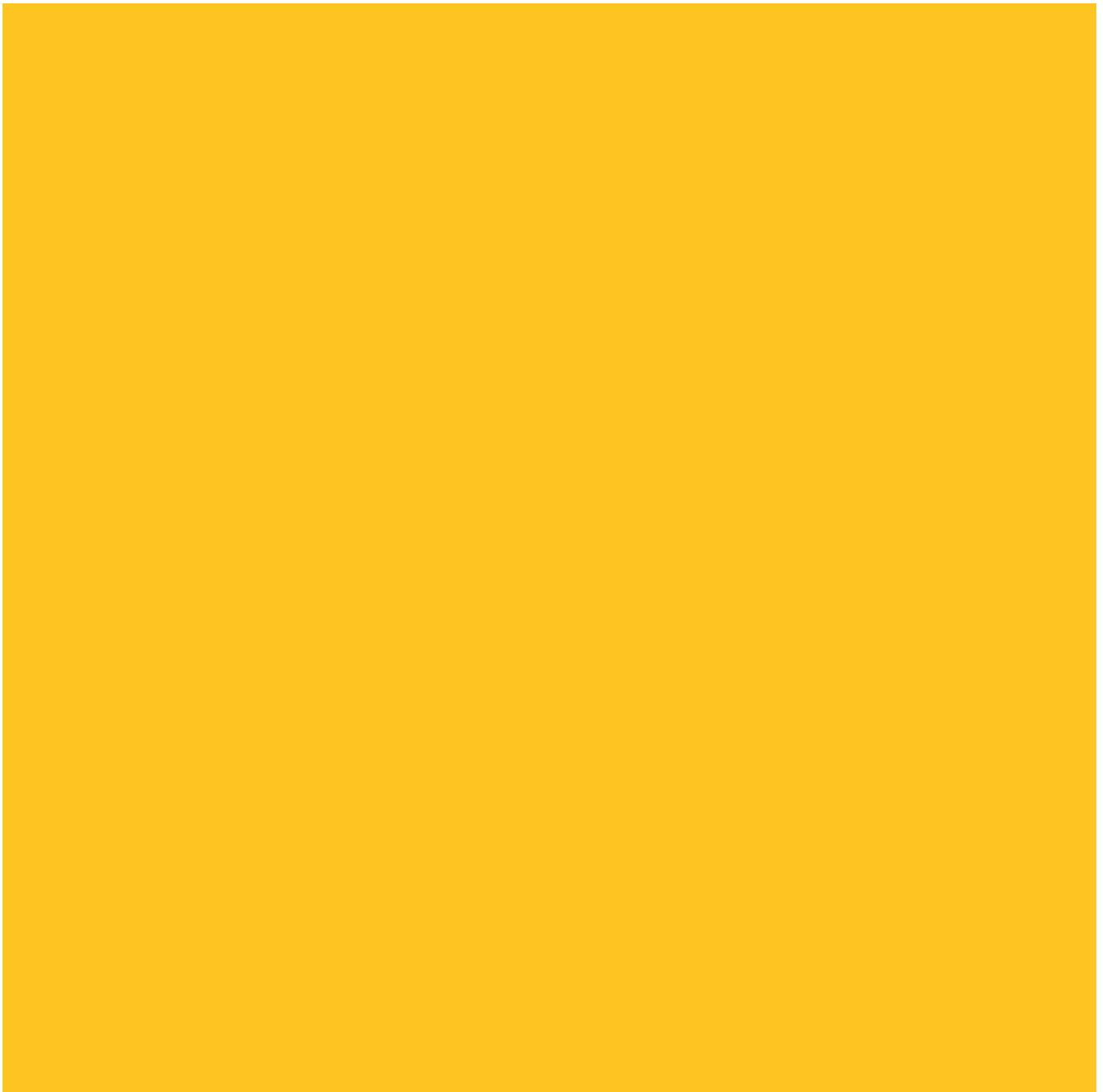


# What Have We Learned?





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Published by Sida 2006

Department for Policy and Methodology

Text: Per-Ulf Nilsson

Printed by Edita Communication AB, 2006

Art. no.: SIDA29934en

This publication can be downloaded/ordered from [www.sida.se/publications](http://www.sida.se/publications)

# What have we learned?

## **Seminar on Poverty Reduction Strategies, Stockholm 17 May 2006<sup>1</sup>**

Today, Poverty Reduction Strategies (PRSs) are instruments for national development and poverty reduction in most low-income countries. They are also considered to be the most important national framework for development assistance and for achieving the UN Millennium Development Goals (MDGs). Their impact on, and relevance to, Sida's stated objective – to reduce poverty – has frequently been questioned by Civil Society Organisations (CSOs), as well as by academics.

During their short lifetime (maximum 6 years) PRSs have experienced a considerable spectrum of development with a lot of variations between different countries. Today experience has been gained and learned lessons about these processes. It has been a learning process for all parties involved.

The aim of the seminar was to draw some conclusions based on general experience, but also on the specific experiences of two countries: Honduras and Zambia.

For Sweden and Sida this was an important opportunity. The results of the seminar will provide inputs for both general and country-specific processes, such as the Cooperation Strategy for Central America, as well as ongoing activities for a strengthened poverty focus in Swedish development cooperation and the modification of the Sida policy for civil society. The seminar also feeds into the implementation of the Paris Declaration on increased aid effectiveness.

### **Some of the questions the seminar considered were:**

Concerning the PRS process: the contradictions between ownership and conditionality – can they be bridged? Which effects on the policy contents of the PRSs can be expected from a process where real ownership is fostered? What is the role of CSOs in fostering real ownership? How can donors best contribute to achieving ownership?

Concerning the results of PRSs: what results have the PRSs produced so far? Have they been effective in combating poverty? Are PRSs really to be regarded as the primary development programme? What should donors do to contribute to improved results?

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<sup>1</sup> The seminar was organized by Sida in cooperation with the Church of Sweden, Diakonia and Forum Syd.



# Introduction

## **Gains, but disappointments must be expected**

Poverty Reduction Strategies are currently at the centre of development programmes in no less than 60 poor countries. They have now been running for some years and great expectations have surrounded them. In his introductory remarks, Staffan Herrström, Director of Sida's Department for Policy and Methodology, stated that PRSs are expected to contribute strongly to achieving the UN Millennium Development Goals, to increasing broad-based national ownership and to aid effectiveness. Obviously these expectations had been too great. Staffan Herrström argued that disappointments were unavoidable, criticism to be expected. There is a lack of pro-poor growth aspects in the strategies; there are weaknesses concerning gender as well as environmental issues; there is a lack of political ownership and understanding of political realities; transparency and accountability are also problem areas.

Sida needs to look at what works and how various mechanisms can be improved. Donors are contributors from the outside but have a vision of a strong local voice in mind. Governments have to be responsive to their citizens. Free media, a vibrant civil society and also an ability to build consensus in politics is necessary.

The second generation of PRSs have led to changes. Some mistakes have been corrected, but they in turn will also lead to various disappointments. Success will depend on how well they are implemented. This, to a great extent, depends on government action. In some countries these processes are integrated into national policies, in others there is more influence from the outside.

Sida invests a lot of effort in PRS processes and also relates them to the Paris Declaration on aid effectiveness. But how far should Sweden go?

# The case of Honduras

*Honduras began its process towards a Poverty Reduction Strategy in the late 1990s. The background was the devastating hurricane Mitch in 1998 which resulted in a strong donor response, not least from Sweden, and the HIPC initiative in which a Poverty Reduction Strategy was part of the conditionality for debt cancellation.*

*“There has been strong civil society participation in the process, but political risks have increased,” said Rocío Tábor, former Deputy Minister and now working at UNDP.*

The Honduras PRS was developed in 2001 and adopted by the new government in 2002. Civil society participated, with some reservations, in the process. As such the PRS was important as Honduras did not have any national plan for development in place and it addressed fundamental social and human rights. It also entailed the cancellation of debts and increased development cooperation funding.

A PRS fund in the national budget was created in 2002 as well as a Consultative Council for the PRS (CCERP) with participation by Civil Society organizations.

Various pieces of legislation have, in the last few years, been adopted to increase accountability, transparency and sector planning. A budget reform in 2005 has created a result-oriented budget, including specific categories for PRS follow-up.

Through a participatory planning process, public sector institutions at regional and local levels, as well as in sectors, have developed strategic plans with strong participation by civil society. Sector plans have been developed for health, education, water, agro-forestry, infrastructure and security and developed into a multi-year development plan, which has become part of the budget process.

## **Many conditions attached to PRS funding**

All in all there have been approximately 140 conditions attached to PRS funding in Honduras. These have concerned legal, administrative or institutional reforms and performance goals. 70 per cent of these conditions have been achieved. One basic condition set up by most donors is that Honduras has to maintain an adequate macroeconomic framework, which is the condition IMF has imposed in order to continue the Poverty Reduction and Growth Facility (PRGF).

Rocío Tábor argued that there was a need to increase the coordination of cooperation in order to negotiate joint strategic conditionalities,

Mostly conditions were set in response to the country's interests, but sometimes also in response to the specific agenda of a donor.

Not all conditions have been discussed with civil society even though, over the six years, many consultations have taken place in order to jointly discuss, plan and prioritize activities within the PRS framework.

For the government of Honduras, various conditions have been useful as leverage when negotiating important reforms with the legislative power.

### **Political risks surround the process**

In spite of having developed a dialogue strategy with all the political parties directed towards seeking PRS sustainability, the process is vulnerable to political change. This is due to the lack of consensus between the political parties concerning the PRS. A new government took over in 2006 and is revising the PRS. A new structure has been set up by the legislative branch, which is parallel to the PRS Consultative Council, resulting in the resignation of civil society from the Council. Negotiations between the Congress and civil society are underway.

Another serious problem is that a new formula for resource distribution has been approved which makes it less likely that cities and towns with the highest levels of poverty will be prioritized.

All this is a serious backward step for the process and the role of civil society. The primary risk is that poverty reduction resources will be politicized.

In summary the theoretical, methodological, legal and institutional PRS processes have been underway for six years, but improvements to people's quality of life are still limited and inadequate. Local actors have become increasingly dissatisfied, not least by the slow process of decentralization of investments.

- The main contribution of the PRS has been that it has become a key tool for achieving basic agreements in the country and that it enables an institutional framework which facilitates civil society's access to planning and budgetary information.
- The debt cancellation process has been long and arduous, raising hopes and expectations.
- The harmonization and coordination of donors needs to be improved. Donors need to improve the synchronisation of their cooperation policies with their commercial policies.
- Conditionalities must concentrate on viable key structural changes and be discussed with civil society.
- Political parties need to show greater commitment to the PRS process.

### **Poverty has not been reduced**

Poverty has not been reduced during these years. It is indeed growing in absolute numbers. The goal was to reduce poverty to 58.4 per cent by 2005, but it remained at 65.3 per cent. Extreme poverty today stands at 47.1 per cent against the goal of 39.7 per cent.

On the political level, dissatisfaction with the political parties and with how democracy is run is growing. In the last election approximately half of the electorate abstained from voting. However, social movements are slowly gaining strength. Dialogue between government and civil society, as well as with the private sector, has improved. Still, civil society always participates on unequal terms and has various capacity weaknesses.

According to Rocío Tábora there is a need to reduce the influence of economic and political elites in Honduras as they are blocking reform efforts. There is also a need to define a strategy for the promotion of an active citizenry with the establishment of a multi-party political project that favours the poor.

### **Weak implementation and political commitment**

*In Honduran civil society there are serious doubts about the implementation of poverty reduction projects and about political commitment to the PRS process, according to Mauricio Diaz Burdett from FOSDEH – the Social Forum on Foreign Debt and Development in Honduras, a network of civil society organizations and individuals involved in strengthening civil society participation in the PRS process<sup>2</sup>.*

One basic objection to the PRS stated early on by CSOs was that it was limited to “limiting poverty” while not taking into account the country’s macroeconomic framework, which is not pro-poor, and not linking it to other related issues such as free trade agreements, sector adjustment policies, corruption, financial markets that are exclusive towards economic reactivation in favour of the poor, wealth distribution and taxation policies.

In 2003 FOSDEH initiated a process of formulating regional PRSs, involving a wide spectrum of CSOs (more than 3 500) and local authorities (2/3 of all). Five regions have created such regional PRSs. The idea is that the PRS should be decentralized in order to ensure a real impact on poverty reduction.

Through this process poverty assessments have been carried out in each region, 152 regional commissions have been created to follow up the PRS as well as a coordination network for these regions. Proposals have been presented to the national consultative council (CCERP) and there has been active participation in the process of prioritizing projects to be implemented.

### **Lack of funds for implementation**

Through the regional processes 4000 projects were finally proposed for funding. Projects were initially to be funded through the gains made from debt cancellation. However, in the event the amounts were far too small and a large part was tied up in recurrent project payments.

In 2006 MUSD 796 (9 per cent of GDP) was included in the PRS funding. However, most of this will go towards fulfilling the goals of free public schooling, reforestation and the hiring of 2000 new police officers. Only MUSD 46 has been allocated for projects approved by the CCERP. In the end, the new government only allocated MUSD 5 in the budget for the 4 000 proposed projects. This led to protests and the resignation of civil society representatives from the CCERP in May 2006.

At the same time the government has presented unrealistic goals to international cooperation agencies, such as the eradication of hunger and the creation of pro-poor employment by 2010 and 100 per cent educational coverage of good quality. This is not realistic in view of other administrative decisions and the high level of corruption in government.

The challenges ahead, according to Mauricio Diaz Burdett, are:

- The strengthening of the citizenry through a bottom-up approach.

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<sup>2</sup> [www.fosdeh.net](http://www.fosdeh.net)

- The decentralization of the Consultative Council (CCERP) and of the PRS fund.
- To create a real, not a virtual fund, for project implementation.
- For government to disclose factual information on debt cancellation funds.
- To link the PRS to other sensitive issues, such as the consequences of the Central America Free Trade Agreement and the relationship between the IMF agreement and the PRS.
- The establishment of a transparent management of the funds allocated to the PRS.

# The case of Zambia

## **National development plans lead the way**

The poverty reduction strategy process has been beneficial towards Zambia's formulation of national development plans with poverty reduction in focus, according to Shirley J. Zulu, Assistant Director at the Ministry of Finance and National Planning.

For Zambia, the period 1990–2000 was characterized by structural changes aimed at improving the stagnating economy. Initially these changes involved the removal of central planning and the adoption of a free market economy.

However, these changes were not matched by strong private sector growth, which could respond to market forces in time. This resulted in a further decline in productivity and the social welfare of the people.

This, and Zambia's severe debt situation, led to the development of the Poverty Reduction Strategy 2002–2004 as a condition for debt cancellation. Its focus was on:

- Economic growth.
- Social investment, particularly in health and education for the poor.
- Infrastructure for economic growth, particularly roads.
- Cross-cutting issues such as environment, gender and governance.

In order to include other areas the government, in parallel, formulated a Transitional National Development Plan (TNDP), of which the PRS became one part. A system for financing these plans was introduced in collaboration with the stakeholders – donors and civil society.

Major achievements of these plans have included the stabilization of the macroeconomic environment (with single-digit inflation, an appreciating currency and lower interest rates), and a reduction of poverty (from 73 per cent in the 1990s to 63 per cent).

In the next step Zambia decided not to prepare a second PRS but instead to develop a comprehensive national development plan for the period 2006–2010. This has been carried out using a consultative process involving media, donors, civil society, the private sector and the general public and with a bottom-up approach involving district and provincial development committees.

### **Joint Assistance Strategy**

Given the challenges of financing these development plans government, in cooperation with development partners, is in the process of moving from project support to budget support. This is seen as enhancing the ownership of the development process and as improving the implementation of programmes. Likeminded donors, among them Sweden, came together to set terms in a Joint Assistance Strategy for Zambia (JASZ). JASZ will be the donor response to the national development plan.

Zambia would like this to result in increased budget – as opposed to project – support. There is also a need to realign donors to various sectors in order to avoid overcrowding in certain sectors.

### **Key lessons and challenges**

Some lessons learned in this process are:

- The importance of the participation of stakeholders in formulation and implementation.

- The importance of prioritization of programmes to fit with budget constraints.

- Clear identification of performance indicators and target setting.

- Fiscal transparency.

Some of the challenges are:

- Late and/or inadequate disbursement of funds.

- Poor implementation capacity.

- Adverse political interference in programme implementation.

- Poor data management.

- Dependence on foreign financing and unpredictable donor disbursements.

# A strong civil society can strengthen government action

*Conditions attached to the funding of the poverty reduction strategy hamper national ownership and limit government policy freedom, according to Vitalis Meja, from AFRODAD, commenting on the PRS experience in Zambia. AFRODAD is the African Forum and Network on Debt and Development, a regional African civil society organisation<sup>3</sup>.*

It is hard to argue that the PRS is entirely owned by the government given the fact that it has to be approved by the boards of the IMF and the World Bank before donors will support it. So, even though the policies underlying the PRS have been more open in Zambia, the decision is made elsewhere.

It is also a fact that macroeconomic policy issues, including budget ceilings, remain in the hands of the IMF and central bank officials.

The government's ability to come up with home-grown strategies is further hampered by the low levels of capacity in government institutions.

Donor-financed capacity building initiatives are also largely supply driven. It is the donors who determine capacity priorities and also execute these initiatives. When technical assistance is used, foreign experts are the main source. This has adverse effects on local capacity and local ownership of the PRS. Donors should thus:

- Reduce their reliance on the World Bank and IMF stamp of approval.

- Provide programmatic types of capacity building using existing in-country systems to ensure sustainable impact.

- Provide capacity building beyond technical aspects, to include improvement of the capacity of government institutions.

- Double support in order to be able to finance the development plan.

Civil society organisations can play an important part in improving the PRS according to Vitalis Meja. They should use established mechanisms for a structured dialogue with the government. They should further promote their own capacity building, as weak civil society institutions will result in weak representative bodies. There is a need for a positive attitude towards dialogue for the establishment of an effective partner-

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<sup>3</sup> [www.afrodad.org](http://www.afrodad.org)

ship. For a stronger impact, CSOs should form a strong network for lobbying governments in both the North and the South for meaningful policy changes.

# General experience of PRSs

## **Domestic policies the central problem for successful PRSs**

*In his contribution to the seminar, David Booth from the Overseas Development Institute<sup>4</sup> argued that research shows that national politics is at the heart of the matter as concerns successful poverty reduction policies and implementation.*

In a soft state, which is the rule in most poor countries, the experience of decades of development cooperation is that project aid damages the institutional fabric; it weakens the incentive and ability to develop policy and long term planning and distorts resource allocation.

In response to this, during the 1980s and 90s, the World Bank and donors tried to “buy reform” through policy based lending and programme aid tied to conditionalities. The idea was that you could convince governments to do what you wanted. Complex and difficult reforms were demanded. It did not work.

The World Bank then came up with the concept of ownership. Here was the missing link – if policies are not owned they do not work. The general proposition here is that there are definite limits to what changes donors can influence if these are not desired for domestic reasons. So the conclusion is that – for better or for worse – domestic policies determine the effects of development efforts.

The PRSs are thus an effort to respond to these findings. An open, participative policy process, where civil society would play an important role, should create a different political dynamic, increased ownership, accountability and commitment. This would result in more effective development cooperation.

## **Limited impacts of PRSs**

The first generation PRSs seem to have been worthwhile, however with quite limited improvements to policy processes in some countries, according to David Booth. One positive result is that serious sector policy processes have come about in various African countries. What were closed processes have been opened up, with the participation of civil society. However the buy-in has mostly been technocratic – involving civil servants, experts and CSOs. Political dynamics were not altered.

Some second generation PRSs have had more effects. There has been more thinking towards economic growth issues; however serious reform slippage can be observed almost everywhere. This is because of the

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<sup>4</sup> [www.odi.org.uk](http://www.odi.org.uk)

institutional set-up and political dynamics. Donors tend to see the civil servants as sitting in the driving seat. They are not, they do what the politicians tell them to do.

So the emerging conclusion is that it is not possible to “engineer” political commitment. In a soft state more open, participatory policy making is good, but it is not a way of transforming political incentives, which is the crucial issue. The intention has been good but the theory of politics has been naïve.

### **What else is worth trying?**

More conditionalities is not the answer to the problem. They do not work in changing behaviour and they have a negative effect on the predictability of aid flows. One area to work with might be to align project aid with PRS objectives and government systems. Another road now travelled is “partnership budget support”, which is based more on monitoring of achievements than on conditionalities.

All these efforts can make positive differences, if and when country political conditions are moving in the right direction. Donors need to look not only at democratic governance as such but also at the political ideas, the ideological climate and the issue of the state. The supremely important issue in poor countries is to achieve states that can do what governments in Asia did.

# Beware of the macroeconomic straightjacket

*PRSs need to be regarded in a historical and macroeconomic perspective, argued Rick Rowden from the international development agency Action Aid.<sup>5</sup> In fact, the IMF and the neo-liberal policies it advances place a straightjacket on the policy space of poor countries, and PRSs are a response aimed at deflating protests against these policies.*

Neo-liberal policy suggests that low income countries should liberalize their economies and trade regimes now. History tells us something different. Trade protection and subsidies to encourage national development has been the norm in successful industrial and East Asian countries.

Examining the score card on development the last 25 years can be compared with the previous 20 years. Economic and human growth rates were higher in the first period, before structural adjustment.

The PRS process was a response by the international finance institutions (IFI) to protests against failed structural adjustment policies. Now there would be an open discussion and participation in policy formulation. However, what can be seen in various reports and studies is that there has not really been any meaningful influence on macro policies. The agenda is set and limited. Governments know what is required by the IFIs. There is no possibility to discuss alternative macro policies.

However the PRS process is not the only game in town. Action Aid is working on a new game. In some countries Action Aid brings together people from the health, education and HIV/Aids fields with economists. An understanding is developed of what is wrong and what the alternatives are. Advocacy material is produced and the work becomes more political. Then we reach out – to parliament, trade unions, media, civil society – and create actions and events before IMF comes to town to hammer out the economic policies of the country. As it is now there is not enough internal political pressure.

Action Aid is alarmed by the macroeconomic policies as we understand what they imply. Deficit reduction targets and inflation policies limit political options and constrain economic growth. Medium level inflation can support growth if investments are made, while IMF insists on a 5.5 per cent limit. Here economists talk about the sacrifice ratio – for every point of lower inflation, higher economic growth is actually sacrificed. IMF is running an anti-growth policy.

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<sup>5</sup> [www.actionaid.org](http://www.actionaid.org)

Today the policies of the successful Asian countries are prohibited. They applied trade protection, industrial subsidies, regulation of foreign investments, require foreign investors to pay taxes, exchange technology, buy locally etc.

“David Booth talked about the need for a political leadership that can do what the Asian countries did,” Rick Rowden concluded. “In addition to this leadership, countries must be freed from these international economic policy constraints.”

# Discussion

## **Conditionalities, participation and political processes**

*The examples of PRS experience in Honduras and Zambia, complemented by general experience and critical comments on the limited policy space where PRSs are allowed to operate, set the scene for a discussion. This concentrated on the issues of participation, conditionalities and political processes in partner countries.*

On the somewhat provocative question of whether it is now time to bypass the PRS processes in order to ensure true participation and open policy debate, Penny Davies from Diakonia responded yes, if that is what it takes to ensure that civil society can discuss crucial policy issues. When macro policy is not open for debate, bypass is the only option.

Göran Holmqvist, Director of Sida's Africa Department, did not fully agree. There is certainly a need to re-evaluate the participatory approaches as they do not lead to the intended results. But still there is space for participation. Bypassing would not be good policy as long as this space is there.

Civil society participation has not generated the results we expected, Rocío Tábora acknowledged, but the answer is not to desert it but to rethink the part, increase the training, strengthen the citizenship and combine this with research.

Things take time, she continued. It took us six years in Honduras to appropriate the goals at local and national level; goals that we would not otherwise have been able to include, on equality, education etc. When not much then happens, this could be an excuse for interest to go down. But these are now commitments within the strategies that are non-negotiable, independently of other processes.

David Booth warned against putting all hope in "participation" and advised about the important role of research. The perspectives of the poor can be researched, feeding important knowledge into development strategies.

Here politics comes into the picture, the discussants agreed. Development cannot be planned separately from political dynamics. Imagine a process of consultations with the people in Sweden, resulting in various policy commitments. A new government coming into power would not automatically take on such a programme. It would be naïve to think they would. We need to allow these real politics to exert influence, but how can donors engage in such processes? It is a dilemma.

Staffan Herrström, Director of Sida's Department for Policy and Methodology, also saw a problem in the relationship between the PRSs

and the democratic process. The PRS concept is mainly externally owned and is basically the same for all countries. It is regarded as a long term project that nothing can change. So while most PRSs are relevant, we also need to promote alternative policy debates at the same time. In Moldova, Sida has supported the work with these policy alternatives.

We should also keep in mind, Penny Davies argued, that there is a difference between economic policy conditions that we as civil society organisations are against, and responsible financing standards that we are for. These are standards and objectives concerning human rights, the environment, gender equality etc. that are internationally accepted and whose compliance should be the responsibility of both recipients and donors. We should not forget the importance of parliament, she continued. We civil society organisations have, together with parliamentarians, launched an international petition which calls for the right of parliamentarians to have the final say over economic policies in their own countries. This petition has already gathered over 1000 signatures from parliamentarians and has been submitted to the World Bank and IMF.<sup>6</sup>

Göran Holmqvist felt that from his experience in Latin America, PRSs are not correctly designed. They are technical and really too comprehensive to promote political processes in these countries. They are too much for governments to handle. There is a need for adjustments in order to enable strong political processes and broad social participation.<sup>7</sup>

### **IMF not all bad**

Rick Rowden's criticism of IMF was partially accepted but the discussion introduced more nuances into the picture.

One worry that was expressed was that Sweden is too closely tied to IMF and World Bank conditionalities. Conditions on privatisation, on budget ceilings, limits on social spending etc. have detrimental effects on policy space and might counteract other development objectives. The Norwegian government has stated it will not enforce these requirements as conditions for development cooperation. What about Sweden?

Why not use the power Sweden has in the IFI boards, suggested Rowden. Why not say that this limited policy space is a problem. Lobby the other members; do not go along with consensus decisions!

We do act, Ann Stödberg, Sida responded. She had experience from several countries where the bilaterals had stood up against IMF's "off track" decisions with success, Tanzania being one example.

Göran Holmqvist expressed the opinion that certainly some of the IMF demands are reasonable and that those who have problems with some of them are the elites of the countries. Pinpointing the IMF too much may make us lose sight of the internal political processes. This is where things need to be done.

Certainly the IMF policies also need to be discussed, Karl-Anders Larsson, Sida admitted. But IMF still is the expert and we need them. But perhaps we should regard them more as advisors rather than as those who decide on the conditions. Instead of set conditions, different options could be presented. We should discuss that in the future.

We have been slightly pessimistic here today, Göran Holmqvist concluded. But we should keep in mind that some space has been gained

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<sup>6</sup> See [www.ippinfo.org](http://www.ippinfo.org)

<sup>7</sup> See article by Holmqvist/Metell Cueva in *Development Policy Review* 24 (4), Overseas Development Institute. See also *Sida Studies* no. 17: *Illusions and Disillusions with Pro-Poor Growth – Poverty Reduction Strategies in Bolivia, Honduras and Nicaragua*; by Rob Vos and Maritza Cabezas.

through the PRS processes. It is important to keep those gains. Poverty is now on the agenda in Honduras. IMF is a more open institution today. Donor coordination has improved. Countries are slightly more in charge. So we need to rethink the concept to make it better, we should not throw the baby out with the bath water.

I believe, Torgny Holmgren from the Department for Development Policy at the Ministry of Foreign Affairs said, that we need to find much more room for different processes. Parliaments and governments need to open up. But from my point of view the PRSs have been a good, necessary step. The fact that budget processes have improved and foreign cooperation funding is incorporated into budgets is an important achievement.

We should certainly not dismiss it all, David Booth remarked. I think we should search to retain the spirit of PRS, but be more pragmatic and country specific. Perhaps the donors need more strands in their policy. Lately they have leaned heavily towards the PRSs. They need a distinct strand of action to contribute to political change. Also, instead of conditionalities, concentrate on some agreed policies that are jointly followed up. This could be a good way of pushing for reforms.



*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



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