal in the short-term through national-level agreements on the criteria under which aid would be reduced, suspended or increased; and
- mainstreaming poverty and social impact assessments (PSIA) - not just in programme design but as a means to develop alternative models of economic and social development in low-income countries.

Governments and civil society also have commitments to make. Governments need to commit to transparency, openness and the prioritisation of poverty reduction; reform domestic decision-making processes to adopt the characteristics of the PRSP approach; and show leadership and vision in bringing the actors in the development of the country together to frame coherent strategic plans for poverty reduction.

Civil society must increasingly invest in grassroots-based and national-level policy monitoring and analysis, in order to ensure that evidence-based advocacy can be carried out and to enable the marginalized to fulfil their right to participate in the decisions that affect their lives.

1. Introduction

In July 2004, the Independent Evaluation Office (IEO) of the IMF and the World Bank's Operations Evaluation Department (OED) published their reviews of the PRSP approach and the role of those institutions in supporting it.

These reviews have sparked much debate on the design, implementation and impact of PRSPs and in particular how the Bank and IMF are performing with respect to the principles and features of this approach. These institutions have decided as a result to carry out an in-depth review of key areas of the PRS initiative¹.

This paper builds on previous analytical work on the PRSP carried out by CIDSE / Caritas Internationalis (CI).² It draws out the critical issues which have emerged, inter alia, in the recent IEO and OED reviews of the PRSP approach (Section 2: 'PRSP: Outcome of the IEO & OED Reviews'). It identifies the ways in which the Bank, IMF and other actors will need to change their way of operating if the PRSP approach is to survive and flourish in more than a handful of countries. Indeed, it signals that key actors in the PRSP are drinking in the 'last chance saloon' as public confidence in their commitment to the PRSP approach reaches a low ebb. The Bretton Woods Institutions (BWIs), donors and governments have choices to make. This paper spells out some of the issues at stake.

In particular, it looks at the question of whether the PRSP has been adopted by donors and governments as a genuine framework for policy decision-making (Section 3: 'PRSP as Theatre'). It finds that this is rarely the case. It goes on to examine four key gaps in PRSP design and implementation which must be addressed in the Bank and IMF's forthcoming PRSP review (Section 4: 'What's missing in the PRSP approach').

Section 5 ('Alignment under an alternative architecture') addresses a critical issue which was highlighted in the IEO and OED reports, e.g.

what are donors to do when PRSPs are weak? Should they align to them in full, selectively, or not at all? This paper finds that alignment can only be addressed through a fundamental change in the architecture of the PRSP initiative, based on the core principles of partnership and country ownership.

The forthcoming review of the PRSP initiative needs to take stock of both the critical elements within the PRSP (Section 4) and the architecture within which they must be addressed (Section 5). This paper proposes a way forward.

BOX 1: **PRSP – Lessons Learnt**

CIDSE / CI's experience with PRSPs was synthesised in a research paper which was submitted to the IEO / OED reviews. It found that:

- 1 when compared against the principles that are meant to underpin the PRSP, progress has been slow in most countries;
- 2 there has been a marginal increase in the openness to civil society participation in public policy making;
- 3 there have been only modest improvements in pro-poor policy formulation. The positive gains made are fragile and uneven across countries;
- 4 donors are not much more likely to harmonise aid with national priorities - or with one another;
- 5 donors and the IFIs continue to impose the same conditions which characterised structural adjustment with scant regard for national ownership;
- 6 there is a clear lack of resources for achieving the goals set out in the PRSPs.

All of these findings were confirmed in the IEO / OED reviews.

Source: CIDSE / CI, April 2004.

¹ Outlined in the 2004 'PRSP Progress in Implementation Report', page 46

² 'PRSP: Are the World Bank and IMF delivering on promises?', April 2004: www.cidse.org

2. PRSP: Outcome of the IEO & OED Reviews

The IEO's evaluation of the IMF's role in implementing the PRSP and PRGF initiative is by far the most extensive evaluation undertaken of these instruments to this date. The evaluation was initiated in January 2003 and concluded with a Board discussion on July 21, 2004.

In this section we comment on the following questions, with reference to the IEO and OED evaluations and donor and NGO analysis:

- (a) Is the PRSP approach relevant?
- (b) How have its principles been applied?
- (c) How adequate has BWI support been?
- (d) The PRSP approach: What is its value-added?

2.1 Is the PRSP relevant?

There is widespread agreement on the relevance of the principles and concepts underpinning the PRSP approach. This initiative has the potential to put country-led strategies for development at the heart of development assistance. It provides an opportunity to address critical problems in governance and institutional frameworks, at both a national level and with respect to donors' operations.

The IEO report found that *'the PRS approach has the potential to encourage the development of a country-owned and credible long-term strategy for growth and poverty reduction, which could provide an effective framework for coordinating the efforts of donors and the IFIs, including the IMF'* (IEO 2004, p. 7). The IEO concludes, however, that *"the achievements thus far fall considerably short of the potential"*. This is mainly due to shortcomings in the design of the PRSP initiative and the failure of the IMF to recognise the changes the PRS approach implies for the IMF's 'way of doing business'.

The OED research showed that the majority (60%) of stakeholders surveyed agreed or completely agreed that the PRSP approach is a good model for addressing poverty reduction and that it improves on past modalities for donor assistance (OED 2004, p. 5). The OED find also that the PRSP has not fulfilled its potential and that the Bank needs to make changes in three main directions (OED 2004, p. xiii):

- Reduce or eliminate uniform requirements and foster better customisation;
- Encourage PRSPs to explore a wider range of policy options, including those aimed at enhancing growth;
- Help define clearer partnership frameworks around PRSPs, with accountabilities for both countries and partners.

Several critical problems with the approach have undermined its relevance and implementation in many countries but the 'ownership' issue is arguably the principal problem. This hinges around the fact that the PRS process is driven by BWI-imposed procedures, as both the IEO & OED reviews point out.

The OED notes that most governments see the PRSP as added conditionality to give them access to resources (OED, p. 7), while the IEO report states that *'it is not clear in practice how much countries have to gain by treating the PRSP as an effective strategic road map, rather than as a procedural formality'*. (IEO, p 12).

In short, the PRSP approach is relevant in terms of theoretical best practice in development cooperation, but it has been compromised by being a conditionality imposed by the BWIs, with inadequate change on the donor side and on the part of many PRSP countries' governments.

2.2 How have its principles been applied?

Compared against the principles that are meant to underpin the PRSP approach, progress has been slow and the positive gains made are fragile and uneven across countries. This was the conclusion of CIDSE / CI 's April 2004 report and is confirmed in the IEO and OED reports.

The principle of the PRSP approach being **country-driven** is deeply compromised in practice

due to the fact that it is imposed by the BWIs as a conditionality for access to debt relief and concessional resources, as noted above. The OED report found that **participation** was not generally sustained beyond the initial process to draw up the PRSP. Both reports reflect the finding that participation was not extended to the macroeconomic framework: *"the PRS process has had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms"* (IEO 2004, p. 9).

The IEO & OED reviews found the PRS approach to have contributed significantly to stakeholders' understanding of the **multi-dimensional nature of poverty** but far less to the identification of constraints to accelerating growth and making it pro-poor.

Evidence on the implementation of a long term **poverty focus** suggests that there has been some increase in poverty reduction expenditure generally, but the data is not robust enough to guarantee that this is the case. Equally, there has been an increase in budget support, which supports the PRSP approach, but this trend was already in place before the advent of the PRSP approach.

In general, most PRSPs are not **results-oriented**. Donor programs also remain characterised by process and policy conditionality, rather than outcome-based conditionality. The OED report commented that donors, including the Bank, have neither defined how to change their program content, nor have they improved coordination under the PRSP approach.

2.3 How adequate has BWI support been?

The IEO and OED evaluations highlight the fact that the PRSP approach requires a radical shift in the Bank and IMF's operations. According to the IEO, *'there was no doubt that the new approach was intended to mark a significant change in the IMF's role and way of doing business in low income countries'* (IEO 2004, p. 28). Similarly, *'the PRSP entails a new way of doing business in*

low-income countries for the World Bank' (OED 2004, p. xvi).

It is clear from these reviews and independent analysis that the BWIs have failed to respond adequately to the challenges to their own operations that the PRSP presented.

The IEO state that: *'(The IMF's) overall contribution has fallen well short of the (admittedly very ambitious) goals it set for itself in the original policy documents'* (IEO 2004, p. 9). It is noted that the consequences of the PRSP approach for the IMF's surveillance and program work in LICs *'have largely not been spelled out, resulting in an attempt to address a very different set of challenges with an essentially unchanged institutional approach'* (IEO 2004, p. 13).

Some progress has been made in terms of fiscal flexibility, accommodating greater aid flows and greater openness to country driven policies, but only in a limited number of countries, e.g. those which have achieved macroeconomic stability. The IEO found that the IMF has not changed its way of operating in the critical 'poor performers', e.g. countries facing economic and / or political instability and with weak economic governance.

Across the board, the IMF has failed to participate actively in the debate on macroeconomic policy with domestic stakeholders or to contribute to a better understanding of micro-macro linkages. It has failed outright to mainstream PSIA into program design. These findings are shared with NGO analysis.³

According to the OED, the Bank has promoted the PRSP as a coordinating framework with other donors. While this is true for a limited number of countries, the Bank also generates disharmony among donors by continuing to dominate relationships with the authorities and by operating outside agreed partnership frameworks (see Section 4.2). Bank decentralisation has had a positive impact. Country-based staff are more responsive to alternative viewpoint and less likely to try to micro-manage processes (OED 2004, p.11).

The OED found that the Bank has carried out disappointing numbers of PSIA's, in spite of the

³ Action Aid International USA / ActionAid Uganda; Afrodad 2003; CIDSE / CI (2004); Oxfam International (2004); Wood (2004); World Vision (2003).

fact that it was to lead on this area. In addition, the Bank continues to develop policy conditionality with no analysis of the micro-macro linkages they involve or the policy trade-offs inherent in adopting them.

Donor assessments of Bank performance have been more critical than the OED assessment however. In a Nordic government review of seven PRSP countries the Bank was found: to be unwilling to adopt alternative policy options; to frustrate efforts to strengthen national institutional processes by bypassing national procedures (i.e. in continuing with project support); and to fail to make any systematic links between those PSIAs carried out and its lending (Nordic Governments, 2003).

However, it was also found in this review, as in CIDSE / CI and Trócaire's work (CIDSE / CI 2004, Trócaire September 2004), that personality counts. That is, the response of both the Bank and IMF to the challenges inherent in the PRSP depends heavily on the attitude of the staff at country level. In some countries, BWI staff have proven to be flexible, responsive and willing to work collaboratively with other donors, the government and civil society.

2.4 The PRSP approach: what is its value-added?

The PRSP approach has made most headway in countries where processes such as government-led harmonisation, budget support, SWAPs, MTEFs and participatory mechanisms for policy dialogue were already underway and macroeconomic stability had been broadly achieved (ex: Tanzania, Uganda). In other countries, progress has been very limited.

This gives rise to the question of what the value-added of the PRSP initiative is? In countries where principles of accountable governance, participation, country ownership and a clear poverty focus in national planning were already in the ascendant the initiative has added weight to reform efforts and opened new spaces for domestic policy dialogue. On the other hand, it adds another layer of conditionality to already overstretched authorities and threatens to undermine domestic institutional processes. In the next section, we outline how PRSPs have in some contexts become 'theatre'. Actors fulfil

their roles in order to get funding on the one hand or to be seen to apply best donor practice on the other. Meanwhile the real policy discussions are going on off-stage. This must be the starting point in the forthcoming review of the PRSP initiative to be carried out by the Bank and IMF: how can policy decision-making be brought within a country-owned, participatory decision-making framework?

3. PRSP as Theatre: bringing policy-making centre-stage

The recent IEO evaluation states that the PRSP approach has the potential to encourage the development of a country owned credible long-term strategy for growth and poverty reduction (IEO 2004). However this will only happen if the PRS process is a genuine forum for policy discussion. The PRSP has in many cases become pure theatre. Processes are fulfilled with little connection to where the real policy decisions are taken, with serious implications for the integrity of the PRSP process.

In this section we illustrate these points, in order to be able to indicate the areas that need to be critically addressed in the 2005 PRSP review, particularly in relation to the role of the Bank and IMF in supporting the PRSP process.

3.1 Government business is done elsewhere

In most cases the PRSP has not become the overarching framework for national development planning and donor coordination, which it was intended to be. Indeed, it is frequently poorly integrated into the budget or reduced to a set of projects which will be implemented if donor resources come through, as was found in Zambia and Honduras. The OED's finding that PRSP activities dried up once HIPC or PRGF conditions were met is in danger of becoming generalised across all PRSP countries.

For example, in Nicaragua the PRSP (or 'SGPRS') was finalised in July 2001. The Government then embarked on designing a National Development Plan, which was finalised in August 2003, shortly

before the Consultative Group meeting. The National Development Plan prioritises growth and investment and was supposed to have built on the SGPRS, improving the growth strategy to complement the poverty reduction focus. However it is based on a competitive export strategy, which focuses investment on a small number of high-potential agricultural industries to the exclusion of the majority of the poorest people and regions.

In sum, the poverty focus in the Nicaraguan SGPRS has been eclipsed by a competitive export strategy with the latter determining the former: *'The NDP ... in fact is the development strategy, and the driver of public policy, while the SGPRS remains only to address 'social' policies for poverty reduction.'* (Trócaire, August 2004, p.6).

The IEO and OED reports comment extensively on the fact that PRSPs are often not embedded in national policy-making. The latter found that *'key political decisions continue to be made outside the PRSP, notably in Ethiopia where the government took a series of important decisions in resettlement, education and technology immediately after the endorsement of the PRSP, outside of the PRSP framework'* (OED 2004, p. 12).

This illustrates a worrying gap between the aspiration around the centrality of PRSPs to national decision-making, and its actual relevance to governments. The reasons for this are clearly related to the fact that the PRSP approach is an external imposition. However, national governments are also at fault, particularly in contexts where civil society participation is seen as a political threat. In a partnership context, national governments also have to implement their commitments to make PRSPs work.

3.2 BWI action is off-stage

However it is not only domestic processes that exist parallel to the PRSP. Donors are also responsible for holding key policy discussions off stage. The IMF and Bank, as the chief protagonists in the PRSP approach, could have been expected to play out their policy roles centre-stage. However, this is not the case.

The 2004 PRSP Progress in Implementation Report notes that the Bank's Committee on Development Effectiveness and the IMF Board

want to maintain and strengthen the operational link between the PRSP and BWI assistance (World Bank / IMF 2004, p. 42). However, in the case of both the Bank and the IMF, actual assistance to LICs is predicated far less on the PRSP than on other instruments: notably, the Country Policy and Institutional Assessment (CPIA) and the PRGF.

- CPIA

Low income countries need to get a high CPIA⁴ score in order to improve their standing with the Bank and increase their access to Bank finance. The CPIA, conducted annually, throws up areas of weakness, which then become triggers for lending under the Country Assistance Strategy (CAS). The government is therefore obliged to address 'weaknesses' in policy and institutional frameworks on the basis of a secret, external analysis. This fundamentally undermines the principles behind the PRSP of country-driven policies adopted through a process of national consensus-building. The much-celebrated PRSP is not used as a basis for judging a country's suitability for Bank lending operations. This function is carried out by the CPIA and expressed in the CAS and related loan agreements.⁵

Arguably, the PRSP process allows the Bank to impose conditions while claiming national ownership. Those elements which it assesses to be weak under the CPIA can be imposed anyway through lending conditionality. Therefore, the CPIA can be used to overturn country-driven decisions in the PRSP. The Government is not in a position to resist, given its need to improve CPIA ratings and compete for scarce IDA resources.

The PRSP and the CPIA are mutually incompatible. The Bank must make a choice therefore. Either it radically reforms the content and transparency of the CPIA, or it maintains the CPIA as it is and drops the pretence that the PRSP has anything more than a marginal impact on Bank decisions on lending levels and conditionality. In our view it should do the former.

On transparency, this would be no more than it was advised to do in the OED's 'Review of the Performance-based Allocation System (OED (b),

2001)⁶. On content, a CPIA-type instrument should at a minimum be flexible enough to accommodate policy which arises from a country-driven process and which may not accord with standard neo-liberal prescriptions. However, as a one-size-fits-all instrument such as the CPIA is unlikely to accommodate such divergence, a fundamental review of the purpose and uses of such an instrument is required.

- PRGF

The IMF's assistance is based on a country's performance in agreeing to and implementing a PRGF-supported program. The PRGF is constructed on the basis of briefing papers, drawn up by the relevant IMF area department in Washington. The briefing papers include the main features of the anticipated programme (or policy 'advice') to be given to the authorities. This briefing process is secret and the papers are not seen by the country authorities (IEO 2004, p.108).

The PRGF is then negotiated between the visiting IMF mission team and a limited group of protagonists in government, normally from the Ministry of Finance / Planning. The result of this closed process is that the country's macroeconomic frameworks are drawn directly from PRGFs and are agreed without political or public scrutiny.

The IEO found that there are '*doubts about the claim that (PRGF) program design is guided by the PRSP. In fact, the case studies suggest that the reverse influence is more common, with the PRSP drawing key elements of its macroeconomic framework from negotiations on a PRGF-supported program*' (IEO 2004, p. 72).

With respect to staff support for broad domestic dialogue on the PRGF and macroeconomic policy, the IEO found that '*in cases where a PRGF arrangement was already in place before the PRSP, the macroeconomic framework was typically taken from the former with limited efforts to 'open up the policy debate*' (IEO 2004, p. 111).

The IEO goes on to assert that this is largely a temporal alignment problem, but a recent Trócaire research paper shows that this is not the case. The PRGF continues to determine macroeconomic policy regardless of the timing of PRSPs, particularly for countries which have not yet

⁴ The CPIA rates the economic, social and political performance of each borrowing government relative to 20 criteria and thereby determines each country's resource allocation under IDA. The assessment instrument is heavily weighted in favour of neo-liberal policies such as privatisation and liberalisation.

⁵ Alexander, N. (2004).

⁶ Quoted in 'Rethinking Participation', Action Aid International USA / ActionAid Uganda, April 2004, p. 14.

achieved macroeconomic stability (Trócaire, September 2004). Nor does the IMF intend to change its system of imposing a macroeconomic framework without applying the principles of the PRS approach for broad-based participation and country ownership (see Section 4.2).

The IMF (and Bank) continue to impose macroeconomic and structural conditionalities, which have not been derived from the PRSP, through the PRGF and other lending arrangements. Indeed, the BWIs have often been saved the trouble of doing this, by countries anticipating what they will demand and inserting these conditions in the PRSP⁷ or through 'soft conditionality (e.g. selectivity, policy advice and technical assistance).⁸

3.3 Domestic politics are bypassed

As the PRSP process is coming from outside a country it often by-passes the existing political debates and treats poverty as an issue removed from local politics.

Bolivia was one of the first countries to undertake the PRSP process. In 2000 they began a national dialogue to collect views on how poverty should be tackled in the country. However this dialogue occurred in a time of intense political struggles between government and social movements.

The Bolivian government bypassed these groups in the PRSP dialogue and key issues in the country at the time were ignored in the final PRS paper, such as land distribution, gas and pensions. Instead, the consultations' main focus was how to use the resources from debt relief. In the lifetime of the original PRSP the President has been deposed and social protests continue. There was therefore much stronger interest from donors than government in the revision of the PRSP and the revision process has been seriously delayed.⁹

The reality is that the governments that are under pressure to complete a PRSP and PRGF in order to access HIPC and other concessional funding are forced to bypass parliamentary control and ignore popular opinion. The

Zambian and Malawian governments attempted to introduce privatisation of a state bank and the agricultural marketing board respectively, under BWI pressure. Political unrest followed immediately.

Both Zambia and Honduras throw up examples of governments facing a political crisis because they have been forced to comply with IMF conditionality on limiting fiscal deficits and hence public sector pay, notably in education (Trócaire, September 2004). This conflicts with the education strategies of these countries, which are central to their chances of reaching the MDGs. The governments of these countries are culpable of financial mismanagement, to which the IMF should have paid more attention. However, the key failing on the IMF's part was to underestimate the importance of local political dynamics and force through highly-sensitive reforms. These reforms have derailed the implementation of strategies for poverty reduction, without ensuring improvements to the governments' public financial management.

A further issue, beyond the scope of this paper, is the gap between the PRSP partnership principles and domestic political governance from a human rights perspective. This issue has been given substantial attention in Piron and Evans (2004).

BOX 2:

World Bank displaces national processes in Cambodia

The PRSP process in Cambodia was introduced in parallel with an existing planning process, which developed the draft Socio-Economic Development Plan II (produced with the aid of the Asia Development Bank). Under Cambodian law, the Cambodian government would be obliged to honour the SEDP II once it was approved under national constitutional procedures.

The Government of Cambodia tried to fold the I-PRSP into their Socio-Economic Development Plan II and base the final PRSP on the SEDP II. The World Bank was not happy with this however, and rejected the draft SEDP II. In order to try

⁷ ActionAid International USA / ActionAid Uganda, April 2004.

⁸ ActionAid International UK, April 2004.

⁹ Piron and Evans, 2004.

BOX 2: *continued*

and preserve the national planning process the Government in Cambodia asked that the PRSP be delayed until the SEDP II was finished. However the World Bank did little to support the development of the SEDP II, as it was not their project.

Pitting the PRSP against the national plans in this manner had the effect of undermining popular belief that the Government's SEDP plans would be implemented and needlessly weakening the national planning process.

Source: Malaluan and Guttal, 2002

3.4 Local democracy is undermined

It has been argued that the PRS approach has in some cases undermined local democracy and accountability for use of public resources by ring-fencing poverty reduction resources and locating responsibility for them at central government level. This has been the experience in Uganda, according to Craig and Porter (December 2002): *'the success of the PAF (Poverty Action Fund), in ring-fencing resources, attracting both the HIPC dividend and additional donor resources, has turned the attention of decentralised governments away from their constituencies, toward the centre, from where resources flow'* (p. 17).

Craig and Porter argue that local governance systems have been undermined as there are reduced incentives for local councils to collect revenue, which further undermines the accountability of elected leaders to their constituents for delivery of services paid for through that revenue. This is a serious issue, which may only afflict the 'successful' countries so far. It must be addressed however, in the review of the PRSP which the BWIs will carry out in 2005. It further highlights the costs of imposition of an externally-designed

development framework which prioritises accountability to donors over accountability to citizens.

3.5 'Key moments'

After four years of the approach, it is now clear that key moments such as the presentation of annual progress reports have become standardised performances with each side playing their role to ensure that development assistance can continue. Joint staff assessments have had a 'yes or no' signal yet always reach the yes conclusion.¹⁰

As the OED report notes, participation often tails off dramatically after the completion of the PRSP (OED 2004, p.13). The OED report highlights the multi-stakeholder Poverty Observatory in Mozambique as one of the rare cases of sustained participation (OED 2004, p.13). The reality is somewhat more complex. The Poverty Observatory is an annual 'event' so far, not a sustained process of participation. The relevance of the first Poverty Observatory was significantly diminished by the fact that it happened after the Annual Progress Report was produced. It is critical that the timing be adjusted so that civil society can feed into this report through an institutionalised mechanism such as the Poverty Observatory.

However, civil society in Mozambique also need to be more proactive in drawing on the goodwill of donors and the potential space provided by the Poverty Observatory to turn the process into an ongoing dialogue. Indeed, the Government of Mozambique are attempting to facilitate this by having a participatory process for the second PRSP designed to improve on the ad hoc series of meetings that characterised the preparation of the first PRSP.

¹⁰ The IEO's critique of this binary conclusion was taken on board to a large extent by the Bank and IMF staffs and Boards.

BOX 3:**Joint Staff Assessments (JSAs)**

The IEO review (2004) proposed that alternative views should somehow be included in the JSAs. In response, the BWIs gave a vague indication that they would consider how to *'draw on views of other partners in order to improve partnership around the country-led framework laid out in the PRSP'*.¹¹ NGO experience in Sri Lanka illustrates what a skewed version of reality has appeared in some JSAs and how ill-informed Bank / IMF Directors and country authorities could be as a result.

The 2003 JSA on Sri Lanka's PRSP said that *'the extent of consultation that is embodied in Sri Lanka's PRSP is commendable and is in fact one of the strengths of the document'*.¹² However MONLAR, a local CSO, said the strategy was developed *'without any worthwhile participation of the poor or the organisations that represent the poor'*.¹³

The PRSP pushed the existing policies of aggressive liberalisation, which had already involved heavy costs for many poor people and had been the focus of *'continuous protests by people's organisations, particularly the Trade Unions, farmers and organisations of the poor'*.¹⁴

A delegation representing 200 Sri Lankan women's organisations went to the World Bank in May 2003 to oppose the reforms contained in the PRSP. If civil society went to these lengths to resist the PRSP, there is good reason to believe that the PRSP has not fulfilled the promise of broad-based participation and partnership.

3.6 Donor Harmonisation

At the heart of the PRS approach is the aim of reducing the number of unco-ordinated donor demands on recipient governments. This was to be achieved by focusing on country-led criteria and processes and is the litmus test of donor support to the PRSP approach.

There is little evidence that this has happened. Indeed, some studies have found that review processes appear to have multiplied with the advent of the PRSP approach. Booth concluded that the multi-country SPA-commissioned study he led *'was unable to identify a single instance of review processes being merged, or performance assessment moving in behind the PRSPs'* (Booth et al, 2003, p. 151).

This finding is confirmed by the OED (2004, p. 19): *'the rhetoric of donor alignment around the PRSP has yet to reduce the transaction costs for the government. Governments reported that multiple donor initiatives, including the PRSP, have actually increased transaction costs in the short term'*.

Possibly more disturbing, the OED finds that neither donors nor the Bank have defined whether or how they should change the content of their programs to align with the PRSP (OED 2004, p. 18). If the organisations that instituted the PRSP are not aligning to it in terms of content and process then it is not surprising that other donors are seeing it as an empty formality. Indeed, the operations of the BWIs frequently act as an obstacle to donor alignment.

The IMF's role in secretive negotiation of the macroeconomic framework has been outlined above. Donors, along with governments and other stakeholders, need to challenge this hegemonic and exclusive position.

In Rwanda, the Government insisted that budget support donors be allowed to participate as observers in IMF / Government negotiations to put the PRGF back on track in early 2004. Under a 2003 Partnership Framework Agreement in Rwanda, donors' bi-annual reviews of macroeconomic conditions will be merged with the IMF PRGF reviews. It is hoped that this will lead to both increased harmonisation and greater openness on the IMF positions, even

¹¹ World Bank and IMF 2004, p. 43.

¹² IMF/World Bank April 2003 'Sri Lanka: Joint Staff Assessment of the Poverty Reduction Strategy Paper'

¹³ MONLAR, Personal communication with Mary Lucas, CAFOD

¹⁴ MONLAR, 'Regaining Sri Lanka and PRSP: Compelling the poor to subsidise the rich'.

though national stakeholders are still excluded from these discussions.

However, the Rwandan situation provides a cautionary lesson, as donors have surrendered most of the gains from participating in these negotiations in advance by agreeing that *'all macroeconomic conditionalities and indicators in bilateral agreements with Government (will be) drawn from the macroeconomic framework, as outlined in the PRGF arrangement and discussed during the bi-annual reviews, including structural policies with macroeconomic significance.'*¹⁵

The Bank has been accused of exerting excessive control over PRSP processes and ultimately alienating donors from coordinating under the PRSP (OED, p. 18). Intrusive Bank intervention in PRSP processes to the exclusion not only of other donors but also of certain line ministries has been outlined in several reports.¹⁶ Trócaire (September 2004) found in Rwanda that the Bank bypassed the above-mentioned donor partnership framework in developing its PRSC within only a few months of signing the donor agreement.

This critique of Bank and IMF dominance does not absolve the bilateral donors of responsibility however. Many donors continue to operate backstage, negotiating bilateral agreements and reporting frameworks, often on the basis of project rather than programme support. It is obvious that donors should not harmonise lemming-like with PRSPs where these are of a poor standard (see Section 4.3). However, by bypassing existing domestic institutional processes they risk undermining the long-term development of sustainable institutions and render the PRSP approach irrelevant.

Donors should base their country strategies on programme and budget support, in the context of reasonable public financial management systems. Where such systems do not exist, donors should support their development through technical assistance and support for local parliamentary and public oversight mechanisms (see Section 4.3).

3.7 Conclusion: PRSP as Theatre

PRSPs have now become part of the aid architecture but they risk remaining an exercise in securing funding unless the real debates are brought centre stage. The second round of PRSPs, and the review process outlined in the PRSP Progress in Implementation Report (World Bank / IMF 2004, p. 46) provide a vital opportunity to ensure that efforts to tackle poverty become truly owned and implemented by all stakeholders.

All donors should show their commitment to national ownership by bringing issues centre-stage under the PRSP approach rather than conducting business in the wings and by aligning their policy procedures to national processes insofar as possible.

Donor harmonisation frameworks which are integrated with national planning and budgetary frameworks in Mozambique and Tanzania shed light on possible models for harmonisation of donor support behind PRSPs. However, such frameworks typically do not formally include the IMF. It is imperative that the IMF be brought into these frameworks and that a system for broader national decision-making and oversight be constructed.

It is not enough for the Bank and IMF to be part of the technocratic donor harmonisation solution however. Both institutions must genuinely commit to partnership, meaning consensus-based decision-making, with poverty reduction as the central objective.

Our recommendation therefore, is for a radical revision of the architecture of PRSPs which would bring the IMF and Bank, and the determination of the macroeconomic and structural reforms, inside a domestic, partnership-based, decision-making forum. A proposal for an 'alternative architecture' is outlined in Section 5.

As initial steps, the Bank should open the CPIA to an external review and adopt a position of complete transparency around the CPIA. The IMF must subject the PRGF and its conditionality to ex-ante public scrutiny and impact assessment.

¹⁵ The Donor Partnership framework agreement was reached between the Government of Rwanda and all budget support donors (EC, DFID, Sweden, World Bank, ADB & IMF) in late 2003; quoted in Trócaire, September 2004.

¹⁶ For example: Nordic Governments 32003, p. 8; CIDSE / CI 2004, p. 17; Booth et al, p. 201).

All donors must change their aid modalities towards those that strengthen government systems, focusing on budget support and guaranteeing predictable multi-annual aid flows as much as possible, in the context of reasonable public financial management systems.

Bilateral donors and the BWIs should benchmark their own performance on implementing PRSP principles and monitor themselves and each other in this regard, through existing DAC¹⁷ reviews and in-country annual multi-stakeholder reviews.

These recommendations, along with recommendations for filling other key gaps in the PRSP approach, are further explored in the following section.

¹⁷The Development Assistance Committee is made up of the OECD's 22 donors.

4. What's missing in the PRSP approach.

In this section, the key gaps in the current design and implementation of the PRSP approach are analysed. These are areas that are critical for the future success of the PRSP initiative. They must be central to the Bank and IMF Review of PRSP in 2005 (see Box 4).

1. Ownership and conditionality;
2. Participation and accountability;
3. Resources and Signalling;
4. Pro-poor growth, micro-macro linkages and PSIA's;

In effect, if these areas do not see substantive progress in the coming year, the PRSP approach will lose the political traction that is required for its implementation in any meaningful sense across LICs as a group.

The PRSP approach may survive in small groups of 'strong performers' such as Tanzania, Mozambique and Uganda. But these are the countries which arguably least need an institutionalised donor approach to the PRSP, as their leaders were already taking them down this road and they have significant donor support.

We propose that these four elements be reformed within the context of an overall architectural overhaul of the PRSP and the donors' role in supporting it. This architectural overhaul is outlined in the next section ('Alignment under an Alternative Architecture').

BOX 4:

Key issues in the BWIs 'PRSP +5' Review

In the 2004 PRSP Progress in Implementation Report (World Bank / IMF 2004, p. 46), the Bank and IMF staffs propose that the 2005 Progress in Implementation Review take stock of progress, challenges and good practice relating to five key issues affecting the PRSP approach. These are:

- **Exploring the multidimensional nature of institutionalising participation**, including understanding better the possibilities of and mechanisms for broadening the space for macroeconomic dialogue;
→ This issue is addressed under: '4.2 Participation and accountability', p 19.
- **Enhancing linkages between the PRS, MTEF and budgets** in order to strengthen the country-driven nature of the initiative, to help promote greater prioritisation and to better integrate sectoral strategies;
→ This issue is addressed under: '4.3 Resources and Signalling', p. 22.
- **Strengthening the medium-term orientation of the PRS**, including the use of alternative scenarios to help balance between 'realism' of current financing constraints and 'aspiration' to achieve more ambitious development goals, in particular the MDGs adapted to country-specific circumstances.
→ This issue is addressed under: '4.3 Resources and Signalling', p. 22.
- **Tailoring the PRS approach** to countries with particularly weak capacity or difficult circumstances
→ This issue is addressed under: 'Alignment under an Alternative Architecture', p. 29.
- **Aligning Bank and IMF assistance with PRS implementation.**
Relevant elements relating to these headings will be addressed below. Specifically, the section on 'Participation and accountability' covers the first BWI point ('institutionalising participation').
→ This issue is addressed under: 'Alignment under an Alternative Architecture', p. 29.

4.1 Ownership and conditionality

Arguably the most contentious area of the Bank, IMF and other donors' involvement in the PRSP approach has been the fact that this 'country-driven' strategic plan is a conditionality in order to get access to HIPC debt relief and concessional resources.

This has been at the heart of the criticisms of the PRSP approach since its inception and has made it difficult to see how it differs in reality from previous approaches to donor-imposed policy.

4.1.1 PRSP undermines ownership and domestic institutions

The OED review unequivocally found that the process whereby the BWIs sign off on countries' PRSPs undermines ownership: *'Governments see the PRSP as added conditionality to give them access to resources through HIPC debt relief, or to continued concessional assistance from the BWIs'* (OED 2004, p. 7).

Furthermore, and as pointed out in Section 3 ('PRSP as Theatre'), the requirement of a PRSP as a mechanism for authorising Bank support to the government of a country is redundant, given the other instruments which fulfil this purpose (CPIA, CAS etc.).

The IEO conclude that *'it is not clear in practice how much countries have to gain by treating the PRSP as an effective strategic roadmap, rather than as a procedural formality.'* (IEO 2004, p. 12).

The IEO accurately highlight the fact that accountable, democratic institutions and transparent policy making processes are critical to sustainable poverty reduction. However, the PRSP as currently constituted risks undermining domestic accountability mechanisms: *'concentration on ad hoc reporting requirements to the BWIs may hamper improvements in domestic accountability systems which need to be anchored in improved regular budgetary processes'* (IEO 2004, p. 123).

The OED come to the same conclusion: *'countries have focused more on completing documents which give them access to resources, than on improving domestic processes'* (OED 2004, p. viii).

There is no shortage of country examples to illustrate this point. In Ghana, for example, *'national decision making processes are widely perceived to be subordinate to IFI conditions'* (ActionAid USA & ActionAid Uganda 2004, p. 12).

4.1.2 Streamlining structural conditionality

The IEO found that structural conditionality had declined significantly under the PRGF and become more focused on the IMF's core areas of expertise. However, it is scarcely credible to find that the IEO were unable to assess what had happened to aggregate Bank / IMF structural conditionality, despite the fact that they carried out joint country case studies.

The IEO find that databases to track conditionality are not just mutually incompatible but also internally inconsistent. One of the reasons given for the lack of coherence in the BWIs' approaches to client countries is that, quite simply, assessing aggregate conditionality has not been an objective.

This is a fundamental flaw and at a stroke negates much of the positive ground gained by the BWIs with their introduction of the PRSP approach. Clearly, both the Bank and IMF need to be held more accountable for the impact of their aggregate conditionality. The proposed review of the PRSP approach should take this element on board and Board members should exercise their oversight function to a much higher degree of care, remembering that their taxpayers and the poor pay for this appalling lack of coherence.

An additional element for analysis in the PRSP review must be the definition of when structural reforms can be deemed critical to the success of the IMF's macroeconomic reform programs. Failure to make this information public has left many CSOs with the impression that whenever the IMF is keen on a structural reform it will always become 'macro-relevant'. This issue was not analysed by the IEO in this review but certainly should be in the forthcoming IEO Review of Structural Conditionality.

In fact, the IEO finds that the IMF fails to make its assumptions and rationale explicit in a wide range of areas, including: what constitutes a

sound basis for a PRGF loan (IEO 2004, p.66); what is the rationale for a proposed fiscal path (IEO 2004, p. 110); and what constitutes 'progress' in the PRSP 'Progress in Implementation' reports (IEO 2004, p.30).

We recommend therefore that these issues be addressed in the IMF's ongoing review of its role in LICs (led by the Policy Development and Review Department) in order to feed into the BWIs' 2005 Review of the PRSP initiative.

4.1.3 Conditionality and flexibility

As noted by the OED, the Bank has failed to make any substantive changes to its program content under the PRSP approach. In fact the Bank has frequently been accused of being extremely rigid in the conditions it imposes and failing to adopt an evidence-based approach to the impact of its conditionalities (Bretton Woods Project / ActionAid 2002, ActionAid UK2004).

The Bank pushes for far-reaching institutional changes which are fundamentally related to social and economic policy choices which should only be taken by a sovereign government. This includes changes such as reducing the size of the civil service (ex: Honduras), abolishing state marketing boards (ex: Malawi) and privatising utilities (ex: Ghana).

Evidence of how the bank rides roughshod over national decision-making processes are presented in ActionAid's 2004 'Money Talks' report. Water privatisation in Uganda, Ghana and India was pushed through by the Bank in spite of widespread national opposition and inadequate mechanisms to track and respond to the distributional and transmission impacts for the poor.

Most attention in the area of flexibility and conditionality has been trained on the IMF however, given the highly controversial nature of its fiscal conditionality and the commitment it gave to increased flexibility under the PRGF.

A Eurodad study (2003) of 18 PRGF-supported programs found that the IMF still promotes fiscal austerity in general, although there are country variations to the macroeconomic projections. This is most significant in countries that have not achieved macroeconomic stability. It was found that fiscal targets have often been too optimistic

and that the IMF continues to use rigid economic models for its analysis.

Alternative fiscal programs or monetary policy scenarios were not outlined in any of the 18 PRGF programs. The relatively tight margins for the fiscal balance were found to reduce governments' ability to use fiscal policy as a tool of economic policy, thereby reducing 'policy space'.

The IEO found that PRGFs provide greater fiscal flexibility than ESAFs, in the sense of targeting smaller and more gradual fiscal adjustment. It drew similar conclusions to Eurodad with respect to policy space however. Notably, the IEO found that *'the least change in exploring ways of opening up the policy debate to consider alternative options has occurred in those countries where the IMF's role is likely to be most critical, e.g. in 'difficult' cases where immediate macro-stabilisation concerns are at the forefront'* (IEO 2004, p. 60).

4.1.4 Impact of conditionality

Several recent papers (ActionAid international UK 2004; Wood 2004) outline the limitations, and indeed dangers, of conditionalities in terms of policy impact, country ownership and poverty reduction. They highlight the increased tendency towards micro-management by BWIs through conditionalities which are ever more detailed and which focus on process and policy change, rather than overall outcomes.

Conditionality proliferation is deeply counter-productive. ActionAid UK (2004), Booth (2003) and others point to the lack of credibility of programs which contain a plethora of minute conditions. Where it is obvious that donors will not implement sanctions on the basis of failure to achieve several of a wide range of conditions, governments may freely agree to a wide range of conditions and not bother to implement them. Some conditions are helpful from a civil society viewpoint and inevitable from a donor viewpoint, but this type of excessive, invasive conditionality is to be avoided at all costs.

4.1.5 BWI responses to the ownership / conditionality question

The Bank and IMF responses to this issue have been shabby and short-sighted. In the Progress in Implementation Report the BWIs propose to take steps to 'reduce the perception of the BWIs *'signing-off' on the PRSP'* (World Bank / IMF 2004, p. 42). This translates into making limited changes to the JSA and APR reporting systems.

The BWIs state that the purpose of the JSA will be to give feedback to both the country authorities and the Executive Directors of the Bank and IMF. The BWIs will still sit in judgement on supposedly 'homegrown' development strategies and still hold the keys to concessional finance. Therefore, the feedback to authorities will be nothing more than a warning to implement existing conditions or prepare for forthcoming ones.

The BWIs avoid the fundamental point that country-owned strategies for poverty reduction cannot be imposed through a framework which is still predominantly set up to give feedback to donors and contribute to the regulation of resource flows.

The IEO, which dealt at great length with this issue, proposed that the IMF should align more closely in terms of process, e.g. by minimising its reviews and harmonising them with domestic processes (IEO 2004, p. 15). On aligning with PRSP content however, the IEO is somewhat circumspect. It finds that the key problem with lack of alignment is weak PRSPs which do not provide an operational policy framework. Its proposals therefore largely centre around what the IMF can do to help PRSPs become operational frameworks.

The IEO suggests that the IMF should become more deeply involved in the process and engage at an earlier stage in order to improve the quality of PRSPs. Its proposals were rejected by IMF staff and management, ironically because they would have a negative impact on ownership. We find that while the IEO's analysis on ownership and conditionality is sound, its solution was inappropriate as it would have given the IMF an undue role in assessing country fulfilment of benchmarks for improvement in domestic institutional processes.

We propose an alternative architecture to that put forward by the BWIs, which would constrain and harmonise all donor conditionality taking into account the criteria outlined below (see Section 5: 'Alignment under an Alternative Architecture').

4.1.6 Recommendations – Conditionality

There is a need to adopt clear and agreed criteria for limiting the parameters of conditionality. At a country-level, this should be done in multi-stakeholder groups or processes, which include not just donors and authorities but also provide for parliament, civil society and private sector input and oversight.

In general conditionality should be:

- drawn from the PRSP unless there are exceptional issues of governance and transparency which are not covered in the PRSP but which civil society and / or parliament raise as key concerns;
- subject to ex-ante PSAs, in order to identify trade-offs and alternative policy paths rather than simply identifying safety nets;
- realistic given the social, political and economic environment in the country;
- outcome rather than content or process-based;
- based on a tranche-release or graduated system so that failure to achieve progress in one area does not result in budget support withdrawal from donors;
- delinked from HIPC so as not to delay achievement of disbursement of funds at Completion Point;
- positive, e.g. leading to increased funding for performance on criteria that exceed minimal requirements;
- harmonised among all donors (including the IMF) in order to reduce transaction costs;
- subject to ex-post review and the author of the conditionality should be held accountable for its impact.

Furthermore, the forthcoming IEO Review of Structural Conditionality must include a comprehensive review of when structural reforms can be deemed critical to the success of the IMF's macroeconomic reform.

4.2 Participation

Research conducted by Trócaire for CIDSE / CI in 2003 found that in general, participation had been interpreted by governments, IFIs and donors as information exchange and consultation only¹⁸. Civil society's proposals and recommendations had a minimal effect on most PRSPs, with some exceptions such as Zambia and Uganda. This contrasted with an expectation that there would be a degree of joint decision-making or at least that civil society would have some right to negotiate strategy content.

That research concluded that the inconsistency between principles and practice had led to tensions that could undermine the process. This remains true but is barely reflected in the IEO and OED reports. Both refer to the different interpretations of what the purpose of the PRSP is, with the OED noting that for civil society, the process is about increasing voice and political participation; for donors it is about accountability and transparency in the use of aid; while for governments it is conditionality for access to resources (OED 2004, p. 7).

The IEO refer to the need to 'manage expectations' around the PRSP. However, it is critical to the success of this initiative that the commitment to participation not be watered down.

4.2.1 Participation and domestic policy making processes

Participatory processes have typically succeeded in improving poverty diagnostics and, to an uneven extent, in improving transparency, public accountability and choices of public expenditure priorities, according to the IEO. However, *'their role in the area of macroeconomic and related structural issues has been marginal to date'* (IEO 2004, p. 38).

The IEO also pointed to the failure to embed PRS processes in domestic democratic institutions, pointing in particular to the lack of involvement of parliamentarians. Both observations are also reflected in cross-country analyses by NGOs (Afrodad 2003, CIDSE / CI 2004, Oxfam 2004).

The OED highlights the fact that in most

countries the PRSP approach, with its attendant element of participation, has not become embedded in domestic policy-making processes. It notes that participation dropped off considerably after formulation of the PRSP, which is consistent with the above analysis of 'PRSP as theatre'.

Where participation has become embedded, the OED found that it is having a positive impact. The report refers to Tanzania, where a broadly participatory process for monitoring has *'substantively enhanced domestic processes for poverty monitoring'* (OED 2004, p. 33). Tanzania is not typical of most PRSP countries however and the level of government commitment to the PRSP is almost exceptional.

In general, civil society has been very slow to become involved in PRSP monitoring. For example, it has taken two annual progress reports for civil society to get involved in Ethiopia and Mozambique. This is obviously due in part to capacity and organisational problems within civil society. However it also indicates a lack of government and donors' effort to involve them in the system. This is the case in West Africa, where local organisations find that they are often locked out of the process. Governments place obstacles in the path of participation, such as hindering access to information, and donors are failing to help address this. Where CSOs have had this experience with the design and implementation of first round PRSPs, it is unsurprising that civil society commitment is low.

In other countries however, civil society has found that its extensive monitoring work and the development of proposals for policy change are having a very limited impact. This is the case in Honduras and Nicaragua where at national level the governments have been extremely slow to take on board the results of civil society monitoring and recommendations on the implementation of the PRSP. Local governments are however far more receptive, often joining civil society in the monitoring and advocacy work directed at national government and donors. Indeed, officials in local government are turning to CSOs for training on the PRSP approach.

¹⁸ CIDSE / CI (2003), PRSP: Are the World Bank and IMF Delivering on Promises?

BOX 5:

Local democracy & monitoring

Local democracy can be undermined or supported by the PRSP approach. As seen in Section 3 ('Local democracy is undermined') above, centralising control over resources and diminishing the significance of local revenue-raising can take accountability away from local authorities and disempower communities.

Poor people need to see results from a process such as PRSP in order to sustain grassroots monitoring. Their day-to-day struggle means that investments of energy for a long-term outcome are hard to justify. The design of the PRSP approach must therefore accommodate increased local decision-making and control over resources for immediate poverty outcomes, such as basic service delivery.

The implications for the BWIs' PRSP review are that far more work needs to be done with government, civil society and other donors to enable meaningful participation to take place, particularly in countries with a poor tradition of participation in policy-making.

The PRSP needs to be embedded in the normal political process at a country level, particularly budgetary processes and parliamentary oversight mechanisms. A priority must be to develop modalities of participation which generate (a) greater involvement of the poor, rural and excluded groups and (b) a higher quality of debate on the more difficult political and technical issues, including macroeconomic policy.

This will require an investment by **civil society** organisations in development of analytical capacity on macroeconomic issues as well as education and mobilisation of grassroots communities. **National governments** need to initiate permanent, formal frameworks for participation and commit to transparency. They should outline clearly why points made by civil society are not taken up, where this is the case.

The **World Bank** and **IMF** must improve their own transparency and also cede decision-making power to increased numbers of country-based staff, allowing them to play an equal role in stakeholder groups which include government, other donors, parliament and civil society, as outlined in Section 5 ('Alignment under an Alternative Architecture').

BOX 6:

IMF and Participation: a long way to go

The IEO report specifically comments on the failure of the IMF to fulfil its new mandate under the PRSP & PRGF: *'there has been a wide variation but in general the involvement of IMF staff has fallen far short of the active participation in the consultative process and resulting policy dialogue suggested by the policy papers establishing the PRS / PRGF approach'* (IEO 2004, p. 111).

The IEO points out that while the Resident Representative now meets a wider range of civil society representatives, the substantiveness of these discussions varies. This is certainly the case in countries such as Zambia, where despite repeated civil society requests for a different relationship, the IMF's approach to civil society has remained unchanged.

In April 2004 the IMF Resident Representative in Zambia invited CSO's to discuss 'Zambia's socio-economic situation' with a visiting mission team from the IMF. The PRGF was under negotiation at this time.

The invitation was addressed to the Jesuit Centre for Theological Reflection (JCTR) who after having consulted with other organisations requested *'...that the visiting team share with us the ongoing discussions on the contents of the next Poverty Reduction and Growth Facility (PRGF) and what consequences this will have on the socio-economic situation of our country'*.

BOX 6: *continued*

The letter also expressed growing discontent with the IMF's approach to consultation: *'To be honest, such a topic would make the meeting much more relevant to our immediate concerns about the future of Zambia's socio-economic situation.'* The issues on the PRGF agenda were never made explicit to the CSOs concerned.

4.2.2 Participation & the macroeconomic framework

It is not surprising that the IEO finds that *"the PRS approach has had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms."* (IEO 2004, p. 7).

This finding is by no means new, having been documented extensively by NGOs as well as in Progress in Implementation Reports and the 2002 internal reviews of the PRSP. The major factor preventing the open discussion of macroeconomic policy has been the unchanged role of the IMF, which negotiates the macroeconomic framework in the guise of PRGF agreements with a limited set of interlocutors in government. The link to the PRSP is usually perverse: the PRGF determines the PRSPs' macroeconomic framework, rather than the reverse (see Section 3).

IMF Staff agree with the IEO finding and the necessity to do something about it: *"staff recognizes the need to give more emphasis to Fund staff involvement in the domestic policy debate over macroeconomic policy and to open the rationale for IMF policy recommendations to broader scrutiny"* (IMF 2004, p. 5).

However, it is deeply disappointing to find that, operationally, the IMF proposes that there should be no participatory process attached to the PRGF discussions. Indeed, it employs a rather deprecatory means of doing so: *'rather than derailing the incipient participatory processes by*

integrating them into PRGF-supported program discussions...' the Fund proposes to negotiate a program with government and *'explain'* why it may differ from the PRSP (staff, p. 9).

This amounts to a profound dichotomy in staff way of thinking about their role. On the one hand, the staff accept that the PRSP principles should still be applied to the IMF's role even in countries where the PRSP is not operationally viable, including seeking to open up the policy debate (staff 2004, p. 9). They plan to examine *'mechanisms for broadening the space for the macroeconomic dialogue'* as one of 5 key issues to explore in a PRSP review process (World Bank / IMF 2004, p. 42). On the other hand, what they propose to do in practice is *'business as usual'* with regard to PRGF negotiations.

The proposed PRSP review and the ongoing review of the IMF in LICS, must deal with the fundamental problem of macroeconomic policy imposition through the PRGF. There is an absolute need to ensure that this key part of government policy is determined through normal democratic processes, with public oversight.

4.2.3 Recommendations – Participation

- Rights-based standards for participation should be adopted through 'rules of the game' agreed in multistakeholder frameworks at a national level (see Section 5).
- Civil society organisations should invest in development of analytic capacity on macroeconomic issues as well as education and mobilisation of grassroots communities.
- Donors should provide consistent, long-term support to civil society to involve the traditionally marginalised in participatory poverty analysis and planning mechanisms, and facilitate the building of civil society capacity for policy analysis.
- Donors should promote establishment of government frameworks for participation through dialogue and technical assistance.
- The World Bank and the IMF must develop clear guidelines for their staff on participation and transparency, to include timely release of PRGFs and PRSCs in draft form as well as all core documents associated with stabilisation or structural analysis and lending (see Section 3).

- The IMF must relocate increased staff and decision-making to country offices.
- Under the 2005 PRSP review and the ongoing review of the IMF in LICs, the Bank and IMF must address mechanisms to ensure that their advice respects the macroeconomic and structural policy reform decisions made through normal democratic processes, with public oversight, rather than through the PRGF and CPIA.

4.3 Resources and Signalling

Lack of finance to implement a PRSP, or lack of adequate systems to manage public expenditure, is another major challenge. This problem has several dimensions, which are interlinked:

The first key question is how to get reasonably accurate costing of PRSP priorities carried out and determine whether spending plans should be 'realistic' or ambitious'.

The second question is how to ensure predictable resources are available to fund the programs. This includes the question of signalling and the role of the IMF.

Thirdly, how can governments build a consistent public expenditure management (PEM) framework to ensure that medium-term PRSP program expenditure fits with yearly budgets.

4.3.1 Costing of programs

Costing is important because it provides a quantitative basis for defining poverty reduction strategies and programs, as well as for forecasting gaps and needs and for mobilising additional resources (internally or externally).

The OED review found that most PRSPs have not been reliably costed and fail to provide strategic prioritisation. They find that the assumptions underlying costing are not discussed. The authorities' lack of information on the trade-offs between different public policy actions impedes both costing and prioritisation (OED p. 16).

Alignment of the PRSP, annual budget and MTEF are essential and reasonably accurate costing is a key part of this alignment. Experience with

MDG costing¹⁹ shows that a number of steps are needed in costing for medium term development outcomes.

Firstly there is the question of social and economic policy orientation. A participatory process driven by key stakeholders should be carried out in order to prioritise development goals and address the political economy factors that will determine how they are reached (e.g. the role of the state, the nature of private service provision etc.).

Secondly, intermediate targets and actionable propositions for the short and medium-term should be developed. In order to give them political traction the targets should fall within such a timeframe that they have to be achieved by the current leadership. Finally, the cost of the intermediate targets should be estimated so that they can drive the implementation of macroeconomic and sectoral policy.

4.3.2 Who should carry out costings?

It has been suggested that the first step described above is a fundamental policy choice, which must be made in representative fora, but that the latter two steps are suited to technocratic design (Vandermoortele & Roy 2004).

Competent actors for technocratic costing of poverty reduction programs will generally include the World Bank, the UNDP, NGOs (notably networks or umbrellas)²⁰ and government ministries and agencies, possibly at a sectoral level. Donors have a role to play in strengthening national structures for program costing through technical assistance. However, this must be genuinely driven by government demand rather than donor agendas.

The IMF's role should be to work with government, along with other partners, and to provide analysis of the trade-offs associated with different policy choices in terms of macroeconomic impact and financial implications. It should feed into but not dominate the choice and execution of PSIAs on macroeconomic topics relating to financing poverty reduction, such as sustainable levels of fiscal deficits, appropriate inflation rates etc.

¹⁹ Jan Vandermoortele & Rathin Roy (August 2004).

²⁰ In Zambia, for example, the civil society network on PRSP (Civil Society for Poverty Reduction) and key members, including the Jesuit Centre for Theological reflection and the Catholic Commission for Justice Development and Peace, have complementary grassroots based research and analysis programmes which has fed into MDG-related reports.

The IMF is supposed to integrate its macroeconomic analysis with work on costing poverty reduction and growth outcomes. It has failed to fulfil this area of work, partly due to a lack of a clear and practical operational framework in which to take such work forward (IEO 2004, p. 113). Given the strategic importance of this part of the IMF's work this must be addressed by the IMF's management and Board as a matter of priority.

4.3.3 Should costing be 'realistic' or 'ambitious'?

An evident problem in the PRSP approach is the tension between realism in terms of the resource envelope currently available to governments and the requirement to outline a strategy which could achieve real poverty reduction over the medium-term.

Governments get unclear signals from donors in terms of what they are willing to support. On the one hand, the G8 at Kananaskis in 2002 announced that no country genuinely committed to poverty reduction should lack the finance to achieve the MDGs. On the other hand, there is no evidence that aid to countries fulfilling PRSPs is increasing any faster than aid to other IDA countries, according to the OED (2004).

There is an open question therefore, as to the value to low-income countries of undertaking to implement the PRSP approach. It is clear that if the approach is to progress, increased resources to achieve poverty reduction objectives under a well-costed program are critical.

In a 2003 paper on aligning the PRSP and PRGF (IMF 2003a) IMF staff proposed that PRSPs could have two macroeconomic frameworks - one based on a conservative estimate of flows and another based on what it would take to achieve poverty reduction objectives. A significant step forward in this area has been the initiation in certain countries of two-scenario frameworks, showing the resource requirement for meeting MDG-related goals (IEO 2004, p. 76).

If the PRSP is to fulfil its objective of radically reducing poverty in the lowest income countries, it is clear that more resources need to be

mobilised and that the effective management of those resources is critical. Donors have committed to increasing global ODA levels. The IMF has committed to play a catalytic role in mobilising this external finance. Furthermore, governments have recognised the role of mobilising domestic resources.

There is no reason therefore, why countries would not adopt costing scenarios which reflect the poverty reduction goals implicit in their PRSPs and in the MDGs. A two-scenario framework, with the PRSP / MDG-compliant scenario as the base case, should be standard and should be actively supported by all donors.

4.3.4 Predictable resources for poverty reduction

Aid is notoriously volatile and there are risks that this volatility will increase as budget support increases. This is as a result of the political sensitivities attached to funding governments directly and the high tendency for the IMF's PRGF programs to go 'off-track' with knock-on effects for most budget support.

Budget support is the arguably most effective form of resource transfer although there are constraints to this assertion. Clearly, reasonable public expenditure management structures must be in place for donors to consider this option (see Section 4.3.6 below). However, even where these are weak, donors must seek ways to support domestic budgetary processes, recognising that institutional capacity is key to sustainable development. In addition to direct budget support and technical assistance, donors should provide consistent, long-term support to civil society. This should aim to build capacity for grassroots and national-level policy analysis, monitoring and advocacy on public expenditure.

Donors face an appalling record in absorbing the lessons of aid effectiveness. Donors as a group deliver only 70% of what they pledge to countries on average; spend \$5 billion annually on tied aid, which is 25% less effective than untied aid; and deliver increasing levels of assistance in the form of technical assistance instead of supporting cheaper, more effective and locally-owned capacity-building. Aid delivered in cash and with flexibility has fallen from 60% in the 1980s to 30% currently, according to the Bank and IMF.²¹

²¹ Sources: Debt Relief International Newsletter, Issue 18, 1st quarter 2004; IMF / World Bank Development Committee, 'Financing Modalities towards the MDGs', April 2004.

Debt relief is a stable and predictable form of development finance, but relief delivered so far falls far short of what was promised under the enhanced HIPC initiative. Debt is a counter-cyclical transfer, it has anti-inflationary and pro-growth dynamics and it can enhance local accountability for the prudent management of public resources.²² Recent moves to fund debt relief through aid resources should be condemned outright and resources for increased debt relief delivered through increased bilateral funding and sale of IMF gold.

The PRGF / PRSP should be delinked from the HIPC initiative to allow debt relief resources flow. It is of course necessary to have monitoring mechanisms for debt relief disbursement, but these should be based on local accountability mechanisms²³. African parliamentarians and civil society have called for increased parliamentary control over loans.²⁴ Indeed, several countries already have statutory instruments for debt management which could be used as models. Tanzania's May 2003 'Government Loans, Guarantees and Grants (Amendment) Act' establishes a Debt Management Committee and requires Government to present an annual debt strategy and semi-annual implementation report to parliament.²⁵

4.3.5 Replace IMF signalling role

The IMF's current signalling role is disruptive and inappropriate in a context where stable flows of aid are critical. Most donors require an on-track PRGF program as evidence that the recipient government is committed to macroeconomic stabilisation and adequate stewardship of aid resources. It is misplaced trust, given the IMF's short-term stabilisation rather than long-term development perspective. Furthermore, the IMF has a low sensitivity to the local context, given the fact that staff and decision-making reside in Washington. For these logistical as well as internal cultural reasons, the staff is ill-placed to give signals about the capacity of a country to absorb and manage aid effectively and the 'on / off' signal is unjustifiably damaging development programmes.

In a situation where most low income countries face permanently unsustainable fiscal deficits²⁶, the role of the IMF should be to combine policy advice on achieving macroeconomic stability with donor-oriented advocacy to increase resource flows in order to generate domestic capacity to permanently close the financing gap in a socially just manner. Over the medium-term, the IMF should cease to engage in adjustment lending to low-income countries and concentrate on providing policy advice uncompromised by conditionality. It should continue to provide short-term support when shocks occur but must have a clear graduation strategy and mobilise finance from other donors for long-term recovery.

The IMF's signalling role should be replaced by a national donor / government agreement on aid and performance. In Section 5 we propose a system which could be based on an expanded version of current 'Performance Assessment Frameworks' (e.g. in Mozambique) or 'Joint Assistance Strategies' (e.g. in Tanzania). All donors would join with the authorities in drawing up a conditionality matrix, to include macroeconomic and structural reform conditionality. It should be based on the PRSP and include 'rules of the game' governing the conditions under which donors would reduce or suspend aid. Tranche-release or graduated systems which respond to lower or higher than anticipated performance should be explored at a country-level. Parliaments and civil society should have a formal role in inputting to and monitoring this system.

In the short-term, we propose a truncated version of this system, whereby donors and government would agree criteria under which donors would reduce, suspend or increase aid, regardless of IMF assessments.

4.3.6 PEM, MTEF & national budgets

Possibly the most critical institutional arrangement for ensuring the relevance and success of the PRSP approach is its integration with a well-functioning MTEF, an effective national budget process and a system for Public Expenditure Management (PEM) and accountability.

The OED report notes that, in most cases, the link between the PRSP, budget and MTEF is weak or absent. Spending plans are drawn up

²² CAFOD / Christian Aid / Oxfam / Trócaire (2004), 'To Lend or to Grant', April 2004.

²³ For example, in Zambia misuse of HIPC resources has been documented by the independent HIPC monitoring group. Donors, including the IMF, failed to pressure government to reinstate this group when it was suspended by government.

²⁴ Christian Aid / Afrodad, 2004 ('Owning the Loan'); 'Africa Legislators seek power to reject loan deals', World Bank Press Review, 26/8/2004.

²⁵ Debt Relief International, 2004, p. 11.

²⁶ Jha in Tony Addison and Alan Roe (2004)

with little reference to the PRSP (OED, p. 29). The IEO state more dramatically that: *'... the PEM weaknesses are probably the most fundamental challenge, requiring comprehensive institutional reforms and capacity improvements without which any enhanced prioritisation in the PRSP will remain wishful thinking'* (IEO 2004, p.123).

Public finance reforms therefore, need to concentrate on joint evolution of MTEFs and the PRSP framework, where both or one of these are weak, and ensure that the annual budget process is the practical expression of the medium term intentions expressed in the PRSP & MTEF.

The role of the Bank and IMF in supporting PEM is examined in the Nordic Government review and generally found wanting. One clear element to which more attention needs to be paid is the integration of the poverty reduction perspective into financial sector reforms and the design of PEM systems.

For example, inflation targets need to accurately reflect policies that help the poor. Analysis by Afrodad (2004) suggests that inappropriate measurement of inflation has resulted in counterproductive restrictions on access of the poor to credit.

The IMF is not competent in assessing poverty impacts of fiscal and monetary policy nor should it develop this as a facet of its work. However, it should be open about the assumptions underlying its policy advice and be prepared to accept alternative policy targets, based on independent analysis. The Bank can contribute technical assistance, but it also needs to be more open about the rationale behind its work. Furthermore, it should take great care not to hamper the development of domestic analytic capacity through crowding out independent researchers.

Donors can play a facilitatory role in supporting PEM, offering access to independent technical support but not pushing detailed prescription. Finally, as public and political demand for financial accountability and results is the most powerful change agent, donors should support civil society in holding service providers to account, as highlighted above.

4.3.7 Recommendations: Resources and Signalling

- Donors must change their aid modalities towards those that strengthen government systems, focusing on budget support and guaranteeing predictable multi-annual aid flows as much as possible;
- Conditionality matrices should be agreed in country-based multi-stakeholder fora including government, donors and civil society.
- The conditions under which donors would reduce or suspend aid should be agreed between donors and government, with input from other stakeholders, replacing the IMF's signalling role;
- Conditionalities should be: drawn from the PRSP; outcome-oriented; tranche-release or graduated and subject to ex-ante PSAs.
- Over the medium-term, the IMF should cease to engage in adjustment lending to low-income countries and concentrate on providing policy advice only, except for short-term support when shocks occur;
- Debt relief should be increased, drawing from sales of IMF gold and additional bilateral resources;
- Debt relief should delinked from the PRSP / PRGF and donors should support local public and political oversight mechanisms;
- The IMF must fulfil its commitment to mobilise higher aid levels;
- The IMF and Bank must be open about the assumptions underlying their policy advice and support the outcomes of independent analysis;
- Governments must adopt more equitable tax collection policies and pursue public-private partnerships cautiously, to ensure benefits accrue to the poor;
- Governments must adopt PEM systems which are pro-poor and focused on public accountability, seeking independent technical assistance where necessary;
- Donors should support civil society initiatives to hold government to account on PEM.

4.4 Pro-poor growth, macro-micro linkages and PSIAs

The failure to highlight linkages between macroeconomic policies and poverty reduction has been a fundamental flaw in most PRSPs. Many PRSPs are internally inconsistent, outlining programmes for poverty reduction which cannot possibly be met within the constraints of current revenue or the macroeconomic projections. PRSPs rarely include an analysis of how their growth targets will be pursued in a manner which delivers the optimal poverty reduction outcome (e.g. 'pro-poor growth'). This is a critical problem and one which donors can help address through impartial support for country-specific, independent analysis on policy choices as identified by government.

Given their overwhelming dominance in driving the policy agendas of most LICs the Bank and IMF carry a clear responsibility to base their policy advice and programs on rigorous analysis of the extent to which their interventions will deliver pro-poor growth. However, their failure to do so has been the subject of both external criticism and internal reviews for many years.

4.4.1 Growth in LICs

LICs' average growth rates from 1998 – 2002 were about 3.5%. The IMF claims higher levels for PRGF countries, at about 4.5%. They note however, that at this rate of growth it will take almost 40 years for LICs to reach the current median income levels of other developing countries (IMF 2003, p.6).

These growth rates are clearly not a basis for achieving the MDGs, which are estimated to require growth rates of at least 7% per year. The IEO notes that *'there has not been a marked pick up (in PRGF countries) that will be necessary for a substantial lasting impact on poverty levels'* (IEO 2004, p. 130).

This situation is most serious in sub-Saharan Africa, which has had low GDP per capita growth for many years. The average annual change was – 0.2% over the 1990s. Growth is expected to reach only 1.0% in 2001-2005 and 1.6% in 2006-2015. According to the World Bank (2004), in the longer term, predicted per

capita growth in Africa of an average of 1.6 percent is barely half what would be needed to achieve the MDGs.

4.4.2 Growth, equality and exclusion

Economic growth is a key factor in reducing poverty, however the link is by no means automatic or direct (UNDP, 2003). Overall country growth figures mask anomalies and trade-offs in the impact of growth strategies on the poor. In Tanzania for example, GDP growth to end-2002 was 5.5%²⁷, increasing to 5.6% by end-2003. However, the composition of this growth is important. The mining sector grew by 14.3% in 2003 and the construction sector grew by 11% in the same period. Agriculture, on which 82% of the population depend, grew by only 4%²⁸.

Growth for poverty reduction will have to be based on *'more tailored and inclusive strategies'* (Afrodad 2004). This will require explicit knowledge of country situations, application of analysis of the impact of growth on the poorest groups and the capacity by government to adjust policy in the light of informed risks. The latter means that donors, notably the IMF, will have to give countries increased lee-way to adjust policies and targets. It will also require an active and informed citizenry, including trade unions and parliamentarians, who can challenge government policy on growth when it is clear that it benefits the vested instruments of those with influence, rather than the poor.

The role of civil society in resisting growth strategies in Nicaragua and Honduras which are designed to benefit large-scale industrialists (including agro-industry) is a case in point. The CCER (CSO network) in Nicaragua mounted a campaign in 2002 against a Bank-sponsored programme of creating industrial 'clusters' in areas of high potential. Combined with 'labour flexibility', this process offered few benefits to the ordinary people of Nicaragua (66% of whom live below the poverty line). CCER managed to raise the debate to a political level. However, the government's policy focus is primarily on CAFTA, which civil society organisations argue will provide few benefits to the poor.

4.4.3 PSIA

The Bank claims to have carried out over 70 PSIA-type activities over a 15-month period, with a further 40 planned, mostly in LICs (World Bank

²⁷ OED / IMF 2004, p. 15

²⁸ Afrodad 2004, p. 17.

/ IMF 2004, p. 26). While the mainstreaming of PSIA into donor activities is to be welcomed, the PRSP Progress in Implementation Report (World Bank / IMF 2004) gives no indication of who determined the focus of the PSIA; whether they are designed to guide policy choice or merely sequencing of reforms and associated safety nets; who carried out the 'PSIA-type activities' and what impact they had ultimately on Bank policy?

NGOs have consistently said that PSIA should be country-driven, independently carried out and designed to inform policy-making 'upstream'.

The IEO review confirms the findings of other studies and the informal admissions by IMF staff that *'the efforts to conduct PSIA have been slow and the integration of these results into program design even slower'* (IEO 2004, p. 91). There is consensus on this among IMF staff, management and external critics. The 2004 'PRSP Progress in Implementation report' must be the sole document therefore, internal or external to the BWIs, to confidently assert that *'For the IMF, PSIA is used to assess the poverty and social impact of key reform measures contained in PRGF-supported programs'* (2004, p. 26). Needless to say, no examples are given.

In a detailed outline of the difficulties in analysing micro-macro linkages and in mainstreaming PSIA in PRGF-supported programs, the IEO summarises the obstacles as, first, data limitations and secondly capacity constraints. Nonetheless, they note that these problems should not be overstated. Indeed, the IEO quote an African Development paper saying that significant work is possible even with limited data and that this contributes to informed debate and policy design. The lesson appears to be that the perfect should not become the enemy of the good. A positive result from carrying out a PSIA on a contentious area of social and economic policy would be the opening of space for policy dialogue at a country level (Trócaire, September 2004).

The newly-created PSIA unit in the IMF is a welcome development. Regrettably, the team faces constraints on its work from the outset which, unless removed, will severely limit its effectiveness. The aim of the team is to help integrate PSIA into the design and implementation of PRGF-supported programs.

They will primarily draw on PSIA which already exist to assess the likely impact of program measures on vulnerable groups.

It would be arguably more important however, to have independent ex-ante PSIA carried out on actual reforms which the IMF proposes for specific countries. The PSIA team will have the facility to do this only in very limited circumstances ('where resources permit'). Bilateral donors with a commitment to poverty reduction have an important role to play in supporting PSIA in contested areas of IMF policy.

It is imperative that the Bank and IMF prepare a progress report on PSIA. This should be prepared as part of the 2005 PRSP review and be ready for the Spring Meetings in 2005. It could be argued that the new IMF PSIA team has not been established long enough to take part in such a process. However, this is not the case. Assuming the new IMF PSIA team will be conducting a mapping exercise on the extent to date of the attention given to poverty impact analysis under PRGF programming and assessing the way forward, it would be well-placed to make a meaningful contribution to a comprehensive Bank / IMF progress report.

At a broader level, increasing numbers of PSIA on upstream policy issues (such as the trade offs associated with different fiscal stances) could provide an opportunity to feed into a fundamental review of the neo-liberal macroeconomic model used by the IMF and World Bank. The management and interpretation of PSIA, both individually and on aggregate, should be seen in this light by the BWIs, donors and NGOs.

4.4.4 Recommendations: pro-poor growth, macro-micro linkages and PSIA

- Donors should provide impartial support for independent analysis on growth strategies and related policy choices as identified by country governments;
- Donors, notably the IMF, should give countries increased leeway to adjust agreed policies and targets in order to deliver tailored and inclusive growth policies;
- Governments should prioritise poverty reduction in their growth policy strategies,

eschewing pressure from the influential and wealthy and seeking assistance for conducting PSIA's where appropriate;

- Adjustment lending under the PRGF should be phased out and the resources freed up directed to ensuring that PSIA's are carried out on key IMF policy proposals in LICs;
- The Bank and IMF should prepare a progress report on PSIA by the time of the Spring Meetings in 2005, as part of the 2005 PRSP review;
- PSIA's should be considered by BWIs, donors and NGOs as material for use in a radical review of the broad macroeconomic frameworks used by the Bank and IMF.

In the next section we outline an architecture which would include all of the above elements and which we believe represents an appropriate format within which to reshape and revitalise the PRSP approach.

4.5 Conclusion: What's missing in the PRSP approach

In this section we have outlined the key gaps in the content and implementation of the PRSP approach. Ownership is undermined both by the fact that fulfilling a PRSP is a conditionality for debt relief and concessional resources and by the failure of the BWIs to: respect domestic policy-making processes, streamline structural conditionality and increase flexibility in fiscal conditionality, notably in countries which are poor performers.

Participation must be grounded in permanent, formal frameworks at national level and the BWIs must open their own documents and processes to participation, including the macroeconomic policy making process (currently determined under the PRGF).

Resources for PRSP implementation must be predictable and commensurate with the poverty reduction aims of the PRSP. The current IMF signalling role needs to be replaced by a national donor-government agreement on aid and performance.

Country-owned PSIA's are the cornerstone of evidence-based policy that focuses on alternative options and is rooted in country planning processes. Therefore they should be: carried out upstream on policy options; independent; transparent; and open to input by all stakeholders. They should be seen in the light of providing analysis to challenge the broad macroeconomic models promoted by the BWIs, not just to provide solutions to isolated problems.

5. Alignment under an 'Alternative Architecture'

In the Progress in Implementation report, staff say that 'BWI activities, including lending operations, would continue to be based on PRSPs' (World Bank / IMF 2004, p. 43).

However, as our analysis shows, Bank and IMF programs are not based on PRSPs at present, particularly in countries which are most critically in need of stabilisation and external finance.

The PRSP initiative is at the cusp of a crisis, but the BWIs appear not to have noticed. PRSPs are irrelevant to many governments except as a mechanism to access HIPC debt relief. This is a process from which many PRSPs will soon graduate and hence the political traction around PRSPs will potentially be lost.

For civil society, PRSPs risk becoming a distraction as key government policy decisions are taken elsewhere, such as in trade and investment agreements or under heavily conditional and untransparent BWI loan agreements.

Donors should not align slavishly to PRSPs which are weak in design or implementation. But neither should they undermine domestic decision-making through imposition of programmes or conditionality which ignore the outcomes of participatory processes or undermine domestic institutions.

The BWI proposals to amend the function and format of the JSAs and APRs grossly underestimate the scale of disillusion with the PRSP approach, in spite of its positive elements. They also underestimate what it will take for genuinely country-owned poverty reduction policies to come about. Radical change is needed, which will require the BWIs ceding control and sharing responsibility within a group of real partners.

We propose alignment under an 'alternative architecture' therefore, that is, an approach based on partnership and participation. This paper outlines a long-term approach but also tackles the critical short-term issues of PRGF negotiations and signalling (5.1.7).

5.1 An Alternative Architecture

5.1.1 'PRSP' preparation

The preparation process of the PRSP has generally been its strongest dimension to date, in spite of the fact that PRSPs have often been broad and fail to outline strategic policy paths and trade-offs.

The key principle is that PRSPs should frame medium-term social and economic policy based on the rights and aspirations of the poor. The participatory process of drawing up a PRSP has been one of the key 'gifts' of this approach. It has led to development, however tenuous, in civil society engagement and capacity. Therefore it is worth maintaining and promoting.

However, the PRSP has often displaced or undermined existing planning processes. Or they run parallel to them, increasing the transaction costs for overstretched officials.

The IEO (2004) attempt to grapple with this by suggesting that policy planning should begin where countries are at, with existing planning documents and processes, rather than with the imposition of a 'PRSP'. This is a valid proposal. A 'PRSP' should be identified by its characteristics: a national development strategy based on a broad consensus with all stakeholders, which will be the framework under which donors, government, civil society and the private sector work together to bring about sustainable human development and pro-poor growth. Where the PRSP runs parallel to or displaces domestic decision-making processes, the latter should be reformed by governments to adopt the unique characteristics of the PRSP approach and to become the central planning framework.

The implications are that governments should be able to call on donors to coordinate around any policy planning framework which has the characteristics of a PRSP. Any reasonable planning document, with a timeframe of three

years or more depending on local preferences, could fulfil the planning and coordination functions of a 'PRSP' without bearing this name or being subject to external endorsement.

However, one critical element is that such a strategy document and its attendant implementation processes would have to be integrally linked to budgetary, MTEF and PEM systems. Countries facing difficult circumstances would in all likelihood require impartial technical assistance from donors in order to establish PEM systems which are aligned to a medium term strategic development plan. Donors should be ready to offer this type of support and to support civil society policy analysis and monitoring initiatives.

5.1.2 Partnership forum

A partnership forum with broad stakeholder participation, including government, parliament, civil society, donors and the IFIs should be adopted as a structure within which to hold dialogue on key dimensions of the national planning framework. The government would carry out the participatory planning processes, development of policy direction, prioritisation of objectives and identification of areas requiring specific analytic attention (fiscal balance trade-offs, shocks etc.).

The partnership forum would come together regularly with a view to: giving feedback to government on the development or implementation of the development plan and debating and agreeing key changes in policy, such as budgetary cuts or national wage agreements (for which the donors would act as observers only). They would also identify how capacity and analytical gaps could be filled and agree the parameters for donor conditionality frameworks.

While complex, such a system is not unfathomable. Indeed, it may build on what already exists in many countries, such as the donor Performance Assessment Framework / Poverty Monitoring Observatory in Mozambique or Joint Assistance Strategy in Tanzania. The role of civil society and parliaments is critical and should at a minimum be formal, rights-based and rule-based.

5.1.3 Alignment and macroeconomic frameworks

macroeconomic frameworks are probably the most difficult area on which to reach agreement, for both political and technical reasons. Ideally, PRSPs should include macroeconomic policy frameworks that: (a) highlight policy priorities; (b) include (at least a basic) analysis of the poverty, social and economic impact of macroeconomic trade-offs and (c) present alternative scenarios for both unforeseen negative events (shocks) and increased donor assistance or better-than-anticipated fiscal situations (including increased donor resources).

Where this is the case, the World Bank and IMF's²⁹ role would be to work with authorities based on their determination of need for support to establish the public financial management systems that will deliver the planned objectives.

However, where these elements are not currently in place, the role of the BWIs would be to work in partnership with the authorities, donors and other stakeholders to develop such a framework.

In this situation, the principles underpinning the PRSP process should be applied to developing the macroeconomic framework. In such a scenario donors (including the World Bank and IMF), government, civil society, trade unions and the private sector would come together in the above-mentioned partnership forum to:

- analyse the implications of the PRSP objectives for macroeconomic policy;
- assess the need for and implications of PSIA-type analysis on policy trade-offs;
- debate and agree intermediate objectives;
- outline key institutional processes for achieving those objectives;
- identify capacity and / or resource gaps for achieving the objectives;
- identify how to fill those gaps in a coordinated manner, including domestic and external resource mobilisation.

This would also involve agreement on a set of commitments, including:

- on the donors' side - a conditionality matrix which does not extend beyond agreed objectives and targets and which includes IMF conditionality;

²⁹ A reduced lending role for the IMF is proposed in Section 4.3.5

- on the civil society side - agreeing parameters for wage agreements and other fundamental public policies impacting on the fiscal balance;
- on the government's side - commitment to transparency and accountability, directed primarily at domestic stakeholders (parliament, civil society etc.).

The major implications for all donors' way of doing business, but most particularly the BWIs, are relinquishing control and sharing responsibility with a group of genuine partners in the name of poverty reduction.

5.1.4 Conditionality & signalling

Joint donor / government harmonisation and performance assessments agreements should be drawn up at a national level.

This would involve the government identifying key objectives and the main indicators of progress under a national development strategy with PRSP characteristics. A harmonisation matrix for donor-supported programmes would be jointly agreed. Donors (including the IMF and World Bank) and government would agree a conditionality matrix based on the governments' indicators, to include macroeconomic and structural reforms. Donors and government would agree the conditions under which aid would be reduced, suspended or increased, replacing the IMF's signalling role.

5.1.5 From 'JSANs' and 'APRs' to joint partner approaches

The BWIs propose changing the Joint Staff Assessments to 'Joint Staff Advisory Notes' (JSAN).

The BWIs state that the purpose of the JSAN will be to give feedback to both the country authorities and the Executive Directors of the Bank and IMF. As noted in Section 3 however, the feedback to authorities will be nothing more than a warning to implement existing conditions or prepare for forthcoming ones.

Under the above partnership system, the functions to which the BWIs refer could easily be fulfilled without sacrificing country ownership. The partnership forum could carry out a collective review of the development plan and its implementation, identifying weak areas and follow-up actions, with accountabilities for all stakeholders.

The resulting 'Joint Partner' report or assessment would update external actors on progress, and could include annexes giving the particular views of individual actors, including the BWIs. It would replace both the JSAs and APRs and would provide a report for BWI Boards (according to domestic timetables), while the feedback to authorities would take place within the partnership forum.

5.1.6 'Rules of the game':

The IEO recommendation about country-specific 'rules of the game' is particularly pertinent here in order to clarify expectations and responsibilities of all stakeholders, including civil society and parliaments whose participation should be formal, rights-based and rule-based as noted above.

Given the vulnerability of LICs to shocks, an agreed procedure for entering IMF lending arrangements in emergency situations without compromising the tenets of a nationally agreed macro-framework and conditionality matrix would have to be agreed. This should also be included under the 'rules of the game'.

5.1.7 An interim approach to alignment

Recognising that moving towards such a holistic approach would take time, and that the IMF's role as policymaker and finance gatekeeper is critical, two minimum interim steps would have to be taken:

1. Open up PRGF processes on the basis of PRSP principles. That is, release draft PRGF documents to all stakeholders in a timely fashion to allow informed debate on the government's macroeconomic options; IMF staff should outline the rationale and assumptions behind their policy proposals; and independent PSIA or trade-off analysis should be carried out on any contested areas. No PRGF should be finalised until it has gone through this process. The HIPC initiative should be delinked from the PRGF to allow debt relief to proceed.
2. In the short-term, donors and government should jointly agree criteria under which donors would reduce, suspend or increase aid, regardless of IMF assessments.

5.2 Enabling partnership to take root

In Sections 3 and 4, a number of specific recommendations have been made which are aimed at removing the obstacles to fulfilment of the principles behind the PRSP approach. These recommendations are important in the context of moving towards a partnership model as, on the one hand, they capture changes which need to be made in order to allow such a model to take root; and on the other hand, because many of these issues can only be properly and fully addressed under such a model.

5.2.1 Establishing a partnership framework

In the paper it is recommended that governments should:

- commit to transparency, openness and the prioritisation of poverty reduction;
- show leadership and vision in bringing the actors in the development of the country together to frame coherent strategic planning frameworks.

The commitment of government is the most fundamental step in establishing a partnership approach. Governments will find allies in donors and civil society and can gain from the experiences of countries which have already begun to adopt such models. Ultimately, governments can shift the power base, but it requires a strong domestic mandate, based on democracy, openness and legitimacy. Corrupt and inept governance will undermine any attempts to develop partnerships for development. Therefore governments have to commit to tackling issues of mismanagement of resources in particular, and other processes which undermine domestic stakeholders' and international partners' confidence.

Throughout this paper it is recommended that all donors should:

- change their aid modalities towards those that strengthen government systems, focusing on budget support and guaranteeing predictable multi-annual aid flows as much as possible;
- provide impartial support for independent analysis on growth strategies and related policy choices as identified by country governments;
- agree to delink debt relief from the PRSP /

PRGF and increase the levels of debt relief, financed through sales of IMF gold and additional bilateral resources;

- provide consistent, long-term support to civil society to build capacity for grassroots and national-level policy analysis, and monitoring and advocacy on public expenditure and debt management;
- help strengthen the capacity of parliament to hold the government accountable.

Each of these is critical to the viability of a model based on genuine partnership. Financial support must be matched by a commitment to support processes which embed domestic accountability within a long-term strategic planning framework.

The paper proposed that the World Bank / IMF should:

- develop clear guidelines for their staff on participation and transparency;
- commit to playing equal and open roles with other stakeholders;
- adopt improved transparency policies, including releasing draft PRGFs and PRSCs, as well as all core documents associated with stabilisation or structural analysis and lending and committing to open and participatory debate on programme content;
- make the assumptions and rationale underlying their policy advice and country assessment frameworks public, and contract an independent external review of the purpose and uses of the CPIA (World Bank).

The World Bank and IMF must prove that they are bona fide partners. This cannot happen until the lack of transparency in their analytic and work and negotiation frameworks is addressed. The World Bank and IMF's institutional intransigence in the face of calls for genuine participation is a key obstacle, as is their insistence on one set of macroeconomic solutions to the problems facing developing countries. The World Bank and IMF must prove that they are willing to submit to governments' alternative policy choices which have a broad national consensus, without imposing negative penalties. Firstly, however, the World Bank and IMF must show themselves willing to work as equal partners with other stakeholders.

Additional reforms are necessary to the role of the IMF, given its position as gatekeeper for development finance and the degree of control it exerts over macroeconomic frameworks.

Specifically, the IMF should:

- cease to engage in adjustment lending to low-income countries over the medium-term and concentrate on providing policy advice only;
- continue to provide short-term support when shocks occur, but adopt a clear graduation strategy and mobilise other donors' resources for medium to long-term recovery;
- relocate increased staff and decision-making to country offices.

The IMF holds influence in excess of its capacity to analyse and understand the social, economic and political reality in low-income countries, where its presence is minimal. It can serve a useful purpose through its surveillance role and in contributing relevant, non-directive analysis in its core areas of competence. It faces an unprecedented challenge in terms of fulfilling its existing commitment to the principles underpinning the PRSP approach. In the context of this commitment, which has been reaffirmed in the 2004 PRSP Progress in Implementation report, it needs to allow its role to evolve in order to pave the way for development through partnership. This will require IMF management, staff and the Executive Board accepting a shift in power relations.

5.2.2 Fulfilling change through partnership

Many of the changes which are needed in the PRSP process can only be effectively delivered through a partnership framework. For example it is recommended in this paper that governments should:

- reform domestic decision-making processes to adopt the unique characteristics of the PRSP approach, rather than having parallel decision-making processes in place;
- prioritise poverty reduction in their growth policy strategies, eschewing pressure from the influential and wealthy and seeking assistance for conducting PSIA's or other policy analysis where appropriate;
- adopt more equitable tax collection policies and pursue public-private partnerships cautiously, to ensure benefits accrue to the poor;
- adopt PEM systems which are pro-poor and focused on public accountability, seeking independent technical assistance where necessary;

Under the partnership framework, Governments would have one clear forum in which to strategise and negotiate with stakeholders, rather than a series of planning and reporting mechanisms, some of which respond artificially to external agendas and some which cater primarily to hidden internal ones. The partnership framework bolsters the pro-poor agenda by 'smoothing out' differences in access to government and reducing the influence of powerful interest groups compared to representatives of the poor. It allows governments to work with a group of donors to eliminate donor-driven technical assistance and get harmonised assistance to fill the gaps which it sees as priorities.

It is recommended in the paper that all donors should:

- agree a joint conditionality matrix which governs the conditions under which donors would reduce or suspend aid, replacing the IMF's signalling role;
- ensure that all conditionalities are: drawn from the PRSP; outcome-oriented; tranche-release or graduated and subject to ex-ante PSIA's;
- benchmark their own performance on implementing PRSP principles and monitor themselves and each other through existing DAC reviews and in-country annual multi-stakeholder reviews.

The partnership framework gives a coherent context for these actions and makes it clear that they are carried out in a framework of harmonised donor action, as well as government transparency and institution-building.

This paper recommends that the World Bank / IMF, specifically, should:

- be prepared to subject their proposed macroeconomic and structural reforms to independent PSIA's, jointly identified with national stakeholders, and have analysis carried out on the trade-offs associated with macroeconomic policy choices such as the fiscal stance.

The proposed partnership framework is based on the premise of joint partner identification of the policy issues which need to be addressed. In this framework, the concerns brought to the table by different stakeholders on policy choices

will allow the definition of precisely which topics need analysis. Leaving the choice of topics to any one or two stakeholders, notably the World Bank or IMF, would inevitably limit its relevance and curtail the ultimate ownership of the policy adopted.

Finally, it is recommended in this paper that civil society should:

- Invest in grassroots-based and national-level policy monitoring and analysis (quantitative and qualitative), in order to ensure evidence-based advocacy can be carried out and to enable the marginalized to fulfil their right to participate in the decisions that affect their lives.

This framework would offer a more permanent, formal mechanism for participation than the often ad hoc PRSP participatory mechanisms which are based on 'big moments' as has been illustrated in Section 3 ('PRSP as theatre').

6. Conclusion and Recommendations

In this paper we have found that the PRSP approach is relevant in terms of theoretical best practice in development cooperation, but it has been deeply compromised by being a conditionality imposed by the BWIs, with inadequate change on the donor side.

The PRSP approach has made most headway in countries where processes such as government-led harmonisation, budget support, SWAPs, MTEFs and participatory mechanisms for policy dialogue were already underway and macroeconomic stability had been broadly achieved (ex: Tanzania, Uganda). In other countries, progress has been very limited and the approach has even undermined domestic institutional processes for development management.

PRSPs have in many contexts become 'theatre'. Processes are fulfilled but they have little bearing on the actual policies implemented. Both government and donors are guilty of carrying out the real policy discussions off-stage. The real decisions are taken under existing national development plans, trade negotiations, PRGF negotiations and/or CPIA assessments, with scant regard for the PRSP document or principles. The PRSP approach will increasingly lose political traction as the HIPC initiative runs its course unless the real debates are brought centre stage.

The second round of PRSPs in many countries and the forthcoming Bank and IMF PRSP review process provide a vital opportunity to ensure that efforts to tackle poverty become truly owned and implemented by all stakeholders.

The overall recommendation therefore, is for a radical revision of the architecture of PRSPs which would bring all actors, including the IMF and World Bank, inside a domestic, partnership-based, decision-making forum. This is the model of 'alignment' which should be adopted.

6.1 Overall recommendation: partnership for poverty reduction

All donors, including the Bank and IMF, should show their commitment to national ownership by aligning their policy procedures to national processes and by bringing issues centre-stage under the PRSP approach rather than conducting business in the wings.

Governments should reform domestic decision-making processes to adopt the unique characteristics of the PRSP approach, rather than having parallel decision-making processes in place. They should ensure that there is a formal, rule- and rights-based role for civil society, parliaments and other stakeholders in inputting to policymaking and carrying out democratic oversight functions.

6.2 An Alternative Architecture

6.2.1 A 'Partnership Forum' for poverty reduction

A 'partnership forum' with broad stakeholder participation, including government, parliament, civil society, donors and the IFIs should be adopted as a structure within which to hold dialogue on key dimensions of the national planning ('PRSP') framework.

The 'partnership forum' would come together regularly with a view to:

- giving feedback to government on the development or implementation of the PRSP / national development plan;
- debating and agreeing key changes in policy, such as budgetary cuts or national wage agreement;
- identifying how capacity and analytical gaps could be filled; and
- agreeing the parameters for donor conditionality frameworks which would replace the IMF's signalling role.

As country-owned PSIA are the cornerstone of evidence-based policy-making, a core function of the 'partnership forum' would be to agree what PSIAs need to be carried out and by whom, and to ensure findings are integrated into policy decisions.

Another function would be to agree clear, country-specific 'rules of the game' for all stakeholders, including rights-based standards for civil society participation.

The reports of an annual 'Partnership Forum' would replace the JSAs / JSANs and APRs, and individual stakeholder groups would have the right to have their positions included in an annex.

6.2.2 Interim steps to alignment and partnership

Recognising that moving towards such a holistic approach would take time, and given the current undue influence of the IMF on policy-making and resource flows, two minimum interim steps have to be taken. Both of these steps address the immediate issue of 'alignment' which faces the IMF in its review of its role not only in PRSPs, but in low-income countries as a whole:

1. Open up PRGF processes on the basis of PRSP principles. That is, release draft PRGF documents to all stakeholders in a timely fashion to allow informed debate on the government's options; IMF staff should outline the rationale and assumptions behind their policy proposals; and independent PSIAs should be carried out on any contested areas. No PRGF should be finalised until it has gone through this process. The HIPC initiative should be delinked from the PRGF to allow debt relief to proceed.

2. Replace the IMF signal with donor / government agreement: In the short-term, donors and government should jointly agree criteria under which donors would reduce, suspend or increase aid, regardless of IMF assessments.

6.3 Enabling partnership

In order to enable a partnership framework to come about:

Governments should:

- commit to transparency, openness and the prioritisation of poverty reduction;
- reform domestic decision-making processes to adopt the unique characteristics of the PRSP approach, rather than implementing parallel planning processes;
- show leadership and vision in bringing the actors in the development of the country

together to frame coherent strategic planning frameworks.

All donors should:

- change their aid modalities towards those that strengthen government systems, focusing on budget support and guaranteeing predictable multi-annual aid flows as much as possible;
- agree to delink debt relief from the PRSP / PRGF and increase the levels debt relief, financed through sales of IMF gold and additional bilateral resources;
- agree to replace the IMF's signalling role with a joint donor / government agreement on the conditions governing reduction, suspension or increase in aid;
- provide impartial support for independent analysis on growth strategies and related policy choices as identified by country governments;
- provide consistent, long-term support to civil society to build capacity for grassroots and national-level policy analysis, and monitoring and advocacy on public expenditure and debt management;
- provide similar support to strengthening the capacity of parliament to hold the government accountable;
- be prepared to benchmark their own performance on implementing PRSP principles and monitor themselves and each other through existing Development Assistance Committee (DAC) reviews and in-country annual multi-stakeholder reviews.

The World Bank / IMF should:

- develop clear guidelines for their staff on participation and transparency;
- commit to playing equal and open roles with other donors;
- be prepared to subject their proposed macroeconomic and structural reforms to independent PSIAs and have analysis carried out on the trade offs associated with macroeconomic policy choices, such as the fiscal stance;
- adopt improved transparency policies, including releasing draft PRGFs and PRSCs, as well as all core documents associated with stabilisation or structural analysis and lending;
- commit to open and participatory debate on programme content;

- make the assumptions and rationale underlying their policy advice (including proposed fiscal targets and structural conditionality) and country assessment frameworks public
- contract an independent external review of the purpose and uses of the CPIA public (World Bank).

The IMF, specifically, should:

- cease to engage in adjustment lending to low-income countries over the medium-term and concentrate on providing policy advice only;
- continue to provide short-term support when shocks occur, but adopt a clear graduation strategy and mobilise other donors' resources for medium to long-term recovery;
- relocate increased staff and decision-making to country offices.

Civil society should:

- Invest in grassroots-based and national-level policy monitoring and analysis, in order to ensure evidence-based (quantitative and qualitative) advocacy can be carried out and to enable the marginalized to fulfil their right to participate in the decisions that affect their lives.

References

Action Aid International UK, (April 2004), 'Money Talks: How aid conditions continue to drive utility privatisation in poor countries', London.

Action Aid International USA / ActionAid Uganda, (April 2004), 'Rethinking Participation: Questions for Civil Society about the limits of participation in PRSPs', Washington DC.

Addison, T. and Alan Roe (eds.), (2004) 'Fiscal Policy for Development: Poverty, Reconstruction and Growth', Palgrave, London.

Afrodad (2003), 'Africa's experience with the PRSP: content and process', Harare.

Afrodad (2004), 'Understanding the Poverty Reduction and Growth Facility (PRGF) and its Implications for Development', Harare.

Afrodad / Christian Aid (2004): 'Owning the loan - poor countries and the Millennium Development Goals', London.

Alexander, Nancy (June 2004), 'Separating the Sheep from the Goats' (draft for comment), Citizen Network on Essential Services, Silver Spring, MD, US.

Booth, D (ed.) 'Are PRSPs making a Difference? The African Experience', ODI, in Development policy Review, Vol. 21, Number 2, March 2003, London.

Bretton Woods Project / World Vision (2002), 'Blinding with Science or Encouraging Debate? How World Bank Analysis Determines PRSP Policies', London.

CAFOD / Christian Aid / Oxfam / Trócaire (April 2004), 'To Lend or to Grant', London.

CIDSE / CI (April 2004), 'PRSP: Are the World Bank and IMF delivering on Promises?', Brussels.

Debt Relief International: Newsletter of the HIPC Capacity Building Programme, Issue 18, 1st Quarter 2004, London.

EURODAD (2003): 'PRGF Matrix – User Guide and Analysis', Brussels

IEO (2004), 'Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)', Washington.

IMF (July 2004), 'Staff response to the Independent Evaluation Office Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)', Washington DC.

IMF (September 2003), 'Role of the Fund in Low-Income Member Countries over the Medium Term—Issues Paper for Discussion', Washington DC.

IMF (2003a), 'Aligning the Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Paper (PRSP) Approach: Issues and Options', April 25, 2003, Washington DC.

Jha (2004), 'The Macroeconomics of Fiscal Policy in developing Countries', in Addison and Roe: 'Fiscal Policy for Development: Poverty, Reconstruction and Growth', Palgrave, London, 2004.

Malaluan, J.J.C. and S. Guttal, (January 2002), 'Structural Adjustment in the Name of the Poor: The PRSP experience in the Lao PDR, Cambodia and Vietnam', Focus on the Global South, Thailand.

Nordic Governments (March 2003), 'Review of Nordic Monitoring of the World Bank and IMF Support to the PRSP Process'.

OED (2004), 'The Poverty Reduction Strategy Paper Initiative – an Independent Evaluation of the World Bank's Support through 2003', Washington DC.

OED (b), 'Review of the Performance-based Allocation System, IDA 10 - 12', February 14, 2001, Washington DC.

OED / IEO (2004), 'The United Republic of Tanzania – An Evaluation of the Poverty Reduction Strategy Paper (PRSP) Process and the Poverty Reduction and Growth Facility (PRGF)', Washington DC.

Oxfam (2004): 'From Donorship to Ownership – Moving Towards PRSP Round Two', Oxford.

Piron, H. and Evans, A., (2004), 'Politics and the PRSP Approach: Synthesis Paper', Working Paper 237, ODI, London.

Stewart, F. and Michael Wang (2003), 'Do PRSPs Empower Poor People and Disempower the World Bank, Or is it the Other Way Round?', QEH Working Paper Series, Queen Elizabeth House, University of Oxford.

Trócaire (September 2004), 'The Other Side of the Coin – An alternative perspective on the role of the International Monetary Fund in low-income countries', Dublin.

Trócaire (August 2004), 'Nicaragua Update', Managua.

Trócaire (April 2004), 'PRSP Lessons Learnt: Recommendations to the World Bank, IMF and donors for the 2nd Generation of PRSPs', Dublin.

UNDP (2003), 'Human Development Report', New York.

Vandermoortele, J. & Rathin Roy (August 2004), 'Making sense of MDG costing', Finnish Ministry of Foreign Affairs.

Wood, Angela, (2004), 'One Step Forward, two steps back: Ownership, PRSPs and IFI Conditionality', World Vision, Milton Keynes, UK.

World Bank (2004), 'Global Economic Perspectives', Washington DC.

World Bank and IMF (2004), 'Poverty Reduction Strategy Papers – Progress in Implementation', Washington DC, August 2004.

World Vision (2003): 'Promoting Growth for Poverty Reduction: The Role of IMF Lending Advice', London.

Members of CIDSE-Caritas Internationalis (CI) Task Group on Debt and Structural Adjustment

Broederlijk Delen

Contact person: Ms. Ann De Jonghe
165, Huidevettersstraat
1000 BRUSSELS
BELGIUM
Tel: (32) 2 213 04 31
Fax: (32) 2 502 81 01
Email: ann.dejonghe@broederlijkdelen.be
Website: <http://www.broederlijkdelen.be>

CAFOD – Caritas England and Wales (CIDSE/CI)

Contact person: Mr. Henry Northover
2 Romero Close
Stockwell Road
LONDON SW9 9TY –
UK
Tel: (44) 20 73 26 56 70
Fax : (44) 20 72 74 96 30
Email: hnorthov@cafod.org.uk
Website: <http://www.cafod.org.uk/>

Caritas Española (CI)

Contact person: Mr. Jaime Atienza
San Bernardo, 99 bis
Apartado de Correos n. 10095
28015 MADRID
SPAIN
Tel: (34) 91 444 1090
Fax : (34) 91 593 4882
Email: jatiienza.ssgg@caritas.es
Website: <http://www.caritas-espa.org>

CCFD (Comité Catholique contre la Faim et pour le Développement)

Contact person: Mr Jean Merckaert
4, rue Jean Lantier
75001 PARIS
FRANCE
Tel: (33) 1 44 82 80 00
Fax: (33) 1 44 82 81 43
Email: j.merckaert@ccfd.asso.fr
Website: <http://www.ccfcd.asso.fr/>

Center of Concern

Contact person: Mr Aldo Caliarì
1225 Otis Street N.E.
WASHINGTON DC 20017
UNITED STATES

Tel: (1) 202 6352757
Fax: (1) 202 8329494
Email: aldo@coc.org
Website : <http://www.coc.org>

CORDAID – Caritas Netherlands (CIDSE/CI)

Contact person: Johan van Rixtel
Postbus 16440
2500 BK DEN HAAG
THE NETHERLANDS
Tel: (31) 70 3136 300
Fax: (31) 70 3136 301
Email: johan.van.rixtel@cordaid.nl
Website: <http://www.cordaid.nl>

Development & Peace – Caritas Canada (CIDSE/CI)

Contact person: Ms. Mary Durran
5633 Est, rue Sherbrooke
MONTREAL - QUEBEC H1N 1A3
CANADA
Tel: (1) 514 257 87 11
Fax: (1) 514 257 84 97
Email: mary.durran@devp.org
Website: <http://www.devp.org>

Fondazione Giustizia e Solidarietà – Caritas Italiana (CI)

Contact person: Mr. Riccardo Moro
Via Aurelia, 468
00165 ROMA
ITALY
Tel: (39) 06 66 39 84 33
Fax : (39) 06 66 39 84 34
Email: r.moro@chiesacattolica.it

Koordinierungsstelle

Contact person: Ms. Hildegard Wipfel
Türkenstrasse 3
1090 VIENNA
AUSTRIA
Tel: (43) 1 317 032 177
Fax : (43) 1 317 031 285
Email: h.wipfel@koo.at
Website: <http://koo.at>

Misereor

Contact person: Mr Georg Stoll
9, Mozartstrasse - Postfach 1450
52064 AACHEN
GERMANY
Tel: (49) 241 44 20
Fax (49) 241 44 21 88
Email: stollg@misereor.de
Website: <http://www.misereor.de>

Secours Catholique - Caritas France (CI)

Contact person: Mr Jean-Pol Evrard
106 rue du Bac
75341 PARIS Cedex 07
FRANCE
Tel.: (33) 1 45 49 73 30
Fax: (33) 1 45 49 94 50
E-mail: jean-pol-evrard@secours-catholique.asso.fr
Website: <http://www.secours-catholique.asso.fr>

Trócaire

Contact person: Ms Caoimhe de Barra
Maynooth - Co.Kildare
IRELAND
Tel: (353) 1 629 3333
Fax: (353) 1 629 0661
E-mail: cdebarra@trocaire.ie
Website: <http://www.trocaire.org>

CIDSE Secretariat

Contact person: Ms Jean Letitia Saldanha
Rue Stévin 16
1000 BRUSSELS
BELGIUM
Tel: (32) 2 233 37 53
Fax: (32) 2 230 70 82
Email: saldanha@cidse.org

Caritas Internationalis Secretariat

Contact person: Mr Jacques Bertrand
Palazzo San Calisto
00120 Città del Vaticano
Tel (39) 06 698 797 99
Fax (39) 06 698 872 37
Email: bertrand@caritas.va

CIDSE - Caritas Internationalis Task Group on Debt and Structural Adjustment

Broederlijk Delen, België
CAFOD, England and Wales
Caritas Española, España
Caritas France - Secours Catholique, France
Caritas Italiana, Italia
Center of Concern, USA
CCFD, France
Cordaid, Nederland
Développement et Paix/Development and Peace, Canada
Koordinierungsstelle, Österreich
Misereor, Deutschland
Trócaire, Ireland

This document is a background paper. The analysis and proposals presented in this paper do not necessarily reflect the views of all CIDSE and Caritas Internationalis members.

CIDSE

Rue Stévin 16, B-1000 Brussels, Belgium
Tel: +32 2 230 77 22 Fax: +32 2 230 70 82
E-mail: postmaster@cidse.org
Website: www.cidse.org

Caritas Internationalis

Palazzo San Calisto, 00120 Vatican City
Tel: +39 06 698 797 99 Fax: +39 06 698 87 237
E-mail: caritas.internationalis@caritas.va
Website: www.caritas.org