

Regional Report Executive Summary



Preface

Poverty reduction strategies respond to legitimate concerns about the problem of persistent and high poverty levels in many developing countries. The international community has provided new incentives to poor countries to develop so-called Poverty Reduction Strategy Papers (PRSPs) which should lay down nationally defined strategies to reduce poverty. The strategy should be based on a participatory process of consultations between the government and civil society and should take a long-term perspective. This way sufficient national ownership should be created to yield the necessary commitment to effectively implement the policies geared at poverty reduction. The commitment of the donors is to support the strategy with financial resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has engaged the Institute of Social Studies (ISS) in The Hague, to monitor and evaluate the PRSP processes in the three Latin America countries eligible for debt relief: Bolivia, Honduras and Nicaragua. The study will be carried out over a period of 5 years, beginning in 2003.

Each year, five reports will be elaborated, including three country reports, one regional report and a thematic report. The country reports for 2003 provide an in-depth analysis of the PRSP process itself, assessing in particular the process of consultation and policy dialogue with civil society and to what extent these have laid the basis for a broad-based and effective poverty reduction strategy. The analysis of the country reports is supported by a detailed and systematic stakeholder analysis, including the stock-taking of the views of local actors through visits to several municipalities in the three countries. A comparative analysis of the experience in the three countries is presented in the regional report, highlighting lessons to be learned for governments, civil society and the donor community. The thematic report for 2003 focuses on the process of decentralization and participation as part of the PRSP process. It is important to remember that the PRSP process is a continuous process, subject to frequent changes. Information for this report was collected (and interviews were conducted) between April and July 2003, though the report has been updated to include developments through December 2003.

The five reports aim to make a contribution to existing evaluations of the PRSP process through the regional focus and an impartial assessment of the PRSP, resulting from the ISS's complete independency in the process of design, implementation and financing of the strategies.

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Contents

1. Introduction	5
2. Poverty and Economic and Social Reforms in Latin America	7
3. PRSPs in Bolivia, Honduras and Nicaragua	10
The economic and political context in the three countries	10
The consultation, dialogue and elaboration process	11
Poverty diagnosis	12
Contents of the PRSP: Strategies that are not really strategies	13
Viability of the PRSP	14
Fiscal management and result-oriented budgeting	14
Monitoring and evaluation systems	15
The role of donors and coordination of foreign aid	15
4. Some lessons from the PRSP experience in Bolivia, Honduras and Nicaragua	18
Weaknesses of the process	18
Recommendations for donor coordination	20

1. Introduction

The regional report contains a comparative analysis of Poverty Reduction Strategy Papers, PRSP, in Bolivia, Honduras and Nicaragua, set in the broader context of economic and social developments in the Latin American region at large.

For a better understanding of the PRSP, it is necessary to begin with a brief background of the process. The strategies should be country owned, long term in perspective, comprehensive, participatory, results-oriented and geared at the creation of partnerships. In its origin the PRSP idea is rooted in other initiatives, including: i) the Comprehensive Development Framework (CDF), proposed in early 1999 by the World Bank, emphasizes an integrated approach to reduce poverty, comprising a long-term strategy integrating all dimensions of the development process – social, human, economic, financial, governance and environmental – with poor countries "owning" and controlling the agenda and various stakeholders (governments, donors, private sector agents, civil society) providing support through strengthened partnerships, ii) the HIPC initiative for highly indebted poor countries, which now requires the approval of an Interim-PRSP (I-PRSP) as a pre-condition to access financial support or debt reduction schemes from donors; and iii) the Millennium Development Goals (MDGs), defined by the members of the United Nations in September 2000 and setting concrete targets for development policies in reducing income poverty and hunger and improving education, gender equity, health, environment and development cooperation.

A notable contribution of the PRSP is its effort to bring together stakeholders through a national dialogue to define strategies to reduce poverty. The present study transmits some of the ex-post opinions of stakeholders participating in the process.

The rationale of the PRSP differs from previous poverty reduction proposals, particularly in its effort to bring together stakeholders through a national dialogue to find solutions to poverty-related issues. It proposes to link macroeconomic actions and reforms by sector with interventions targeted at the poor. Despite the fact that it is to be a long-term strategy, there are a number of economic reforms and macroeconomic conditions that need to be put in place "upfront" and in a fairly short timeframe. The core objectives of the PRSP are less clear where it comes to specifying the meaning of country ownership and where it comes to the forms of conditionality attached to partnerships with international donors. An increasing number of evaluations of the PRSP process are now available, but most have been conducted by donor agencies. The present

study differs from existing ones as it provides a regional perspective and as it was conducted by an independent ISS team without any part in the design, implementation or financing of the PRSP strategies. An important methodological aspect of the present study is a detailed and systematic stakeholder analysis, including the stock taking of the perspectives of local actors through visits to several municipalities in the three countries.

This study does not aim to evaluate the impact of the policies conducted in the context of the PRSP to reduce poverty, as the strategies are at best still in an early phase of implementation. Rather, the evaluation focuses on the processes of consultation and design of the poverty reduction strategy in Bolivia, Honduras and Nicaragua. Therefore we concentrate on intermediate processes towards the desired results, rather than on assessing the results. The central questions are: has the PRSP complied with its main objectives in moving towards an effective poverty reduction strategy and what is the value added of the PRSP with respect to previous strategies and policies?

The report is organized as follows: Section 2 presents a brief summary of the economic situation in Latin America during the 1990s, analyzing the progress made in reducing in poverty and in attaining the MDGs. In section 3, a comparative analysis is presented of the design and preparation of the PRSP in Bolivia, Honduras and Nicaragua. The following aspects are emphasized: 1) the changing economic and political context, 2) the process of consultation and dialogue through a stakeholder analysis, 3) the diagnosis of poverty in the three PRSPs, 4) the strategies themselves, 5) the progress in creating result-oriented budgeting systems, 6) the institutional capacity to implement the PRSP, 7) the setup of monitoring and evaluation methods and 8) the role of donors in the PRSP process. Section 4 presents the main conclusions and some recommendations regarding how to proceed further with the process.

2. Poverty and Economic and Social Reforms in Latin America

The majority of the countries witnessed an economic downturn at the turn of the new millennium, with half of the countries showing a decline in income per capita and the majority slower economic growth in comparison to the early 1990s. Social indicators have stagnated. The absolute number of people in conditions of extreme poverty (indigence) has grown during the 1990s from 93 to 99 million between 1990 and 2002.

Social indicators, expressing the well being of the population in Latin America and the Caribbean, have improved in recent decades. Despite this progress, development in the region is characterized by persistent high inequality and social exclusion of a large number of people in achieving human development. At the same time, most economies in the region have failed to achieve stable and sustainable economic growth rates over the past decades. This has undoubtedly hindered the process of poverty reduction and social progress. To make matters worse, the majority of the countries witnessed an economic downturn at the turn of the new millennium, with half of the countries showing a decline in income per capita and the majority slower economic growth in comparison to the early 1990s.

According to recent studies, not much progress has been made in poverty reduction in Latin America in the last 25 years, when measuring poverty as having an income below the poverty line. Moderate poverty remained stable in around 40–45% of the population and extreme poverty in 20%. During the 1990s, moderate poverty only fell slightly (from 48% to 44%), but the absolute number of people under the poverty line grew from 200 to 221 million. According to ECLAC data, the absolute number of extreme poor (indigence) grew during the 1990s: from 93 to 99 million between 1990 and 2002.

If income inequality remains the same, the countries of the region will need to achieve an income per capita growth rate of at least 4 per cent, more than double that observed in the 1990s, in order to reach the MDG of halving the percentage of people that live on less than 1 dollar a day by 2015. A recent report published by the ECLAC, IPEA and UNDP estimates that if trends in economic growth and inequality remain the same, only 7 out of 18 countries in Latin America can reduce extreme poverty by 2015. This list includes countries like Argentina, Chile, Colombia, Honduras (!) and Uruguay, countries which – with the exception of Chile – have had a serious downturn in their economic performance since 1999. This implies that the projections should be revised in these cases. In Nicaragua it is expected, that without a change in the pattern of economic growth from 1990–99 (no acceleration of growth or improved income distribution), the country could probably reach the goal of halving poverty in the year 2025. In the Bolivian case,

the study suggests that the country is not likely to reach the goal, not even in a hundred years, unless there is a strong acceleration of growth and an effective income distribution. In order to be able to reach the goal in 2015, Bolivia needs, according to these projections, a reduction of inequality (Gini coefficient) by 4.7% and an acceleration of growth of income per capita to 4.4% per year. Both conditions are a far cry from reality in recent years.

How would the persistence of poverty and inequality affect the MDGs? During the 1990s, a stagnation of welfare as measured by social indicators can be observed in Latin America. Only some health and education indicators registered progress. The countries in the region have almost reached the MDGs of universal access to primary education and gender equality in school enrolment and as long as there is no change in the trend they can achieve these goals well ahead of 2015. This observation also holds for Bolivia, Honduras and Nicaragua, which are somewhat below the average in the region. Concerns in this area are related rather with insufficient school enrolment levels in secondary education due to the rise in demand for skilled labour as a consequence of the globalization process. Other worries relate to persistent illiteracy and low school enrolment in rural areas and to the low quality of education in many parts of the region.

Health improvements are reflected in a reduction of infant and maternal mortality rates. Health and immunization programs and enhanced coverage of drinking water supply have contributed to declining mortality rates. Nevertheless, concerns remain about the quality of the services in poor areas and reduced access to health care systems by the poor. In the case of Bolivia, for example, the average infant mortality rate has dropped to 80, but for the poorest quintile the rate is 146.5 deaths per 1,000 live births. The prevalence of malaria and AIDS is not very high in the three countries, but no improvement has been recorded during the 1990s, such that more efforts to control these diseases are needed to meet MDG targets.

In response to persistent economic volatility and the recent economic crisis, efforts have been increased to strengthen social safety nets, combining programs focused on reducing structural poverty (such as social investment funds) with assistance for the new poor and extreme poor, who have been affected by crisis or adjustments in the transition to free trade. Some provide protection to unemployed (such as the *Programa Trabajar* in Argentina), others involve cash transfers targeted at the poor and conditioned to beneficiaries sending children to school or attending health centres (e.g. *Bolsa Escolar* in Brazil, *Human Development Bonus* in Ecuador or *Progresar/Oportunidades* in Mexico).

During the 1990s, many countries initiated reforms of their education, health and social security systems, generally leading to more decentralized schemes with more private participation and cost-sharing (through user fees) by beneficiaries. Although there has been progress in these areas, reforms have confronted a widespread political resistance, weak capacity of implementation and the critique that they have been mainly efficiency oriented, disregarding the equity concerns in the

delivery of these services. Another constraint has been the volatility in public expenditures and the inability to protect social spending in government budgets.

The PRSP agenda has emerged as part of the HIPC debt-relief initiative, but also as a response to disappointment with the results of the social sector reforms, as much as with the generally dismal growth and poverty-reduction outcomes of the economic policy reform agenda often labelled as the 'Washington Consensus' and which was pushed forward in many developing countries since the mid-1980s. Much of the impetus for both the policy agenda of the Washington Consensus and social sector reforms has come from outside and with support of the multilateral financial institutions, but with too little effort to generate "national ownership" for such policies, generating weak bases for (sustained) political support to such reforms. At the same time, social policies and social safety net constructions came to be viewed mainly as 'compensation schemes' to deal with the social costs of adjustment policies and economic reforms, rather than as an integral part of the reform process. The PRSP process is expected to respond by paying attention to both a participatory dialogue forging 'national ownership' of the strategy and linking macroeconomic policies and pro-poor economic and social programmes.

3. PRSPs in Bolivia, Honduras and Nicaragua

The economic and political context in the three countries

There are both important similarities and differences in the political and economic contexts of the three countries and in their respective poverty profiles. The PRSPs of the three countries share the assumption that high economic growth rates can be achieved. This optimism in the macroeconomic projections shows a stark contrast with the deteriorating economic reality. Lack of progress with structural economic reforms and external factors, such as the deceleration of world economic growth are behind the economic slowdown, which obviously has affected the availability of resources for the execution of PRSP-related programmes and projects. This, together with the relative short timeframe allowed for the implementation of structural reforms and adjustments in macroeconomic policies as well as political factors, has caused governments to go "off track" in terms of the conditions spelled out in the PRSP's macroeconomic framework which in turn has led to postponement of financial support by donors and weakened the capacity to implement the PRSP.

Responses to changes in the political context have been different in the three countries. Since the start of the PRSP process there have been presidential elections and changes of government in all three countries. In addition, in Bolivia social unrest provoked the early ousting of a recently elected president in 2003. Support for the PRSP process has shifted in varying intensity in the three countries. A common characteristic has been that new governments have come with new poverty reduction plans, not necessarily entirely inconsistent with the PRSPs, but nonetheless show, in varying degree, deviations from the PRSP principles and objectives. In *Honduras*, the process of consultation and elaboration of the PRSP coincides with the final stage of Flores administration (1997–2001) and the process initiated with broad-based involvement of civil society organisations. Nevertheless, although Flores' successor, president Maduro, was eager to support the process, he has been less influential in giving continuity to the poverty reduction strategy in Honduras and civil society support has diminished over time.

In *Nicaragua*, the formulation of the PRSP began under the government of Arnaldo Alemán (1997–2001). The outburst of large-scale corruption and the accusation of the ex-President's involvement could have put in doubt the credibility and sustainability of the PRSP in

In the three Latin American countries, the design and implementation of the PRSP took place in an increasingly deteriorating economic situation, changes of government and a growing political instability, particularly in the case of Bolivia. Changing circumstances have not sufficiently been accounted for in the design of the PRSPs.

Nicaragua. However, the contrary happened as the battle against corruption led by the new government under Enrique Bolaños improved relations between the government, donors and civil society, facilitating continuity in the PRSP process. In this context of improved relationships with the donor community, Bolaños presented a new National Development Plan in September 2003 and which is to be discussed with civil society over the course of one year. The new Plan has a different and more worked out medium- and long-term growth strategy than the original PRSP, based on the theory of development clusters.

In *Bolivia*, the political context has been more complicated. Before and after the elections, political and social tensions grew in the country, associated mainly with the eradication of coca leave production, territorial rights, gas exploitation and the increasing uneasiness of the indigenous population. Protests became increasingly violent and a growing disapproval of government initiatives emerged.¹ Although the National Dialogue Law assures the continuity of the dialogue process in Bolivia, the Interim Government has the challenging task to strengthen consensus and consolidate support to continue the process. This task can be difficult as the actors who led the protests and were decisive in causing the resignation of ex-President Sánchez de Lozada, will undoubtedly "wish" to become influential in determining the outcomes of the dialogue and in the redesign of the poverty reduction strategy.

The consultation, dialogue and elaboration process

The PRSP process in the three countries involved broad-based participatory consultation, consistent with the principles of the PRSP by which such consultations should be a continuous and institutionalized component of the poverty reduction strategy. The PRSP has strengthened the national dialogue in the three cases. Both Bolivia and Nicaragua have developed a legal framework to implement the national dialogue. In Honduras, there is no legal framework for the consultation process, although the participation of civil society organizations in the monitoring of the process is guaranteed through the Consulting Council (sanctioned by law). In addition, the political context in Honduras has changed over the past ten years creating more openness towards dialogue between the government and civil society. Undoubtedly, the PRSP process has contributed positively in this sense. Nevertheless, the consultation process has not been enough to facilitate one of the central objectives of the PRSP, national ownership.

The experience of previous dialogues in Bolivia (Dialogue 1977) and the formation of civil society groups to assist in the reconstruction of Hurricane Mitch in Honduras and Nicaragua have helped put the consultation process of the PRSP into practice. Although, legal frameworks to support national dialogues are an important condition, they are not sufficient to assure the continuity of a dialogue process, especially if there is weak governance.

The three countries have prior experience with consultative processes. Nevertheless, there was not enough clarity about the final objectives of participation of stakeholders in the PRSP discussions, leading to a loss of influence and support of civil society during the process.

¹ On the eve president Sánchez de Lozadas resignation, a revised version of the EBRP was presented with much greater emphasis on the nature of the economic growth strategy, focusing on stimulus of small and medium-sized enterprises, and stressing policies deliberately left out in the previous EBRP (and which was criticized for that), such as the allocation of natural gas revenues, the Free Trade Area of the Americas (FTAA) and land reform.

In the three countries, civil society lacked clarity about the final objective of its participation in the process and about their influence in the elaboration of the PRSP itself. This has led to frustrations, as the link between the dialogue and the definition of the strategy itself became less obvious. In the elaboration of the PRSP there were no representatives of civil society that can be considered crucial in either one of the three countries. The creation of participatory control and monitoring systems is foreseen for the implementation of the PRSP, such as the Social Control Mechanism (MCS) in Bolivia. In practice, however, only in Nicaragua civil society has a direct involvement through the National Council for Economic and Social Planning (CONPES). However, even in this case, the role of CONPES weakened after having been important during the consultation process. Its limited influence during the elaboration of the strategy itself has been a factor explaining the diminished role of CONPES as well as the limited sense of ownership of civil society of the Nicaraguan PRSP. The role of donors, in contrast, has been more continuous and influential, not only due to the financial support given to the process, but also due to the monitoring and approval that is implicit in giving financial support and, as in the case of Nicaragua, due to the frequent meetings and discussions organized through the Good Governance Group for the PRSP. It is worth mentioning that in the case of Honduras, the present government has been less influential in keeping up the PRSP-related dialogue than the previous government, which backed the I-PRSP and build the consultation process. In sum, there has been a rupture in the level of influence of certain actors in the process and despite the fact that participation of civil society is a fundamental objective of the PRSP, this participation has not led to influence throughout the process.

Poverty diagnosis

Evaluation of the poverty diagnosis in the PRSP leads us to share the critique held by many observers that the analyses, in essence, are not much more than statistical poverty profiles and listings of possible causes without prioritization and lacking a clear identification of transmission mechanisms between causes and effects. These problems are even more severe when referring to cross-cutting themes related to poverty, such as gender, rural development and sustainability.

The PRSPs of the three countries coincide in applying a multidimensional definition of poverty. However, when analyzing poverty in terms of a lack of opportunities, emphasis is back on the more traditional, monetary definition of poverty as a lack of income. In the case of Bolivia, this income concept of poverty was complemented with a (composite) indicator of unsatisfied basic needs, which identifies somebody as poor when lacking one or more of essential human development conditions such as access to education, health services, water supply and adequate housing facilities. Identification of the poor stresses their geographical location more than their social and demographic characteristics. Also the PRSPs for Honduras and Nicaragua emphasize multidimensional approaches to poverty and the poverty profile identifies the poor both by geographic location and socio-economic characteristics. Due to the effects of the Hurricane Mitch, emphasis was also put in the

PRSP for these two countries on identifying population groups in terms of their vulnerability to natural disasters. The issue of *empowerment* in the diagnosis of the poverty conditions is almost inexistent in the three PRSPs. The latter omission has created some discontent among stakeholders from civil society who would have like to see much more emphasis on problems of clientelism and corruption in public policy making, as well as on the lack of political voice among the poor as a cause of persisting poverty.

The three PRSPs do stress the critical link between the distribution of physical (land), financial (credits), and human (education, health) assets and poverty. They also make reference to the association between poverty and certain demographic characteristics (ethnicity, gender). However, the analysis of the degree of importance of these factors remains rather superficial and little of this analysis gets translated into concrete policy actions.

Contents of the PRSP: Strategies that are not really strategies

On balance, it is difficult to argue that the PRSPs are actual strategies. The Poverty Reduction Strategies for the three countries do not provide a clear organizing (or overarching) framework for economic and social policies as a whole. The PRSPs basically comprise an enumeration of public policy actions aiming at poverty reduction without clear priority setting or strategic choices. The documents are typically also weak in identifying the channels through which policies are expected to make the desired impact and tend to ignore possible and likely trade-offs among several of the proposed actions. The strategies were designed under the assumption that high economic growth rates could be achieved within the timeframe of the plans.

The slowdown of the three economies has put the feasibility of effective implementation of the PRSPs in jeopardy almost from their inception. Because of the lack of clear priority setting and scenario analysis, the strategies cannot easily be adjusted in response to changing macroeconomic conditions. In addition, the countries still lack adequate monitoring systems that can link policies and budget execution to outcomes, which weakens the capacity to translate the policy intentions into consistent budget allocations and monitor the effectiveness of policies.

The policy dialogue guiding the PRSP process has not been designed to yield consensus around priority setting and hence adjustments in the PRS to deal with a changing economic or political context.² In the three countries, the macroeconomic policy framework has not been part of the policy dialogue. What is more, in Bolivia a new Stand-by arrangement has redefined the contours of macro policies with a short-term time horizon, introducing elements that run counter the long-term perspective of the PRSP and being remote from any consensus-building among stakeholders. This type of adjustments to the conditions under which the PRSP has to be implemented, has strengthened the widespread perception in the three countries that the PRSP are documents essentially written in order to obtain debt relief and has undermined the sense of national ownership of the poverty reduction strategy.

The PRSPs do not constitute a break away from previous poverty reduction proposals. Rather, the PRSPs comprise an enumeration of public policy actions without clear priority setting and therefore do not constitute real strategies.

² It should be noted that in the case of Honduras, the Consultative Council which includes representatives of civil society does discuss progress reports of the PRSP implementation, but it is the government and the IMF and World Bank who approve the reports and any adjustments to the PRSP.

Viability of the PRSP³

The PRSPs generally allow for a short period of time to implement a rather ambitious agenda of structural reforms. This seems like an over-ambitious agenda given the typically weak institutions in the three countries and now that financial constraints have become more binding as economic growth has slowed down. This is jeopardizing the feasibility of actually getting the full agenda implemented. The country reports conclude that this appears to be setting a kind of "institutional trap", as more responsibility is put on implementing agencies (not necessarily of doing more, but doing things better) while shifting those responsibilities to agencies with weaker implementation capacity (e.g. municipalities).

Bolivia is a case in point. Municipalities have been assigned a major responsibility in the implementation of the PRSP strategy. No doubt this helps to identify local needs, but at the same time the municipal level is also the level with weaker capacity to implement programmes and projects. The country report argues that this has led to underspending of PRSP resources in many instances. Other trade-offs have appeared as part of the decentralized implementation process in Bolivia, as it seems to have led to a bias towards a marked preference in favour of investing resources for small projects of social infrastructure (not just for schools, health centres or drinking water supply, but also for other works responding to local demands such as community centres) and it has revealed the low capacity (and little appropriateness) of implementing programmes supporting productive activities and income and employment generation. In Honduras, institutional weakness in general is producing low levels of programme execution.

Fiscal management and result-oriented budgeting

The PRSP process requires linking budget requirements in an explicit way to policy intentions and objectives. This is an important positive ingredient the PRSPs have brought to the policy dialogue. However, in the three countries remarkably little progress has been made on this front. None of the three countries has a Medium-Term Expenditure Framework (MTEF) in place as yet. At best there are some timid initiatives to move in this direction. The lack of a well-defined result-oriented budgeting system, which links the costing and allocation of the PRS budgets to attainment of the poverty reduction targets, substantially reduces the likelihood of a successful strategy implementation. Moreover, without credible and realistic budgets it will be more difficult to convince multilateral and bilateral donors to provide adequate funding for the poverty reduction strategy. Result-oriented budgeting and the creation of a workable MTEF are admittedly difficult tasks for countries with little or no experience in this area. It may be recommendable to apply a gradual approach in introducing such systems and, with donor support, generate increasing institutional capacity to operate them.

³ When referring in this section to the implementation of the strategy, we essentially talk about the adoption in practice of policies and reform measures which are consistent the PRSP guidelines.

Monitoring and evaluation systems

Much more needs to be done in the three countries in the development of information systems to monitor and evaluate the process of policy implementation. Nonetheless, in each country several significant initiatives are underway.

In Bolivia, the unit for economic and social policies (UDAPE) prepares periodic progress reports on the PRSP and a similar entity in Honduras (UNAT) has produced one progress report. In both cases, the progress reports make valuable assessments about the PRSP process. In Nicaragua, the government approved recently a Project of Support for Monitoring and Evaluation (PASE), a Project to Support the Implementation of the ECRERP (PAI), a participatory monitoring system and a National System of Poverty Indicator Monitoring (SINASIP), but no results from these new activities can be reported as yet. In addition, options to develop local monitoring systems facilitating social control and participation of the poor in programme implementation are currently being assessed.

Despite these initiatives, all three countries still have a long way to go in establishing adequate monitoring and evaluation systems. In *Honduras*, the Monitoring System of PRSP Indicators, to be used at the ministerial level, still lacks a clear distribution of responsibilities to manage the information. The same holds for the National Evaluation System of Programme Implementation (SINEG), which has been designed to perform impact evaluations and validate the data on poverty. In *Bolivia* there is no consensus among donors which proposals for monitoring systems to support financially. In *Nicaragua*, as indicated, several initiatives have come off the ground, but are not yet fully operational. The SINASIP was designed in 2002, but needs further streamlining to become operational. On the other hand, the Supplementary Social Fund (FSS) in Nicaragua has been in charge of monitoring and evaluating the use of HIPC funds.

The role of donors and coordination of foreign aid

In two of the three countries, *Bolivia* and *Honduras*, the PRSP process has helped to improve donor coordination, particularly in the form of intensified donor coordination meetings. In *Nicaragua* this practice of intensive donor meetings already existed and has continued, but cannot be said to have been generated through the PRSP process.

Nonetheless, at the level of program and project implementation not much more coordinated efforts can be observed. This may be due in part because of the fact that as yet fairly little implementation or monitoring of donor funded activities under the PRSP umbrella has taken place (till October 2003).

The low degree of PRS program execution can be related to the limited sense of national "ownership", the changes of government that have taken place in all three countries, and the weak institutional capacity to implement the strategy. In addition, prior to the elections in *Bolivia*, *Honduras* and *Nicaragua* in 2001 and 2002, their respective programs with the IMF went "off track" leading to a reduction of available resources for the PRSP and shifting government attention towards negotiating a new PRGF.

The stakeholder analysis for the three countries concludes that it is widely held in the three countries that the donor community (but IMF and World Bank in particular) exercised a very strong influence in the elaboration of the PRSP. This manifests the potential conflict that may emerge between the objective of generating 'national ownership' and the practice of international agencies wanting the influence the contents of the PRSP.

To date, the PRSP process has not led to any visible shift in favour of more budget support and sector-wide lending (SWAs). Some donors face administrative restrictions impeding budget or sector support,⁴ as donor governments require separate accounting of use of aid flows. Such practices have not disappeared as a consequence of the PRSP process. Bilateral donors not facing such restrictions are able to provide budget support, as well as multilateral donors that can provided policy-based lending (World Bank, IDB), condition such aid to the existence of an IMF agreement. The options to receive sector-wide support or SWAs, in turn, are conditional on the quality of pectoral programs prepared by governments and how much credibility donors give to those programs of being implemented.

**Summary of results of stakeholder analysis
regarding the role of donors in the PRSP process**

	Bolivia	Honduras	Nicaragua
1a. ¿Does the PRSP process help promote donor coordination?	Has helped donor coordination during the process of <i>elaborating</i> the strategy; no visible improvement of donor coordination in <i>implementing</i> or monitoring of the EBRP.	Has helped donor coordination during the process of <i>elaborating</i> the strategy (G15); no visible improvement of donor coordination in <i>implementing</i> or monitoring of the ERP.	Yes, donor coordination and dialogue between donors and government have improved. though partly because of discontent of donors with previous government and greater confidence in new government.
1b. ¿Has the (previous / current) government taken initiatives to improve donor coordination?	Yes / No	No / Yes, donors have been requested to link all aid to PRSP objectives.	No / Yes, but not related to ERP process
2a. ¿What is the sense of 'national ownership' of the PRSP?	Little ownership. Conditionality extends beyond PRSP.	Little ownership. Conditionality extends beyond PRSP.	Expectation exists that conditionality will become more tailored to country situation. Nonetheless, little national ownership of the PRSP has been generated.
2b. ¿Has the PRSP generated greater sense of 'government ownership' regarding aid-financed activities?	No	Some progress, but it is as yet difficult to speak of government ownership of the use of aid money.	Yes, improved dialogue with donors has generated more ownership, although this has less to do with the PRSP and more with debt relief.
3a. ¿Has the PRSP process led to a change in aid modalities towards more emphasis on budget support?	No, traditional aid modalities remain.	No, traditional aid modalities remain.	No, traditional aid modalities remain.
3b. ¿Has the PRSP produced a defined need to shift towards more budget support in aid-giving?	Not yet	Not yet	Not yet
4a. ¿What should be the role of international development cooperation in strengthening public administration?	Instead of engaging in monitoring parallel channels (funds) to manage HIPC resources, donors should promote monitoring of the entire government budget, preferably involving parliaments, NGOs and independent experts.		
4b. ¿What should the role of the donor community in strengthening the role of civil society?	Facilitate greater coverage of the national policy dialogue regarding the PRSPs to include also consultation about the macroeconomic framework and other themes of central interest to civil society. Stimulate greater involvement of parliaments in the policy dialogue, strategic decision-making and budget execution.		

⁴ In other words, these donors are not allowed to add resources to a common pool of funds.

4. Some lessons from the PRSP experience in Bolivia, Honduras and Nicaragua

Being a long-term strategy and with little experience as yet with the implementation of the PRS, it is difficult to already assess whether the strategies are actually consolidating more participatory development processes and whether poverty reduction goals are actually being met. It is possible, however, to assess whether the PRSP process so far is moving in the desired direction and providing the basis for effective poverty reduction policies. The design and initial implementation of the PRSPs in Bolivia, Honduras and Nicaragua has been affected in all three cases by a deterioration of the economic outlook, changes of government, and – particularly in the Bolivian case – increasing political instability. Nonetheless, the PRSPs are still in place to guide government policies, even though new governments have proposed substantial changes to the original strategy and/or convert the PRSP to a broader national development plan.

In general terms, we can state that in all three countries a major contribution of the PRSP process has been to create and consolidate a broad-based, national policy dialogue about the policy options to reduce poverty. Also, the PRSP has helped strengthen decentralisation processes and – although very timidly – a beginning has been made with the introduction of more result-oriented budget systems, enabling a move towards greater transparency in public policy action and better monitoring of the impact of the poverty reduction strategy. The PRSP has also helped improve to some extent the policy dialogue between the governments of the three countries and the donor community.

Weaknesses of the process

If one wishes to stick to the central, original objectives of the PRSP process, on the basis of the experience in Bolivia, Honduras and Nicaragua attention should be given to the following five areas of concern about the effectiveness and adequacy of the process as conducted thus far:

- *The limited sense of national ownership of the PRSPs is closely associated with the perception of most stakeholders that the main purpose of the strategy documents is to obtain the much desired debt relief.* This sentiment is observed in all three countries, though in varying degree. Two factors seem to be underlying these sentiments. First, there has been a rather strong

dichotomy between the consultation process and the elaboration of the strategy. There has been little feedback to stakeholders once the PRSP documents were on the table. This has led to some frustration among stakeholders as it did not become clear why some of their concerns were not (sufficiently) taken on board, nor did it lead to second-round discussions about the priorities of the strategy. The time pressure to reach the HIPC completion point may explain why the consultation process was cut short this way. It probably also reflects an underestimation (by governments and donors alike) of the time required to implement participatory consultation processes and which are considered to be a necessary condition to achieve national ownership of the PRSPs. Second, stakeholders perceive that economic reforms and macroeconomic policies largely remained outside the scope of the consultation process and this in turn has fomented the perception that the elaboration of a PRSP is just an additional conditionality imposed by the IMF on top of the usual conditions that need to be fulfilled as part of the HIPC initiative. It is therefore, difficult to imagine how to achieve a larger sense of national ownership (a) if there is not more of an iterative process between consultation ("what are your needs?") and strategy definition ("can you accept the priority setting of the strategy?") and (b) if the consultation process does not allow more space to discuss issues of macroeconomic policy, economic reforms and the links to poverty reduction. At least, one should avoid the impression that negotiations about the macroeconomic framework are completely outside the realm of the definition of the poverty reduction strategy.

- *The PRS, especially the initial versions, hardly can be identified as result-oriented strategies.* The PRSPs do define broad, but fairly clear strategic guidelines. However, in the identification of concrete actions, there is a disturbing lack of specifying the channels and mechanisms through which actions are expected to lead to results as much as a lack of clear priority setting. Not surprisingly, the lack of clarity in strategic choices has created confusion and inconsistencies with other policies and reforms pursued by the governments. The Plan Bolivia presented by the government of ousted president Sánchez de Lozada is a case in point. Equally, in the case of Honduras several elements of macroeconomic policies have been at odds with the ERP, while Nicaragua has produced a new Development Plan the status of which is at yet unclear with respect to the ECRERP. When moving from plan to action, PRS related programs have faced budget restrictions, delaying implementation of the strategy. These budget restrictions have become more severe as the economic outlook in the three countries has deteriorated. PRSP implementation is in jeopardy as the strategies themselves lack clarity in the priority setting and therefore governments have problems in assessing the implications of the changed macroeconomic parameters for reaching the poverty reduction goals as much as that there is no clear view as to how budget allocation can be adjusted in a way which would minimize giving in on the poverty reduction targets.

The decision to change the EBRP created a barrier to negotiating a PRGF with the IMF. Without a PRGF, non-concessional borrowing has increased and the World Bank's Poverty Reduction Strategy was delayed.

- *The PRS of the three countries as yet do not apply the MTEF and have made insufficient progress towards result-oriented budgeting systems.* Weaknesses in the diagnosis of the causes of poverty are also reflected in the lack of transparency as to whether the budget levels are adequate or not to achieve the targets. The budget allocation by programs typically has not been based on prior cost-effectiveness analysis to establish whether there could be more efficient ways of using the resources. This weakness no doubt has repercussions on the viability of the PRSP unless addressed timely.
- *Much remains to be done in improving monitoring and evaluation systems.* The three countries have taken steps to improve information and monitoring systems. However, monitoring of the PRSP targets is also hampered by a lack of reliability of estimates of key indicators emerging from weaknesses in primary data collection. Continued support for improving primary data systems (such as that provided by the MECOVI program for household survey data) is much needed. The monitoring of the efficacy of the implementation of the strategy is hampered by deficiencies in linking "inputs" (programs and related budgets) to "outcomes" (targets, poverty impact). Improving the capacity to conduct this type of analysis and thereby bridging this "missing middle" should be an immediate priority if the basic principles of the PRSP process are to be taken serious.
- *Administrative decentralization in a context of weak institutions unlikely will be the panacea for effective strategy implementation.* Some lessons may be drawn from the Bolivian case where an important part of the PRSP budgets have been decentralized to municipalities, but where weak capacity to define and implement projects has led to underspending of resources and a bias (in response to local demands) towards small social infrastructure projects which may not always fit aggregate priorities of the PRSP (e.g. in some cases a community centre obtained greater local priority than a school). The Bolivian case also seems to suggest that the municipal level may not be most adequate for public support programs for local development of productive activities, requiring coordination with intermediate administrative levels (regions or provinces).

Recommendations for donor coordination

- *The PRSP process requires an enhanced effort in trying to achieve better donor coordination.* The desirability of shifting towards more program aid and sector-wide approaches and less project support should be on top of the agenda. If donors are not willing or unable (by own rulings) to make such a shift, one could doubt whether the PRSP process is seen by the donor community as anything more than creating greater involvement of civil society in the policy dialogue. Donors would provide more credibility to the strategy as a whole by supporting it through program aid.

- *The widely held view that the PRSP process involves additional conditionality and therefore has come to be perceived as something "imposed" from outside should a point of major concern to the donor community.*⁵ As indicated above, the origin of this perception is related to the fact that the agenda of the consultation process did not include macroeconomic issues and the poverty impact of economic reforms (such as trade liberalization), as much as that other structural reforms perceived to be important (such as agrarian reforms) did not make it into the PRSP. This has contributed to a reduced sense of national ownership of both the PRSP and the related programs (to be) financed by the donor community. Therefore, the donor community should take an interest that such issues are put on the agenda in its dialogue with both the governments and civil society in relation to the poverty reduction strategy. At the same time, it seems advisable that the donor community take some greater distance from the national process of decision making, i.e. by looking a bit less over the shoulders of the national actors and giving some more "benefit of the doubt" to them in bringing the process to a good end. The role of donors better concentrate in the first place to facilitate financially (where needed) the continuation of the process of policy dialogue and the (further) development of the required information and accountability systems (including systems of result-oriented budgeting) as part of long-run capacity-building efforts.
- *Donors should reflect on the proposition made above that the PRSP is perceived as nothing more than an additional form of conditionality set by the international financial institutions in order for countries to access HIPC and additional funding. The more so since this perception seems to be affecting the dialogue between the government and civil society.* The most pessimistic scenario would be one in which the relevance of the PRSP would be reduced to its role to justify access to a PRGF merely replacing the requirements attached to accessing the *Enhanced Structural Adjustment Facilities* of the IMF, but with the difference that we are dealing with *enhanced (cross-)conditionality*. At difference from the ESAF conditions, a PRGF can be withheld if no progress report has been approved by IMF and World Bank or if no adjusted PRSP is presented. For instance, in the case of Bolivia this condition was not satisfied in early 2003 and the country had to recur to a Standby agreement to finance its immediate balance-of-payments deficit, but implying a return to a purely short-term perspective in the macroeconomic framework. Bilateral donors should critically assess the appropriate modes of financing the PRS as well probing the related conditions as to whether these do not involve an increase in ex-ante, cross conditionality and whether these could be in conflict with the basic principles of the PRSP process, particularly the objective of generating national ownership. In addition, the heavy pressure to comply with HIPC/PRSP conditions in relatively short periods of time seems to have affected the quality of the strategies

⁵ This is not to say that the technical recommendations provided as part of the PRSP process should be seen as negative advice. Insistence on good practices of participatory consultation processes, institutional reforms, prudent macroeconomic policies, result-oriented budgeting and transparent monitoring systems are all consistent with the principles of good governance. It is rather the sum of the conditions, the size of the agenda and the failure to create national ownership over that agenda which is generating the indicated politically-sensitive tensions.

and weakened the support from civil society. The time schedule for reaching completion points should be reconsidered simultaneously.

- For the same reasons, donors should enter into a discussion how to transcend the typically short-term perspective of the macroeconomic conditionality and link it to the necessarily long-term perspective of the PRS. Technical reports of IMF and World Bank do consider ways to assess the nexus, but the policy practice related to financing conditions, as derived from the experience in the three countries does not seem to move in that direction. *A more radical shift away from short-term financing facilities to longer-term program financing seems to be required to make the PRSP process work.*
- *The objectives of the PRSP process would justify a shift from project aid to program and sector support. If donors are willing to make the change, they may wish to start a discussion how to make the transition, what steps are needed and in what sequence.* In the transition process, assuming a gradual approach, donors may play an important role by providing support to strengthen the institutional capacity to manage result-oriented budgeting systems at the program level and help develop adequate monitoring and evaluation systems to enhance accountability of budget management. The roles of civil society and parliaments in the setup of social and democratic control systems of budget and aid allocations should be taken on board.

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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