

PRSP: Lessons Learnt

Recommendations to the World Bank, IMF and donors for the 2nd Generation of PRSPs

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For futher information please contact:

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

COVER PHOTO: Megebe Gedame and her son Mechale (1) from Bahir Dar in northern Ethiopia.

Introduction

As the Poverty Reduction Strategy Paper (PRSP) approach enters its fifth year of implementation it is critical that a thoroughgoing analysis of this approach be undertaken by all stakeholders. To date, 34 countries have PRSPs in implementation and 15 Annual Progress Reports have been completed, with more falling due monthly¹. At least five countries are preparing second generation PRSPs: Bolivia, Burkina Faso, Nicaragua, Tanzania and Uganda.

Trócaire believes that collective analysis and action at both national and international levels is critical for progress in second generation PRSP design and implementation.

Trócaire's experience with PRSPs is synthesised in this document. It finds that when compared against the principles that are meant to underpin the PRSP, progress has been slow in most countries. There has been a marginal increase in the openness to civil society participation in public policy making and there have been only modest improvements in propoor policy formulation. The positive gains made are fragile and uneven across countries. Donors are not much more likely to harmonise aid with national priorities - or with one another - and the IFIs continue to impose the same conditions which characterised structural adjustment with scant regard for national ownership.

Lessons and recommendations

In this briefing we look at key issues, signalling lessons learnt and making recommendations for donors and IFIs. Above all we find that the locus of decision-making needs to change - from Washington to country-based, government led fora.

We recommend that an in-depth international review of PRSP process and content be carried out, involving representatives of all stakeholders, including civil society. The review should elaborate timetables for action by the IFIs for responding to key issues, such as failure to adopt flexible macroeconomic policies or to implement PSIAs. Reviews should also take place at **national** level in each country well in advance of the expiry of the 1st PRSP. The national reviews should aim to identify the lessons from the first round of PRSP and determine participatory processes for designing the second round PRSP.

Contents	
1. PRSP Process	2
1.1 Participation	2
1.2 Monitoring and evaluation	3
1.3 Donor harmonisation	3
1.4 Financing PRSPs	4
2. PRSP Content	5
2.1 Public Expenditure	
Management	5
2.2 Poverty Focus	6
2.3 Macro-economic policy	7

Principles underpinning the PRSP approach:

- Country-driven, involving broadbased participation of civil society;
- Results-oriented and focused on outcomes that benefit the poor;
- Based on a longterm perspective for poverty reduction;
- Comprehensive, to address the multidimensional nature of poverty and the policies needed to reduce it;
- Partnership-oriented, involving all stakeholders and with / among donors, particularly the IMF and World Bank.

¹ 'PRSP Connections', ODI, p. 6, Feb 2004.

1. PRSP Process

1.1 Participation

In general, participation has been interpreted by governments, IFIs and donors as information exchange and consultation only. Civil society's proposals and recommendations have had a minimal effect on most PRSPs, with some exceptions such as Zambia and Uganda. This contrasts 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. The inconsistency between principles and practice has led to tensions that threaten to undermine the process entirely.

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 poor, rural and excluded groups and (b) a higher quality of debate on the

Experiences with Participation²

Civil society organizations were often invited to participate in meetings with government, donors and IFIs at short notice and had insufficient time to consult with their constituencies and prepare responses to documents.

The IMF was particularly remote, rarely holding meetings with Civil Society Organisations (CSOs) and when it did, not disclosing its policy positions and plans yet asking CSOs for their input.

Participation was often unrepresentative, being limited to a small number of civil society organizations, and there was a lack of transparency over the criteria for selecting participants.

Representatives of poor rural communities, rural women, peasant associations and trade unions were virtually excluded, and there was little involvement of opposition politicians or the academic sector.

The quality of the process in several countries was affected by a lack of civil society capacity to undertake analysis and make policy responses, particularly in relation to macro-economic issues, and low levels of civil society coordination.

Inadequate efforts were made by most governments to communicate with the broader public in accessible formats (e.g. through community radio, local languages, using visual aids etc.). more difficult political and technical issues, including macroeconomic policy.

Civil society organisations will need to invest more in development of analytic capacity on macro-economic issues not just at national level, but at a grassroots level. Civil society also needs to invest in awareness raising and advocacy capacity with respect to poverty analysis, identifying policy weaknesses at sectoral level, identifying impacts of policies on different groups of people, prioritising civil society demands and monitoring government programmes.

National governments need to initiate permanent, formal frameworks for participation and commit to transparency.

The **World Bank** and **IMF** must increase their own transparency and also cede decision-making power to country-based staff.

A development forum with broad stakeholder participation, including government, parliament, civil society, donors and the International Financial Institutions (IFIs) as equal partners, should be adopted as a structure within which to take key decisions on the PRSP framework. This should include design, implementation, monitoring and reporting of the PRSP.

- The Bank, IMF and donors should work to bring about multi-stakeholder fora as a structure within which to take key decisions on the PRSP framework.
- 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 and advocacy.
- Donors should promote the establishment of government frameworks for participation through dialogue and technical assistance.
- The Bank and the IMF must develop clear guidelines for their staff on participation and transparency, to include timely release of draft Poverty Reduction and Growth Facility (PRGF) and Poverty Reduction Support Credit (PRSC) agreements as well as all core documents associated with stabilisation or structural analysis and lending.
- The Bank and IMF should delegate greater decision-making power to their country delegations; this may require relocation of staff.
- Joint Staff Assessments (JSAs) should include an annex prepared by civil society, giving their analysis of the participatory process.

² Summarised from: "PRSP – are the World Bank and IMF delivering on promises?", April 2004, CIDSE/Caritas Internationalis.

1.2 Monitoring and evaluation

Ideally, the PRSP process would be a cyclical process where constant learning through monitoring and evaluation would feed into annual reviews of policy, implementation and impact. This would enable a deeper policy dialogue about programme priorities, institutional arrangements and donor support.

In practice however monitoring and evaluation has generally been very weak and Annual Progress Reports (APRs) have been uneven in quality and scope.

Capacity to develop and implement quality monitoring and evaluation systems is scarce. More attention needs to be paid to monitoring as a strategic task, rather than a technical one. The indicators used must deliver information to guide policy dialogue and planning. Civil society monitoring initiatives should be part of the national monitoring system, while retaining their independence.

The system must prioritise domestic participation, reporting and accountability and as a second priority only, provide a reporting system for donors. The APRs are generally seen as another onerous donor requirement. An alternative approach would be to establish stakeholder fora as described in section 1.1, where monitoring standards and procedures would be agreed and reported upon and decisions made on changes in policy direction. Donor involvement would allow for negotiation on policy direction rather than imposition of process conditionality as is currently the case with the APR.

Recommendations

Donors & the IFIs should:

- promote a national annual review process involving equal representation by stakeholders including government, donors, civil society and parliament;
- provide support to government in framing a strategic monitoring and evaluation system for second round PRSPs and encourage government to subject this system to review and agreement by other stakeholders;
- provide support to address key gaps in capacity for data collection and analysis, including amongst civil society;
- accept material produced for national-level monitoring purposes for donors' own accountability purposes;
- ensure that Joint Staff Assessments (JSAs) of APRs include civil society monitoring reports as an annex.

1.3 Donor harmonisation

In spite of the accelerated discussions about donor harmonisation since the genesis of the PRSP approach, there has been little progress in practice in this area. A key concern is the multiplication of review processes and donor frameworks for cooperation. Indeed, these review processes appear to have increased with the introduction of PRSPs, in spite of the centrality to the PRSP approach of the reduction of uncoordinated demands on governments³.

Another central concern is the extent to which donors and the IFIs harmonise their programme content with the government's PRSP. For both the Bank and the Fund, alignment of their policies to the PRSP remains weak. The PRGF conditionality matrix and HIPC conditionalities have frequently predetermined PRSP policies or undermined PRSP goals. The IMF has displayed little progress in flexibility in fiscal targets and streamlining of conditionality has served largely to transfer structural conditionalities from the Fund to the Bank.

The World Bank has been accused of crowding out other donors by maintaining an exclusive or dominant relationship with government. Donors have been seen to submit passively to the Bank's PRSC as a framework for programmes, rather than maintaining independent dialogue with all stakeholders on alternative policy options. Such 'donor surrender' is also a problem where donors submit to harmonising with poor quality PRSPs.

- Donors should support the institutionalisation of a multi-stakeholder forum (see section 1.1) which draws together all agents in a collaborative effort to draw up the second round PRSP.
- Donors should align their programme content with nationally-owned, povertyfocused PRSP programmes which arise from such multi-stakeholder negotiations and harmonise with one another on programme content.
- Donors must change their aid modalities towards budget support and guarantee predictable multi-annual aid flows as much as possible.
- Where PRSCs / PRGFs fall due before a second round PRSP is finalised, the Bank and Fund should agree an interim arrangement which must not determine policy conditions for the second generation PRSP.



³ Booth, David (Ed.), (2003) Are PRSPs making a difference? The African Experience, Development Policy Review, Vol. 21, No. 2, March 203, p. 152.

1.4. Financing PRSPs

Quantity of donor assistance

In many countries, PRSPs have been only partially implemented. This has been a combination of a lack of clarity in the PRSP itself on how to put aims into operation, lack of capacity to implement plans and a lack of resources. For many countries, the PRSP was drawn up on the basis of estimated resource inflows linked to expectations of aid and / or debt relief. Several countries subsequently went off-track with the IMF as a result of failure to fulfil PRGF conditions. This resulted in suspension of debt relief and budget support by most bilateral donors (see opposite).

A key lesson is that the role of the IMF as a signaller must be changed. The PRGF, as well as other donor conditionality, should be negotiated within the national level PRSP framework, on the basis of stakeholder consensus on reforms. This would eliminate the inclusion of unrealistic or politically untenable conditionalities. In the immediate term, donors should commit to maintaining stable funding levels where a country goes off-track on IMF conditionalities.

A further issue relates to unpredictability of future donor financing, which undermines governments' ability and willingness to make serious plans for performance improvement. Consultative Group (CG) meetings should coincide with PRSP reviews and donors should commit to multi-annual funding. Financing should be based on costed poverty reduction measures required to meet the MDGs. Donors can assist in developing such costing through supporting the UNDP, national government and independent analysts.

Quality of donor assistance

The quality of donor financing has not changed to the degree that is necessary to fulfil the potential in the PRSP approach of building institutional capacity within government. Project-focused approaches continue along with high levels of tied aid, both of which work against state effectiveness and accountability.

Risks must be taken in providing budget and programme support if long-term sustainaibility and institutional development objectives are to be met. Donors can adopt a programme approach even in countries in unstable or difficult circumstances by working with reformminded agents or ministries within government, or by working with civil society to increase effective demand for stable, transparent government and poverty focused policies.

IMF signalling capsizes PRSPs

From 2001 to October 2003, Malawi was off track on its PRGF programme. During this period it received no budget support from donors or the International Finance Institutions (IFIs). This cost the government US \$80 million out of an annual budget of US \$500 million. The PRSP had been drawn up on the assumption that 40% of the resource envelope to implement it would come from donors. The government was able to implement only about 10% of the PRSP programme. In order to make a serious impact on poverty about 80 -90% of the PRSP would have to be implemented.4

Honduras was off-track with the IMF for two years to February 2004, as a result of a dispute over teachers' salary increases. This cost Honduras \$188 million dollars in delayed debt relief and donor aid cuts. This money could have filled the financing gap in the programme to educate all children in Honduras three times over.⁵

- Review processes, such as the Consultative Group and Annual Progress Report, should be merged and aligned to the national budget cycle.
- Donors should commit to maintaining stable funding levels where a country goes off-track on IMF conditionalities, finding innovative ways of building institutional capacity and reducing poverty in countries with poor governance.
- 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.
- The implementation of a PRSP & PRGF as conditions for receiving debt relief should be abandoned.

⁴ Source: Malawi Economic Justice Network, Trócaire PRSP Seminar, Feb. 6th 2004.

⁵ Source: Oxfam, Fiscally Deficient- How the IMF is failing in its new role of optimising the resources needed to achieve the MDGs in poor countries, 2003.

2. PRSP Content

Quality of PRSPs

The quality of the PRSPs has been widely variable between countries. Not only that, but on occasion, those PRSPs which looked poor on paper (ex. Tanzania) have outperformed those which elaborated a more impressive PRSP (ex. Guinea) but which lacked institutionalisation and

Quality of PRSPs

Many 1st generation PRSPs failed to:

- adequately analyse the structural causes of poverty;
- articulate a consistent set of short, medium and long-term objectives and targets and relate these to the MDGs;
- achieve an appropriate balance between realism in terms of resource availability and ambition in terms of poverty reduction;
- adequately assess trade-offs in policy choices;
- integrate key issues or cross-cutting issues (e.g. trade, gender, HIV / AIDS, environment) into the PRSP in a coherent manner;
- cost PRSP programmes and embed the PRSP in the budget and MTEF;
- integrate the PRSP across all government structures and departments, particularly at sectoral and local level:
- embed the PRSP sufficiently in existing long-term development strategies.

Furthermore.

- The PRSP has often been seen as a mechanism to access funds (e.g. through HIPC) for poverty programmes only, rather than a holistic national development plan;
- Excessive IMF / World Bank interference in the PRSP process undermined national ownership of the PRSP (ex. Malawi, Rwanda);
- The IMF / World Bank failed to take adequate account of and work within existing national development strategies (ex. Cambodia);
- Poor donor alignment and harmonisation has undermined the potential of the PRSP (see section 1.4).

follow-up⁶. In general, most countries with PRSPs have improved their performance in priority poverty reduction areas.

The box summarises key points on the quality of 1st generation PRSPs. These points inform the recommendations in subsequent sections.

2.1 Public Expenditure Management (PEM)

In some countries, the PRSP approach has created a more favourable institutional context for linking poverty reduction to discussions about budget priorities and the medium-term allocation of national and donor resources. However, this is still a core area of difficulty for most countries.

A key lesson learnt is that transparent and effective public expenditure management is heavily contingent on political demand for it and on institutional capacity to deliver it. Both elements should be addressed in second generation PRSPs.

Far greater attention needs to be paid to establishing mechanisms for ensuring that both civil society and parliament can monitor and oversee budgetary processes. Progress in Public Expenditure Management (PEM) so far has often been for the satisfaction of donor requirements, rather than to facilitate democratic oversight by parliament and civil society.

There is a need also for both the Bank and Fund to be more transparent around the PEM work which they support and to commit to supporting the embedding of strong PEM frameworks on a long-term basis (e.g. Medium Term Expenditure Frameworks - MTEFs). This has frequently been undermined either by continuing a project-based approach in the case of the Bank or by volatility in external funding generated by a government's going 'off-track' on a PRGF programme.

- Donors, and notably the IMF, should ensure that their technical assistance on PEM builds institutional frameworks for budget management that include the disclosure of information to the public and parliament in an accessible and timely manner.
- Donors should support civil society capacity building in budget analysis, monitoring and advocacy.
- Donors should support parliamentary budget monitoring procedures, including capacity building for parliamentarians and support an independent budget research institute to provide timely analysis to parliament.

⁶ David Goldsbrough, IEO, pers. communication.

2.2 Poverty focus

Trócaire and partners have found that there have been modest improvements in national pro-poor policy formulation but that the gains made are fragile and uneven across countries.

In some cases the gains are purely theoretical given lack of concrete implementation of PRSP policies which prioritise poverty reduction. There is a frequent disconnect between the PRSP's stated priorities and the actual budget allocations to those priority areas (ex. Rwanda, Malawi, Zambia). This is partly, but not entirely, related to lack of donor finance (see section 1.4. Financing PRSPs).

Policy formulation is still heavily directed by conditionality under IMF and World Bank programmes and Trócaire partners have stated that these are often incompatible with the goals of poverty reduction (ex. Bolivia, Honduras, Zambia; see section 2.3). A key critique is that the focus on market-driven policies by the IFIs avoids an analysis of power relations which ultimately determine inequality and poverty⁷.

The poverty diagnostics for many PRSPs were drawn up in a non-participatory manner, with broad discussion and debate about the nature and causes of poverty absent from the process. This has often resulted in narrow definitions of poverty and weak analysis of its multiple dimensions and causes. This in turn has influenced the focus of the measures proposed to tackle poverty and has prevented broadbased ownership of both the diagnostic and the poverty reduction policies and programmes. Poverty diagnostics must be drawn up in a participatory manner with involvement of the poor, civil society and other actors in order to ensure a broad understanding of the causes of poverty, its various dimensions and manifestations, and the implementation of appropriate measures to tackle it.

Processes for understanding poverty such as Participatory Poverty Assessments not only help to increase understanding of the causes and dimensions of poverty, identify the poorest of the poor, and facilitate the identification of the poor's priorities. They are also a mechanism for empowerment and build capacity for future monitoring of public policies and their impact. This in turn should lead to consistent improvements in public policy design while also fostering transparency and accountability.

Interpreting poverty in Nicaragua

In Nicaragua, three methods of measuring poverty are commonly used: the Consumer Index, Income Levels, and Unsatisfied Basic Needs. However, for the analysis of poverty in the PRSP the government only used the Consumer Index, which tends to reveal lower levels of poverty than the other two methods. As a result, many municipalities, which would be considered extremely poor using other methods to measure poverty, were left out of the poverty map drawn up by the government to guide the implementation of the PRSP. This highlights the importance of using a combination of methods to measure poverty in order to obtain a more realistic vision of the levels of poverty in the country and to correctly identify the poor.

The Nicaraguan PRSP also pays insufficient attention to inequality and the structural causes of poverty, and places much emphasis on the economic collapse of the 1980s due to political turbulence, civil war and policies of that period as the most important reason for high levels of poverty in the country. Not surprisingly, the measures set out in the PRSP are set within a neo-liberal framework of promoting economic growth, structural reforms, liberalization and privatisation, with very little attention paid to the importance of tackling structural issues such as inequality in access to land, income and resources.

- Participatory poverty diagnostic processes which aim to empower the poor as well as identify poverty reduction priorities should be institutionalised in all countries preparing 2nd generation PRSPs.
- These processes should facilitate future monitoring of impact by the poor and civil society of poverty reduction programmes thus allowing for continued civil society engagement with and input into annual PRSP reviews and budgetary processes.
- Bilateral donors and the World Bank should facilitate these processes through funding, technical assistance, capacity building and facilitating information exchange where appropriate.

2.3 Macro-economic policy

Participation in macro-economic policy formulation

The macro-economic chapter of PRSPs has been almost uniformly drawn up behind closed doors between the governments and the IFIs with no discussion or involvement of civil society or other stakeholders. Indeed, even the involvement of government was generally limited to senior officials in the Ministry of Finance, a PRSP technical secretariat and the Central Banks. This has resulted in a lack of integration and ownership across government structures, particularly at local level. In some countries (ex. Honduras, Indonesia) representatives of decentralised public institutions and local governments either have not heard of the PRSP or do not know the content and implications of it for their institution or municipality.

PRGF predetermining PRSPs

Innumerable examples exist of PRSPs being subordinated to the IMF's PRGF with the PRGF determining the macro-economic content of the PRSP. The content of PRGFs has not become more flexible, more pro-poor or more open to policy alternatives through Poverty and Social Impact Assessments (PSIAs), as promised.

A joint Nordic government review of seven countries' experience with PRSPs found that: 'The IMF and World Bank's programmatic instruments do in theory link the macroeconomic and structural (e.g. liberalisation / privatisation) policies to poverty reduction, but the extent to which this linkage is spelled out for all parties remains unclear and seems to include a large element of theoretical thinking rather than empirical proof of the impact of policy choices on poverty'8

IMF and World Bank policies continue to target macro-stability, privatisation, trade liberalisation and reduction in aid dependency at the cost of poverty reduction. No-one would dispute the fact that macro-stability is critical to poverty reduction. However, many low income counties have achieved a sufficient degree of macro-economic stability to warrant exploration of alternative policy paths leading to balanced budgets. Countries which are not stable should be given an opportunity to contain risk, without incurring costly loans or curtailing essential expenditure on poverty reduction.

The Bank and Fund need to divest themselves of the institutionalised resistance to policy flexibility and engage in more substantial policy dialogue with national authorities and other PRSP stakeholders around policy path options and their trade-offs. A key tool for such dialogue should be PSIA.

Poverty and Social Impact Analysis (PSIA)

Both the Bank and Fund have made repeated commitments to carry out PSIAs on all key structural and policy reforms. Fund staff admit that this is not happening, while the Bank claims to be carrying PSIAs out in 40 countries, half of which are in Africa⁹

However, it is not clear:

- How and by whom the topics for the Bank's PSIAs are chosen.
- How these PSIAs differ from previous Economic and Sector studies.
- Who are counted as 'stakeholders' for PSIAs.
- Who carries the PSIAs out.
- Whether the Bank is merely carrying out analysis to determine the sequencing of reforms that have already been decided.
- Whether the Bank's PSIAs will be made public in a timely and transparent manner.

- Macro-economic working groups should be established (or strengthened) at country level to include government, donors, IFIs, academics and civil society in a partnership model.
- These groups should be charged with agreeing an optimal macro-economic framework, including through the commissioning of PSIAs on macro-economic and structural reform policy.
- This framework should become the basis for the PRGF and bank adjustment loans.
- All Board papers on Bank adjustment lending and IMF PRGFs should include a summary of the PSIAs carried out, how the topics for research were selected, who the implementing agencies were, the bearing PSIAs had on policy selection and a summary of government, civil society and bilateral donors' positions on the PSIA and final policy choices.
- JSAs of the Annual Progress Report should include in an annex commentary by all pillars of the multi-stakeholder macro-economic working group on the implementation of the macro-economic model and monitoring mechanisms. This is additional to commentary on participation (see section 1.1) and monitoring reports (see section 1.2).



^{8 &#}x27;Review of Nordic monitoring of the World Bank and IMF support to the PRSP Process', March 2003, p. viii.

⁹ IMF & World Bank (2003), 'Poverty Reduction Strategy Papers - Progress in Implementation', para 123.

Conclusions & Recommendations

If it is to be succesful, the PRSP approach going forward must centre around a national policy process which is government led and inclusive of multiple stakeholders. The PRSP needs to be embedded in the normal political process at a country level, particularly budgetary processes and parliamentary oversight mechanisms. It should set out an operational policy framework with clearly defined policies and objectives, both short and longer term. This framework should include all of the major policy areas and there should be substantial analysis and consideration of alternative policy paths and trade-offs, through the elaboration of PSIAs. The results of such trade-offs and policy decisions should be respected by the multilateral and bilateral donors and form the basis for their lending or aid programmes.

PRSP Review in preparation for the 2nd Generation

A review of the PRSP process and content at **international** level, drawing on the results of the OED and IEO PRSP / PRGF evaluations, should involve representatives of all stakeholders including civil society. The review should elaborate timetables for action by the IFIs for responding to key issues, such as failure to adopt flexible macroeconomic policies or to implement PSIAs.

Reviews should also take place at **national** level in each country well in advance of the expiry of the 1st PRSP. The national reviews should aim to identify the lessons from the first round of PRSP and determine participatory processes for designing the second round PRSP.

Summary of Recommendations

- The Bank, Fund and donors should support the institutionalisation of a multi-stakeholder forum at country level which draws together all agents in a collaborative effort to draw up the second round PRSP. This forum should begin by reviewing the lessons from the first PRSP and agreeing a participatory process for designing the second round PRSP.
- 2. Macro-economic working groups should be established within such a forum, or existing mechanisms strengthened. This working group should be responsible for developing a

- macro-economic framework and commissioning PSIAs on macro-economic and structural reform policy. This macro-economic framework should become the basis for the PRGF and Bank adjustment loans.
- Where PRSCs / PRGFs fall due before a second round PRSP is finalised, the Bank and Fund should agree an interim arrangement which must not determine policy conditions for the second generation PRSP.
- The implementation of a PRSP & PRGF as conditions for receiving debt relief should be abandoned.
- 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.
- Review processes, such as the Consultative Group and Annual Progress Report should be merged and aligned to the national budget cycle.
- Donors and the Bank should provide consistent, long-term support to civil society for participatory poverty analysis, monitoring and evaluation and capacity building for policy analysis and promote civil society inclusion in offical monitoring systems.
- 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.
- 9. Joint Staff Assessments of PRSPs and Annual Progress Reports should include annexes covering: civil society commentary on participation, civil society monitoring reports and details of PSIAs.



Trócaire Maynooth County Kildare Ireland

Tel: 00 353 1 629 3333 Email: info@trocaire.ie

www.trocaire.org

12 Cathedral Street, Dublin 1. Tel: (01) 874 3874 Email: info@cs.trocaire.org Cork: 9 Cook Street, Cork. Tel: (021) 421 1874 Email: info@ck.trocaire.org Belfast: 50 King Street, Belfast BT1 6AD. Tel: (028) 90 808030 Email: info@bl.trocaire.org