

REVIEWING PRSPs: THE VIEWS OF HIPC MINISTERS AND PRSP COORDINATORS

This paper was submitted by Dr. Maxwell Mkwezalamba, Permanent Secretary of Economic Affairs at the Ministry of Finance & Economic Planning in Malawi, to the IMF / World Bank Conference on Poverty Reduction Strategies in Washington in January 2002. This paper represents the views of Finance Ministers and coordinators of PRSPs from 32 HIPC countries, as expressed in 4 semi-annual Ministerial Forum meetings, and at 6 regional and national technical seminars and workshops held during 2000-2001.¹ The submission began by summarising responses to the key questions outlined in review documents, and then continues with more detailed discussion of achievements, challenges and proposed solutions.

1) Main Achievements in Developing and Implementing Poverty Reduction Strategies

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

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

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

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

2.1. *Ownership and Participation*

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

2.2. *Content of Strategies*

- Switching efforts away from data collection and diagnosis of causes of poverty, to assessing the impact of past policies and ex ante analysis of poverty reduction impact of all proposed policies.

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

- Providing governments and civil societies with technical tools and capacity-building programmes to analyse these issues for themselves, preferably through exchange of best practice among countries, instead of relying on the BWIs or donor-funded consultants
- Making dramatic changes to existing macro, sectoral and structural policy frameworks where these are justified by such analysis
- Increasing the focus in PRSPs on pro-poor growth, by increasing the scale of growth, verifying that it appears likely to halve poverty by 2015, and demonstrating how measures in programmes will produce targeted growth rates and redistribute the benefits of growth in favour of the poor
- Deepening analysis of savings, investment, domestic resource mobilisation, employment and labour markets, social inclusion and equity.
- Continuing to expand the definition of anti-poverty spending beyond “social sectors”
- Dramatically accelerating the streamlining of structural and sectoral policy actions in PRSPs
- Increasing the flexibility of macro frameworks to allow greater scope to absorb grant and concessional loan resources into poverty reduction spending, and to analyse alternative macroeconomic paths which allow different paths to stabilisation and growth
- Dropping from BWI and donor programmes conditions which have not emerged as priorities from national consultative processes, and avoiding introducing new conditions in mid-programme

2.3. Donor Assistance and Partnerships

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

2.4. Implementation

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

2.5. Constraints

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

DETAILED COMMENTS

Ownership and Participation

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

Content of Strategies

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

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

Donor Assistance and Partnerships

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

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

Implementation of Strategies

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

Constraints

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

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

14) The implementation of almost all IPRSPs/PRSPs has been severely constrained by external factors. Indeed such factors are already threatening to derail progress to the MDGs in many countries.

- In the short-term the most important have been:
 - shocks beyond the control of government – particularly commodity price shocks, the recent global economic slowdown (exacerbated by the tragic events of September 11), climatic shocks and knock-on effects from conflicts in neighbouring countries. Urgent measures are needed to combat these. They could include advance contingency and rapid compensatory financing, accelerating the implementation of the World Bank report on Commodity Risk management, and reinforcing insurance mechanisms such as those of the Commonwealth Disaster Management Agency. In addition, all HIPCs should have their debt sustainability reassessed each year in the light of such shocks, and debt relief provided under HIPC should revert to aiming to reduce debt burdens well below the HIPC thresholds, in order to provide a safety margin for genuine long-term sustainability.
 - aid shortfalls. These include insufficient pledges of funding to reach the MDGs, and delays in disbursement of pledged amounts. In this context, promises of additional aid flows to compensate other shocks (or aid shortfalls from other sources) are likely to be insufficient and delayed by 6-12 months after the shock, by which time the negative effects of the shock on prospects for poverty reduction will already have been felt.
- In spite of recent positive moves to free market access for least developed countries, some PRSP countries are still suffering from lack of market access, or dumping of poor quality goods or subsidised agricultural produce. This will become a more important external barrier over time as countries accelerate efforts to diversify exports (which are essential to avoid future commodity shocks) and reduce import dependence.
- Many also lack external private capital flows (FDI and portfolio investment, and trade credit) to promote private sector development and reduce their aid dependence. Others are receiving such flows in ways which contribute little to poverty reduction (ie with long-term tax holidays, financing sources and export earnings conducted offshore, and little transfer of technology or skills or forward or backward linkages in the local market).
- PRSPs have also often given insufficient emphasis to intra-regional trade and financing efforts in order to promote developing country exchanges of technology and skills, and to donors procuring wherever possible goods financed by aid from other PRSP countries.

15) External pressures have been very important in the timing of PRSP preparation.

- Though governments have generally tried to provide sufficient time for the highest-quality design of PRSPs, and for participation by civil society and international partners, the timetables of PRGF reviews and HIPC decision and completion points have sometimes led design and participation to be slightly sacrificed for the sake of maximising financial support.
- IPRSPs have temporarily overcome this problem for HIPC decision points, but the wide range of different donor initiatives and missions, combined with pressure to reach HIPC completion points, have negatively affected time available for participation and top-quality design.
- This has two implications: donors need to streamline and coordinate their interventions much more radically, and to guarantee continued interim debt relief from all creditors (including Paris Club) when completion points are delayed for good reasons.
- However, it is also important for all sides to acknowledge that, due to some degree of lack of knowledge on how to reduce poverty, no PRSP will be perfect – no matter how much time is allowed for its preparation. We therefore need to build into PRSPs much greater flexibility to change course in mid-stream as our abilities to forecast poverty impact grow over time.

16) Governments have been anxious to account to donors for the use of their resources – especially those linked to HIPC debt relief and those provided as budget support. However, some donors have refused to provide sufficiently flexible financing and continue to micro-manage their funds, as well as undermining the overall budget management by establishing separate HIPC Trust Funds. Ideally as governments demonstrate their successes in accountability and transparency, more donors should move from project to budget support, from technical assistance to capacity building, and to integrating all accounting for debt relief into wider budget spending. Much larger strides are needed in this direction if we are to maximise ownership by our countries.