

Monitoring and Evaluation of Poverty
Reduction Strategies in Latin America
– 2006

Accountability for Poverty Reduction



Preface

The PRS (Poverty Reduction Strategy) process responds to a legitimate concern about the problem of persistent and high levels of poverty in many developing countries. It seeks to reduce poverty through a long-term participatory results-oriented process that brings together government and civil society in the search for solutions to poverty in each country. Donors commit to use their resources and debt relief to support the strategy.

The Swedish Agency for International Cooperation for Development (Sida) has asked the Institute of Social Studies (ISS) in The Hague to conduct a study to monitor and evaluate the PRS processes in three countries of Latin America: Bolivia, Honduras, and Nicaragua. The study is being conducted over five years, beginning in 2003.

Five reports are published each year: three country reports, one regional report, and one thematic report. The 2006 country reports provide an update on the status of the PRS process. This year more specific attention is being paid to “downward accountability” systems, that is to say, systems of government accountability to its citizens, which could have been strengthened by the PRS process through the opening of new participatory spaces and by the emphasis on accountability and results-orientation.

The methodology of the reports is based on interviews with the stakeholders, including the perspectives of local actors obtained through visits to various municipalities of the three countries. The regional report presents a comparative analysis of the experiences in the three countries, highlighting the lessons for governments, civil society, and the donor community. The 2006 thematic report is focused on gender.

The five reports seek to make a contribution to the existing evaluations of the PRS process by focusing on the experience of one region and by producing an impartial evaluation of the PRS experience, a result of the complete independence of the ISS in the process of designing, implementing, and financing the studies. The opinions and conclusions expressed in the reports are those of the authors, and are not necessarily the opinions and conclusions of Sida.

All of the reports can be downloaded from the following website:
<http://www.iss.nl/prsp>.

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Kristin Komives
Project Coordinator
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Authors: Kristin Komives (Institute of Social Studies – ISS) and Geske Dijkstra (Erasmus University Rotterdam)

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Glossary

BSG	Budget Support Group
CAF	<i>Corporación Andina de Fomento</i> /Andean Development Corporation
CCERP	Consultative Council for the Poverty Reduction Strategy
CEDLA	<i>Centro de Estudios para el Desarrollo Laboral y Agrario</i> /Center for Studies on Labor and Agrarian Development
CNA	<i>Consejo Nacional Anticorrupción</i> /National Anti-corruption Center
CONPES	<i>Consejo Nacional de Planificación Económica y Social</i> /National Council of Social and Economic Planning
CS	Civil Society
DFID	Department for International Development
EBRP	<i>Estrategia Boliviana para la Reducción de Pobreza</i> /Bolivian Poverty Reduction Strategy
EC	European Commission
ECLAC	Economic Commission for Latin America and the Caribbean
G16	Group of Sixteen
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> /German Technical Cooperation
HIPC	Highly Indebted Poor Countries
IDB	Inter-American Development Bank
IFI	International Financial Institutions

INE	<i>Instituto Nacional de Estadística</i> /National Statistics Institute
ISS	Institute of Social Studies
IMF	International Monetary Fund
KfW	Reconstruction and Development Bank
MDG	Millennium Development Goals
MNCS	<i>Mecanismo Nacional de Control Social</i> /National Mechanism for Social Control
NDP	National Development Plan
NGO	Non-Governmental Organization
OECD-DAC	Organization for Economic Cooperation and Development-Development Assistance Committee
PASE	<i>Sistema Nacional de Concertación y Participación</i> /National System for Consensus Building and Participation
PMAP	<i>Programa Multi-Anual de Apoyo Presupuestario (PMAP)</i> /Multi-Annual Budget Support Program
PRGF	Poverty Reduction and Growth Facility
PRP	Poverty Reduction Policies
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
Sida	Swedish Agency for International Development
SIAFI	<i>Sistema Integrado de Administración Financiera</i> /Integrated System of Financial Administration
SIERP	<i>Sistema de Indicadores de la Estrategia de Reducción de Pobreza</i> /System of PRS Indicators
SIGFA	<i>Sistema Integrado de Gestión Financiera y Auditoría</i> /Integrated System of Financial Management and Auditing
SIGMA	<i>Sistema Integrado de Gestión y Modernización</i> /Integrated System of Management and Modernization
SINASID	<i>Sistema Nacional de Seguimiento a Indicadores de Desarrollo</i> /National System for the Monitoring of Development Indicators.
SISER	<i>Sistema de Seguimiento y Evaluación de la Gestión Pública por Resultados</i> /Monitoring and Evaluation System for Results-based Public Management
SNIP	<i>Sistema Nacional de Inversión Pública</i> /National System for Public Investment
TGN	<i>Tesoro General de la Nación</i> /General Treasury of the Nation
UDAPE	<i>Unidad de Análisis de Políticas Económicas</i> /Economic Policy Analysis Unit
UNDP	United Nations Development Program
VIPFE	<i>Viceministerio de Inversión Pública y Financiamiento Externo</i> /Vice-Ministry for Public Investment and External Financing
WB	World Bank

Executive Summary

Introduction

Under the framework of the PRS (Poverty Reduction Strategy) process, national governments agreed to devise country-specific PRSPs (Poverty Reduction Strategy Papers) through participatory processes and to implement them over the medium-term. Civil society was to participate in the creation and then monitoring and evaluation of the strategies, and donors were to support the strategy with debt relief and more flexible forms of aid (such as budgets support and sectoral support). Ultimately the process was expected to produce more effective and lasting poverty reduction policies, to increase the results-orientation of both governments and international cooperation agencies, and to put governments in the drivers' seat of aid relationships. Bolivia entered the PRS process in 1999, followed by Honduras and Nicaragua in 2000. The ISS has, since 2003, monitored the evolution of the PRS process in the three countries, at the request of Sida.

There is no evidence yet that poverty reduction in these three countries has accelerated with the PRS process. Latin America in general has seen little reduction in monetary poverty since the turn of the century, and Bolivia, Honduras, and Nicaragua are no exceptions:

- In Honduras, the most recent official statistics show virtually no change in monetary poverty between 2001 and 2005 (from 65.2 to 65.8%) and a small reduction in the incidence of extreme poverty (48.4% to 47.1%) Inequality has increased during this period.
- Bolivia's National Institute of Statistics reports that monetary poverty increased from 62.6% in 1999 to 67.3% in 2003. Extreme poverty dropped between 2000 and 2004 before increasing again in 2005.
- In Nicaragua, 45.8% of the population was poor in 2001, and no other official figures have been published as of October 2006.

The three countries have had somewhat more success at extending basic services to the poor: in general, they have followed trends similar to those in other Latin American countries. Despite the lackluster results to date, the PRS process continues to be the official framework for donor-government relations, and the Paris Declaration reaffirms many of the basic principles of the PRS process, such as the need for national ownership of policies and aid and for donor alignment with national priorities.

In this year's report (the fourth of a series of five annual evaluations), we focus on three objectives of the PRS process: (1) what the PRS process has meant for poverty reduction policies; (2) whether the PRS process has managed to strengthen downward accountability systems, which could help ensure a long-term government commitment to poverty reduction, and (3) what has happened with respect to harmonization, alignment, and aid modalities.

The PRS Process and Poverty Reduction Policies in the Three Countries

Bolivia

The PRS process had a short life in Bolivia. Many things contributed to the rapid death of the process, including the fact that Bolivia qualified quickly for HIPC debt relief (Table 1) and was therefore not under as much pressure to implement or retain the original PRS. President Sánchez de Lozada created a draft revised PRS shortly after he was elected in 2002, but it was rejected by the donors because it was not created through a participatory process. No President since has tried to produce another revised PRS, though each government has produced at least one new plan.

The government of President Evo Morales (elected in 2005) has never officially spoken about the PRSP or the PRS process. Instead, the new government created a National Development Plan (PND), without a prior participatory process. Civil society actors or donors in Bolivia show little interest in or hope of revising the PRS process. Nonetheless, donors would still like to have a framework around which to organize their relationships with the government, and they do not feel that the PND can serve that purpose in its present form. Given the uncertainty about the PND, bilateral and multilateral donors are structuring their work with the government in a variety of ways, such as through detailed sector plans that are aligned with the PND, by simply moving ahead with their own existing aid programs, or by identifying areas of common interest with the government.

Table 1: A Summary of the PRS Process in the Three Countries

	Bolivia	Honduras	Nicaragua
Interim PRP	Jan 2000	April 2000	August 2000
HIPC decision point	February 2000	July 2000	December 2000
Approval of original PRS	June 2001	October 2001	September 2001
HIPC completion point	June 2001	April 2005	January 2004
PRS Monitoring and Evaluation reports	Several written in 2002–2003, but not approved by IFIs Replaced by MDG monitoring	Nov 2003 March 2005 June 2006	Nov 2002 Nov 2003 Nov 2005 May 2006
Changes of government	June 2002* Oct 2003	Jan 2002* Jan 2006*	Jan 2002* Jan 2007*
* if through elections	June 2005 Jan 2006*		

	Bolivia	Honduras	Nicaragua
New national plans	Government Plan 2002	National Plan 2002	National Development Plan (PND) 2002
* if officially approved as a PRS	Revised PRS 2003	Expanded PRS 2003	
	Productive Bolivia 2004	Government Plan 2005	Revised PND 2003
	National Plan 2005	Revised PRS 2006	PND-O 2004
	Emergency Plan 2005		New PND* 2005
	National Development Plan 2006		

During the last 5 years, there have been few changes in the sectoral distribution the national budget in Bolivia or in the poverty reduction policies that are being implemented, despite the fact that national plans have changed on a regular basis. It is still too early to determine whether the new PND will lead to real changes, though it certainly aspires to change directions. There has been a major shift in the political power towards previously marginalized groups, and the PND calls for institutionalizing these changes. There is also a new interest in tackling some of the fundamental economic issues that were left out of the original PRS. The PND's economic plan calls for investing resources from gas in productive activities and envisages a much more direct role for government in promoting pro-poor economic development.

Nicaragua

Nicaragua's first PRSP was presented in 2001, following a largely symbolic participatory process. When President Bolaños assumed power in 2002, he agreed to implement the strategy of his predecessor in order not to threaten the possibility of obtaining HIPC II debt relief. At the same time, however, he worked on revising his own development plan with a view towards having this plan accepted by the international community as a revised PRSP. The country reached HIPC II completion point and qualified for debt relief in January 2004. In November 2005, the donor community accepted Bolaños' revised National Development Plan as the new PRSP (PRSP II). The PRSP II was not subject to a national participatory process, but the government did organize consultations at the departmental level.

With the official recognition of the PRSP II in Nicaragua, the structure of the PRS process has been preserved. The PRS process in the country has also been supported by a continued effort under President Bolaños to strengthen national monitoring and evaluation systems, by the continued production of PRS progress reports, and by a recent overhaul of the National Council for Economic and Social Planning (CONPES), an institution that brings together civil society and government representatives and that has been at the center of national consultation processes surrounding the PRS. It remains to be seen what stance the newly elected President Ortega will take towards the CONPES, the PRSP II, and the PRS process in general.

The PRSP II itself shows much continuity with the original PRSP. For example, the PRSP II retains an emphasis on increasing efficiency in education and expanding coverage in health. However, the new plan places much more emphasis on growth as the single motor for poverty reduction, without serious concern for pro-poor growth. The plan sees social assistance as the way to help poor households who do not benefit from growth.

Honduras

Shortly after Honduras presented its PRSP in October 2001, President Maduro was elected. This President entered government with his own “National Plan”, which introduced a period of uncertainty about the future of the PRSP. Ultimately, however, the government decided to accept the PRSP in the interest of qualifying for HIPC II debt relief. In April 2005 the country reached the HIPC II completion point and began benefiting from debt relief. At the end of 2005, President Zelaya was elected. Shortly thereafter he announced his intention to change the PRSP. So far, the government has produced only an early draft of the revised PRSP.

The debt relief Honduras has received to date has primarily been used to cover salary increases for teachers and health staff and to increase security forces. The government’s budget included an additional 887.6 million lempiras to be used for “PRS expenditures.” Congress decided to allocate 700 million of this sum to the municipalities for local-level PRS-related investments. Municipalities are required to use 55% of their allocation for productive projects, 30% for social projects, and 10% for institutional strengthening.

Of the three countries, Honduras is the one where the national government, donors, and civil society show the most signs of wanting to move forward with the PRS process. The tripartite Consultative Council of the PRS (CCERP) remains active, and monitoring and evaluation reports have been produced. Even the Congress is starting to show some interest in the PRSP, after its role in deciding how to spend the debt relief funds. On the other hand, donors are growing increasingly concerned about the current government’s commitment to poverty reduction, there has been little consultation in the preparation of the revised PRS, and the results of a participatory process for prioritizing investments have not been put into practice.

Between 2001 and 2005, Honduras’ poverty reduction policies have been fairly stable, though the PRS has been updated and expanded to include a wider range and proportion of government expenditure over time. The early draft of the Zelaya government’s revised PRS proposes to further expand the definition of PRS expenditure to include more investment aimed at increasing economic growth and improving governance. Compared to the original PRS, this draft plan has more emphasis on growth, and on the state’s role in promoting pro-poor growth through integrated actions to increase the assets of the poor.

Conclusions

Has there been continuity in poverty reduction strategies and poverty reduction policies?

Ensuring continuity in the implementation of poverty reduction policies was one of the key objectives of the PRS process. Stability was seen as desirable because it would give governments time to implement, evaluate, and improve programs. The experience in Bolivia, Nicaragua, and Honduras suggests that:

1. stability in strategies is hard to achieve when governments change frequently and once the carrot of debt relief is gone;
2. despite changes in plans, there has been much stability in policies actually implemented, dating even from before the original PRSPs;
3. there is little evidence that this stability has facilitated incremental improvement in policies and programs.

Has there been a positive evolution in visions of how to reduce poverty?

With successive revisions of the strategies in the three countries, the plans have increasingly been transformed into national development plans that encompass a large percentage of the national budget. This has enabled governments to include many of their political priorities within the PRS without abandoning most of the original content. The visions expressed in Bolivia's PND and in the early draft of Honduras' revised PRS appear to be steps in a positive direction: both recognize that the state needs to take a stronger role in directing the benefits of economic growth to the poor. In Nicaragua, the increasing emphasis on growth for growth's sake, and the relegation of poverty reduction to the realm of social safety nets, is a cause of concern.

Does having a PRS show a commitment to poverty reduction?

The PRS process is based on the idea that having a national comprehensive poverty reduction strategy is an indication of a country's commitment to reduce poverty. There are two reasons to question this assumption. First, donors are under great pressure to accept national plans as official poverty reduction strategies, even when they have doubts about commitment, because so much aid is tied to this prerequisite. Second, in all three countries, continuity in poverty reduction strategies arises despite, and not because of, national poverty reduction plans.

What has happened to participation?

Participation of civil society in the creation and monitoring of PRSPs is a central tenet of the PRS process. In these three countries, participation in strategy design has diminished with each new plan produced. This is not necessarily a negative development. The participatory processes have been valuable, but they are also costly and have led to much frustration. In the long-term, it would be more fruitful to find and support spaces for continuous participation and dialogue rather than concentrate on large one-time events that generate high expectations. Participation in the monitoring and evaluation of the strategies has been less frequent, in part because it is difficult to monitor unstable strategies. But these three country cases also suggest that civil society has less interest in monitoring and evaluation than in finding ways to participate more directly in policy making and project selection.

Institutionalizing Downward Accountability for Poverty Reduction

In both international and national circles, there is a general recognition that choosing the right economic, social, and investment policies is only half the battle in the fight against poverty. Institutional changes are also critical. In this year's report, we look at one type of institutional change that could support a sustained national effort to reduce poverty: the strengthening of accountability systems. In this case, we are interested in downward accountability systems in which governments feel a responsibility to the public to achieve poverty reduction results, and the public in turn holds government officials accountable for achieving these results. The PRS process could in theory help strengthen downward accountability systems both through requirements for increased government transparency and reporting about results achieved and also by giving civil society a role in monitoring and evaluating the poverty reduction strategies.

In our analysis, we distinguish between three different components of a downward accountability system.

- *Transparency and Reporting* is broadly about providing information to the public. Government officials make data available, provide information about decision-making processes and policy objectives, and report on results obtained and resources used.
- *Action* refers to the response of the public (represented by individuals, civil society organizations, or social movements) to the information the government provides. Action could take many forms, such as providing comments, asking questions, denouncing shortfalls, presenting alternative analyses, or demanding change.
- *Response* is when government officials respond to the “action” by explaining decisions or actions, changing policies, or improving procedures.

The three phases are mutually reinforcing. Transparency and reporting facilitate public action, and the objective of public action is to generate a response from the government. Weaknesses in any one of the three phases weaken the entire system.

Transparency and Reporting at the National Level

In the last six years, Nicaragua and Honduras have made considerable progress in improving the production and dissemination of information about government expenditure and financial management. In Bolivia, there has also been progress, but the many changes of government in the last three years have led to serious problems with the updating of information on government websites.

In contrast to the advances in the area of financial management, there has been surprisingly little continuous progress in developing and publishing poverty data and social indicators. In Bolivia and Honduras, the most recent household survey results are from 2003–2004. In Nicaragua, the most recent widely-accepted data on poverty in Nicaragua is from 2001. Nicaragua and Honduras have created PRS tracking systems, but the database systems and web pages that store and share this type of information are often outdated. Bolivia does not have an integrated monitoring system for development indicators at present. All three countries continue to produce PRS, PND, or MDG monitoring reports (though not as regularly as originally intended) and share them with a wider public via internet, but none of the three countries has really consolidated a tradition of reporting on the achievement of development results.

The use of the internet to distribute information has increased in all three countries. This medium has the advantage that it reduces the cost of publishing information, but has the disadvantage that it excludes those who do not have access to the internet. The three countries have also made moves (with limited success) to facilitate citizen access to government information over the past 6 years. In Bolivia, President Mesa’s decree on this topic has been abandoned, and in Nicaragua, a Law Regarding Access to Public Information got caught up in the National Assembly. Honduras did pass a Law Regarding Transparency and Access to Information at the end of 2006, but it has been quite controversial because many types of information are excluded from the law.

Action and Response at the National Level

The PRS process sought to create new spaces for interactions between government and civil society, spaces which could facilitate the “action” and “response” required in a downward accountability system. One type of participatory space is the dialogue and consultation process. Civil society organizations express many critiques of these processes in the three countries, but they agree that these events help organize and develop the capabilities of civil society groups, which in the long run should help build their capacity to play an active role in a downward accountability system.

The PRS process also created more permanent participatory bodies. In Bolivia, the MNCS (National Social Control Mechanism) is an independent organization of civil society representatives, recognized by law, charged with monitoring the use of debt relief funds and the implementation of the PRS. Honduras’ CCERP (Consultative Council of the PRS) joins civil society, government, and donors. Nicaragua’s CONPES (National Council for Social and Economic Planning) brings together government and civil society actors. Both bodies have a role in consultation as well as in monitoring government action.

In all three cases, civil society oversight of government action has been relatively weak. The majority of the “action” observed involves in raising issues of concern, suggesting policies, and pushing for projects. In this sense, the participatory bodies are active political spaces and more appropriately seen as consultative bodies than as part of a monitoring and evaluation system. The lack of attention to monitoring and evaluation is partly related to capacity and funding deficits, but there also appears to be a genuine preference for focusing on the future rather than evaluating the past. Donors have stepped in with funding to help support the functioning of these organizations and also to provide support for other civil society monitoring efforts. This means that much of civil society “action” is highly dependent on donor interest and funding.

Because there is not yet a tradition of monitoring and evaluation, it is difficult to talk about the government “response” to civil society action. In Nicaragua, civil society does appreciate the increased openness of intermediate levels of government, and in Bolivia the new government has opened itself to critique at least from nongovernmental actors associated with the government. In Honduras, it is too early to draw conclusions about relationships between civil society and the Zelaya government.

The Role of Congress

Congress is another possible route through which the public can hold the national government accountable for producing results. The ERP process has not strengthened the role of Congressional representatives in an accountability system, nor (with the possible recent exception of Honduras) has it awakened much interest in Congress for the fight against poverty. Civil society does not appear to use Congress as an avenue for communicating with and pressuring government; these groups prefer direct access to the Executive, such as the access they obtain through participatory bodies. In Honduras, the direct election of representatives (for the first time in 2005) may in the long-run improve the relationships between representatives and their constituents and thus make Congress a more integrated part of a downward accountability system.

Downward Accountability at the Local Level

Local governments and institutions can play two possible roles in a downward accountability system. First, as service providers and executives themselves, local government officials have the responsibility to be transparent, report on results, and respond to criticisms and comments. Second, local governments and institutions can provide a link between citizens and the national government. On the first point, there are some local structures (e.g. Vigilance Committees in Bolivia, Transparency Commissions and social audits in Honduras) that could form the basis for a local-level system of downward accountability, but the PRS process has had little impact on strengthening and developing these systems, aside from general support for decentralization. On the second point, the PRS-related dialogues have created some opportunities for information exchange between individuals and organizations at the local level and the national government. Nicaragua is trying to institutionalize these information channels through the development of its national participation system (PASE). It is, however, too early to say that local institutions play a real role in linking localities to the national executive branch in a national downward accountability system.

Conclusions

The major conclusions drawn from this cross-country analysis mirrors findings of other studies¹:

- The PRS process has done more to stimulate the production and dissemination of information than to develop monitoring and evaluation systems. Improvements in information availability have been largely limited to the national level.
- There is more current data available, and more reporting done about government expenditure and earnings than about development results. Reports about development results are often produced with too much of a time lag to make them very useful for evaluating the work of the present administration.
- Civil society's role in monitoring and evaluation is hampered by lack of access to information and by problems of financing and analytical capacity. It is also clear that civil society is more interested in proposing solutions and policies, than in monitoring and evaluating results achieved.
- Much of what has been done at a national level to develop and support a downward accountability system has been financed by donors, which raises questions about the sustainability of the advances made to date. Donor support for the participatory institutions introduced through the PRS process increases the chance that governments will take these institutions seriously.

The International Donor Community and the PRS Process

In past reports, we have noted that many of the advances that have taken place in donor coordination and in the move towards more flexible forms of aid (such as budget support) have less to do with national PRS processes than with international process such as the Rome and Paris declarations about alignment and harmonization. For this reason, we begin our analysis of donor activity this year with a review of where the three countries stand on the Paris Agenda principles. This is followed by an update on budget support and then conclusions.

¹ A review of the current literature on this subject is available in the full report.

The Paris Agenda

Ownership: Aid-recipient countries exercise leadership over policies and development strategies and coordinate implementation

Changes of government have meant high staff rotation in Bolivia and Honduras, which has in turn held back advances toward multi-annual budgets and hampered leadership at sector-level roundtables for government-donor coordination. Nicaragua has not had this problem, but even here some sectoral roundtables suffer from lack of government participation. Few of the roundtables that are functioning in the three countries have any participation of civil society or the private sector.

Alignment: Donors base their assistance on national strategies, institutions, and procedures

In Honduras and Nicaragua, the PRSPs (or other national plans) remain officially the central reference point for the work of the international donor community. In practice, however, the plans are broad enough to accommodate most donor activities and not concrete enough to provide indicators or projects for sectoral budget support. As a result, alignment with national poverty plans means little in practice. As for alignment with systems, all aid in Nicaragua and most aid in Bolivia and Honduras now appears in the national budget. There is still a long way to go with alignment with other national systems (e.g. banking, project implementation, monitoring and evaluation).

Harmonization: Donor actions are harmonized, transparent and collectively more effective

In Nicaragua, there are basket funds for education and health with coordination of missions and evaluations, but contributions to the funds have suffered because of donors' dissatisfaction with implementation. In Honduras there is only sub-sectoral coordination in the Education for All program and on specific diseases in health. In Bolivia, some sectoral plans and basket funds developed by the previous government are still functioning. Nonetheless, in all three countries, most aid is still project aid. Budget support was 23% of aid to Bolivia between 2000 and 2005. In Nicaragua during this period it was 14%, and in Honduras it is almost certainly less.

The Paris Declaration's discussion of harmonization is about aid programs, not donor's political agendas, because it assumes that donors align themselves with government priorities. However, as this is not always the case, harmonization of donors' agendas can lead to increased political power of the international donor community. At the moment, the donors in Bolivia do not have a unified position on the current political situation in the country. In Honduras, this last year saw both unified donor actions (for example, taking a stand about how debt relief funds will be distributed to municipalities) and independent actions (such as the IDB's support for a participatory process that other donors considered to be unnecessary). Nicaragua has two bodies for political coordination (the Mesa Global and the Budget Support Group). The Budget Support Group this year used its political weight to pressure the National Assembly and executive branch to follow IMF instructions.

*Results-orientation: Better management of resources
and use of results-oriented decision-making*

There are few advances in this area in Bolivia or Honduras. In Nicaragua, the government has moved forward with multi-annual expenditure frameworks and has continued to produce PRS progress reports. In all three countries, there has been some movement towards the use of results indicators (see below).

*Mutual accountability: Donors and aid-recipient
countries hold each other accountable for development results*

In all three countries, donors and governments have agreed on Harmonization and Alignment plans. Nicaragua's plan is the most advanced. It is unclear whether these plans will be implemented after changes in governments.

Budget Support

Budget support is the aid modality most consistent with the principles of ownership and alignment because it leaves decisions about how to use aid funds to the governments. When donors join their budget support programs, they also promote harmonization. In the vision of the PRS process, national PRSPs would facilitate the move towards joint budget support programs and away from uncoordinated project aid. In practice, however, having a PRS has never proven to be a necessary or sufficient condition for budget support. There is pressure from donor central offices to offer budget support even in the absence of a PRS (e.g. Bolivia in 2005), and the PRSPs in these three countries were not concrete enough to, on their own, serve as the basis for a budget support program. Moreover, donors often set other non-PRS conditions (e.g. governance) to be completed as pre-requisites for budget support. Rather than wait for the conditions they see as pre-requisites to be met, donors are now starting to use budget support to influence policies and thus generate the required conditions. For example, if a PRS is not concrete or updated, donors and the government negotiate the poverty reduction goals to be met and actions to be undertaken, leaving aside the spirit of the PRS process, which was that priorities and goals should be determined through a national participatory process.

Harmonization of budget support

Since 2005, Bolivia and Nicaragua have had joint budget support agreements. This does not mean, however, that budget support is harmonized. Some of those who signed agreements do not provide budget support or have their own budget support program on the side. Bilateral agreements generally take legal precedence over multilateral agreements. Not all donors give the same weight to the conditions in the budget support agreement. And, finally, some budget support providers are not part of the joint agreements. In Honduras, multilateral donors have their own budget support programs. Sida convened a Budget Support Group in 2006 to try to coordinate these multilateral programs as well as the actions of some bilateral donors.

Conditions attached to budget support

An analysis of the conditions attached to budget support indicates that in general there has been a hardening of conditions – there are now more preconditions for obtaining budget support. Even when these preconditions have not been met, bilateral donors begin budget support programs

in the hope that the preconditions established in budget support agreements will influence policies. Budget support by multilateral donors also includes an increasing number of preconditions for a first disbursement and of “triggers” for subsequent disbursements. In some arrangements (performance-based loans of the IADB and budget support of the European Commission), the amount disbursed depends on the degree to which goals have been met. This all means that the chances that governments do not receive funds, or that payments are reduced, have increased. As budget support becomes a larger percentage of aid, this means that more aid is dependent on achievement of certain conditions (including IMF required reforms) and the predictability of aid decreases.

The number of results-oriented conditions attached to budget support programs has increased in comparison with the 1990s. All of the budget support agreements now have some results indicators. But we also observe that process-oriented indicators (which identify policies to develop or actions to take) have not decreased. This means that the total number of conditions has increased over time and that there is still a large amount of donor involvement in pushing for the implementation of specific policies and development of certain laws.

The number of sectors subject to conditionality has also increased over this period. Macroeconomic stability and structural reforms are still important conditions, but there are also now many conditions related to poverty reduction, the social sectors, and public financial management.

The Donor Community and Poverty Reduction

It is hard to draw conclusions about whether the activities of the donor community have promoted policies that will reduce poverty. If all project aid were aligned with national strategies and if national strategies were successful at promoting poverty reduction, then aid would have helped. It is a positive development that most aid is now in budgets and that there are attempts to improve coordination in sectoral roundtables. As for budget support, it is too early to evaluate the results because the agreements are recent. In Bolivia and to some extent Nicaragua, the most tangible impacts of budget support to date may have been improvements in public financial management. Further impacts are limited in Bolivia because budget support was discontinued and in Nicaragua because the major coordinated action of the budget support group focused on achievement of IMF ordered reforms, rather than actions specifically related to poverty reduction.

Reflections about Poverty Reduction Strategies

The experience with the PRS process in Bolivia, Nicaragua, and Honduras raises some fundamental questions about the assumptions behind the process. At the heart of the PRS process lies the idea that countries must have a national poverty reduction strategy. We question how valuable it is to keep insisting that these national strategies form the basis for relationships between government and the donor community because the original PRSPs (and the strategies that have replaced them) have not in practice met the expectations of the PRS process:

- *The PRSPs are supposed to provide multi-sector comprehensive visions of how to reduce poverty and to clearly identify priority actions.* In practice, the strategies have become broader over time, without providing a truly integrated multi-sectoral view of poverty reduction and without identifying priorities.

- *The participatory process through which PRSPs are designed is expected to improve the quality of the strategies and generate commitment inside and outside the government to implement them.* In practice, the participatory processes had little direct influence on strategy content and did not generate widespread or lasting commitment to the strategies. Moreover, donors have placed less importance on participation in the design of revised strategies, and government commitment to “their” strategies has increased.
- *A national PRS is expected to produce policy continuity and permit monitoring of the strategy over time.* In practice, there has been much continuity in policies implemented in the three countries, but this has been more by default than due to a strategy. The strategies have not enabled monitoring and evaluation. This is due in part to the fact that the strategies have been changed on many occasions, but even the most stable strategies (e.g. Honduras) have not overcome all the hurdles to institutionalizing a monitoring and evaluation tradition. The strategies, and the process surrounding them, may have increased attention to the problem of poverty, but it is not clear that one needs a national poverty reduction strategy to do this.
- *National PRS are expected to facilitate a move towards more flexible forms of aid.* The strategies were neither sufficiently detailed nor sufficiently prioritized to serve as the basis for sectoral budget support. Nor has having a strategy accepted by government and the donors proven to be a necessary precondition: budget support was provided even in the absence of an accepted strategy.
- *A national strategy shows a commitment to poverty reduction.* Because the strategies do not reflect what is actually implemented, they are not a good measure of commitment. It would make more sense to evaluate results and progress reports, though, given the state of monitoring systems, it is difficult in practice to evaluate the results achieved by the current government.

If the original PRSPs and the strategies that have replaced them have not in practice achieved the objectives set out for them, would it not make sense to consider other alternative approaches to structuring the relationships between government and donors? Two options that deserve consideration are:

- Working together on a limited agenda, where the strategy to pursue is clear and monitoring is easy;
- Developing and implementing sectoral strategies, which admittedly sacrifice the goal of comprehensiveness but may stand a better chance of surviving government change and may be more feasible to implement.

More fundamentally, to achieve the objective of monitoring, evaluating, and adjusting (based on results) a country’s poverty reduction policies, it will be important for donors and governments to continue to support efforts to systematize the production, dissemination, and analysis of reliable and recent data about poverty and about the results of government action.

1. Introduction

In 1999, Poverty Reduction Strategies (PRS) were proposed as a new organizing framework for the relationships between donors and the national governments of aid-receiving countries. A coordinated group of activities, instruments, and conditions were designed around the PRSs with the final goal of making poverty reduction efforts more efficient. The center of this process – which this report calls the PRS process – is having (and designing in a participatory way) a comprehensive, long or medium-term strategy for poverty reduction. When they formulate a PRS, national governments commit themselves to implement and monitor these strategies and to write progress reports. Civil society also participates in the monitoring and evaluation activities. International donors commit to supporting the implementation of the strategies, by aligning their instruments and aid conditions with these national strategies. The progress reports produced by the government are requirements for signing a PRGF agreement (Poverty Reduction and Growth Facility) with the International Monetary Fund (IMF). Having a PRS and an agreement with the IMF are conditions for accessing other kinds of support for the strategies (for example, the PRSC, or Poverty Reduction Strategy Credit of the World Bank and debt forgiveness through the HIPC Initiative II).

This group of actions, instruments, and conditions that are part of the “PRS Process” framework do not represent an end in and of themselves. Rather, the framework was proposed with the idea that each element would help to achieve the following fundamental objectives.

- Participation: Civil society participation in the design of the strategies has the objective of improving the *quality and efficiency of the poverty reduction strategies* since this means that the government will consult directly with the poor and the organizations that represent them.
- Comprehensive strategies: The PRSs are comprehensive and multi-sectoral strategies that aim to highlight *both positive and negative interactions between the policies of different sectors and the objective of reducing poverty*.
- Medium or long-term: With medium and long-term strategies that have financing identified, the aim is to *assure the continuity of investment policies and programs*.
- Ownership: The ownership of these strategies by the national governments and society in general increases the *incentive for governments to implement, and not abandon, the strategies*.

- Monitoring and evaluation: Strategies are monitored and evaluated in order to increase *results-orientation* in decision making about how budget resources are distributed and which policies are prioritized.
- Alignment and harmonization: Aid programs and associated conditions are aligned with national policies in order to improve the *effectiveness of the conditionality* and assure that cooperation agencies contribute to the implementation of the strategies.

Bolivia began the PRS process in 1999 followed by Honduras and Nicaragua in 2000. In 2001, the World Bank and the International Monetary Fund approved the PRSs of the three countries. The Institute of Social Studies in The Hague, at the request of Sida, has monitored the processes in these three countries since 2003. During the first three years of the study, the reports pointed to the existence of some positive and unexpected effects of the PRS processes. These effects varied from country to country and ranged from supporting the improvement of resource management and information systems in Nicaragua, to contributing to the political inclusion of previously marginalized groups in Bolivia, to the creation of a space for a tri-partite dialogue in Honduras. However, the reports also highlighted problems with the conception and practice of the PRS process, such as:

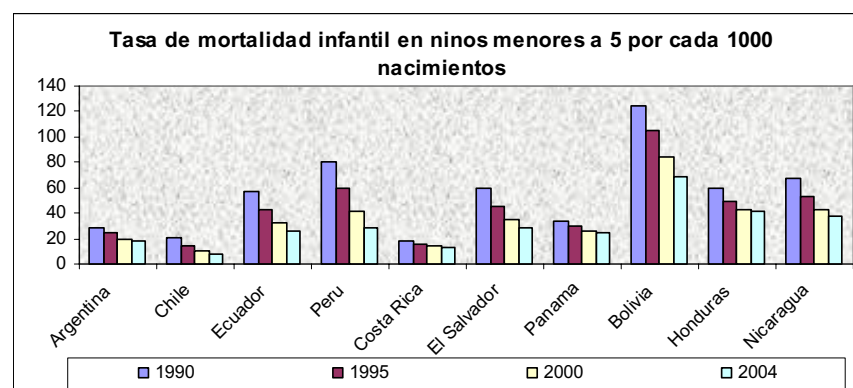
- The difficulty of prioritizing activities and developing a strategic vision through participatory processes,
- The difficulty for a national government to take ownership of any strategy that is a condition for accessing aid and/or was prepared under another administration,
- The difficulty of implementing a comprehensive strategy in governments with execution problems,
- The difficulty for international cooperation agencies of changing course and adjusting their priorities and projects to a national strategy in the short-term, and
- The relatively little progress made in reducing poverty in an ongoing and accelerated way in Bolivia, Honduras, and Nicaragua.

In Latin America in general, the new millennium has not seen significant reductions in monetary poverty rates (IDB 2004), and from the little updated data that exists, we conclude that Bolivia, Honduras, and Nicaragua are not exceptions to this Latin American trend.

- In Honduras, statistics published by the SIERP (System of PRS Indicators) indicate that the monetary poverty rate remained practically unchanged between 2001 and 2005 (from 65.2% to 65.8%). Extreme poverty decreased slightly, from 48.4% to 47.1%; at the same time, inequality has increased since the beginning of the PRS process.
- In Bolivia, the National Statistics Institute (INE) reports that the monetary poverty rate rose from 62.6% in 1999 to 67.3% in 2003. The incidence of extreme poverty fell between 2000 and 2004 but rose again to 38.2% in 2005 (UDAPE-CINDM 2006 in De Jong 2007b).
- In Nicaragua, the monetary poverty rate was 45.8% in 2001 and by late October 2006 no other statistics had been published. However, significant reductions in poverty rates cannot be expected in Nicaragua given the annual average economic growth rate of 3.1% between 2001 and 2005, a 1.7% annual average growth in population, and the high levels of inequity in the income distribution in Nicaragua (Guimarães et al. 2007).

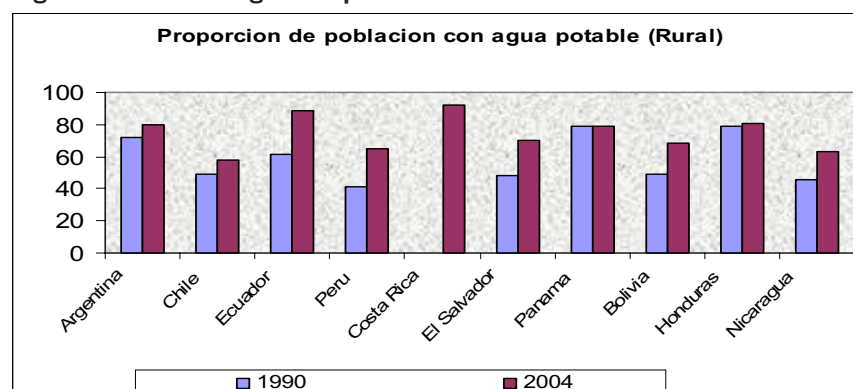
The three countries have had more success, both before and after the beginning of the PRS process, in extending basic services to the population. In general there is ongoing progress in these countries in this area, as in other Latin American countries (See, for example Figures 1.1 and 1.2). Bolivia, Nicaragua, and Honduras do not stand out either for their good or poor results in social indicators, though it is worrisome that some social indicators have worsened recently, as for example with the net primary school attendance rates in Nicaragua² and Honduras.³ It could be too early to say that the PRS process is not producing concrete results in the struggle against poverty in the three countries because of a lag between actions and results. However, the data available so far do not give much reason for optimism.

Figure 1.1: Infant Mortality Rate for Children Under Five, Per 1000 Births



Source: UNDP 2006

Figure 1.2: Percentage of Population with Potable Water in Rural Areas



Source: UNDP 2006

In spite of the many criticisms expressed about the PRS process, it continues to be an important model for foreign cooperation, so much so that donor representatives still state that they base their aid strategies and concrete projects on the PRSs or on the national strategies that have replaced them. The Paris Declaration reiterates some of the basic tenets of the PRS process, such as the need for alignment and ownership of aid. Furthermore, the PRS process serves as a model for other international

² The net primary school attendance rates decreased from 82.6% in 2004 to 80.3% in 2005 and has shown a reduction of 5.2 percentage points since 2002, the year in which it reached a level of 85.5% (Guimarães et al. 2007)

³ After increasing from 85.3% to 90.3% between 2000 and 2002, the rate has gone down again to 86.1% in 2005 (De Jong et al. 2007a)

initiatives. The 2006 Human Development Report dealing with the issues of water and sanitation is an example in this sense:

Looking back over the last ten years, it is difficult to avoid the conclusion that water and sanitation problems have suffered from an excess of words and a deficit of actions. What is needed in the decade ahead is a concerted international drive starting with nationally owned strategies but incorporating a global action plan. (UNDP 2006).

This sectoral proposal confirms much of the PRS process, including the need to work based on national strategies owned by the government – strategies that have clear objectives and goals, that can be monitored, and that have funding identified for the medium term.

Given the interest in the PRS process and the principles behind the process, it is important to continue learning lessons from this experience in Latin America. This year's report emphasizes three objectives of the PRS process.

- The second chapter of the report relates the history of the PRS process in the three countries in order to evaluate whether it has produced improvements in content or guaranteed the continuity of poverty reduction policies in the three countries.
- The third chapter examines the extent to which the PRS process has been able to generate institutional changes that favor continuity and efficiency in the struggle against poverty in the future. More specifically, it investigates whether the PRS process, with its vision of involving civil society in the monitoring of the strategy, has been able to institutionalize and/or strengthen a formal downward accountability system.
- Chapter four examines the events of the last year in terms of harmonization, alignment, and the use of flexible modalities of aid, such as budget support.

The conclusions on each topic are found at the end of the chapter. Chapter five is a reflection on the PRS process, based on the conclusions of the study.

2. The PRS Process and Poverty Reduction Policies

At the beginning, the framework and objectives of the PRS process were identical for Bolivia, Nicaragua, and Honduras. With time, however, the processes have taken different paths in each of the three countries. This section briefly reviews the history of the PRS process in each country, looking in greater detail at the most important events of the past year. The conclusion analyzes the extent to which the objectives of improving the quality of the poverty reduction policies in the countries and guaranteeing their continuity have been met.

Table 2.1: Critical Moments in the PRS Process in the Three Countries

	Bolivia	Honduras	Nicaragua
Interim PRS	January 2000	April 2000	August 2000
HIPC Decision Point	February 2000	July 2000	December 2000
Original PRS Approved	June 2001	October 2001	September 2001
HIPC Completion Point	June 2001	April 2005	January 2004
IMF Program	ESAF-PRGF 1998–2001 Standby February 2003, extended but repeatedly “off track”	ESAF 1999–2001 but with problems PRGF February 2004	ESAF 1998- but repeatedly “off track” PRGF December 2002-late 2004, then “off track” PRGF December 2005
PRS Monitoring Institutions with Civil Society Participation	National and Departmental Mechanism for Social Control	PRS Consultative Council	National Council of Social and Economic Planning (CONPES)
PRS Progress Reports	Several written 2002–2003, but not approved by IFI staff. Replaced by monitoring of Millennium Goals	November 2003 March 2005 June 2006	November 2002 November 2003 November 2005 (along with the approval of the NDP) May 2006
Changes in Government * if as result of elections	June 2002* October 2003 June 2005 January 2006*	January 2002* January 2006*	January 2002* January 2007*

	Bolivia	Honduras	Nicaragua
New National Plans * if approved as PRS by IFIs.	Plan for Government 2002 Revised PRS 2003 <i>Bolivia Productiva</i> 2004 National Plan 2005 Emergency Plan 2005 National Develop- ment Plan 2006	National Plan 2002 Expanded PRS 2003 Plan for Government 2005 Revised PRS 2006	National Development Plan (NDP) 2002, Revised NDP 2003 NDP-O 2004 New NDP = PRS 2*, December 2005
Participatory Processes (related to new plans)	<i>Diálogo Bolivia Productiva</i> 2004 Consultation and Regional Meetings 2006	Prioritizing Projects Consultation on use of resources 2005	Municipal and regional consulta- tions for 2004–2005 NDP

2.1 Bolivia

History and Current Status of the PRS Process in Bolivia

Bolivia was one of the first countries to enter the PRS process and comply with the HIPC Initiative II requirements. Immediately after presenting the Interim PRS, a National Dialogue was organized with the broad participation of municipal representatives and civil society organizations from all over the country. In June 2001, the Bolivian PRS was approved by the IFIs. Since Bolivia had already had a successful program with the IMF for three years (1998–2001), it reached the HIPC Initiative Completion Point in that same year (June 2001). The most tangible results of the 2000 National Dialogue were to transfer all of the HIPC II debt relief to the municipalities, to establish the national dialogue process every three years, and to create the National Mechanism of Social Control, institutionalizing the role of civil society in monitoring and evaluating the strategy. The three decisions were written into the National Dialogue Law.

In spite of this quick beginning, the PRS had a short life in Bolivia. By 2003, the general opinion was that the process was dead (Komives et al. 2003). Our 2004 and 2005 reports have confirmed this impression and detail the successive steps that led to the death of the process:

- The exclusion of topics of high political importance from the PRS and from the dialogue processes,
- Immediate opposition to the content of the original PRS because it did not respond sufficiently to the results of the National Dialogue,
- The economic crisis of the turn of the century that reduced the government's own resources and nullified for some time the fiscal effect of HIPC resources in the municipalities,
- The early announcement of the new Sánchez Lozada administration that it would change the strategy,
- Donors' rejection of Sánchez Lozada's revised PRSP because it was not created through a participatory process,
- Growing social tension that made dialogue difficult,
- Strong opposition to the economic model behind the PRS and the almost exclusively social focus of the original strategy, and
- Various changes of government in rapid succession, with the production of new plans by each new government.

In 2006, we concluded that the PRS process in Bolivia was dead and buried. In the 2005 general elections, the Movement toward Socialism (MAS) party emerged victorious, which for the first time allowed the country to have a president of indigenous origin. After taking office, President Evo Morales and his government have never officially spoken of the EBRP, the PRS process, or about an effort to develop a “poverty reduction strategy.” Instead, they talked about drawing up a National Development Plan (NDP). When this NDP was finally presented in June 2006, the President referred to the NDP as the only instrument that would guide its actions and orient its policies.

Civil society institutions have not shown interest in reviving the PRS process either. The PRS process opened spaces for dialogue and participation for civil society, but the new administration has offered executive responsibilities to some civil society actors. The Constituent Assembly, installed in August 2006, is currently another important platform where civil society has the possibility to influence decision-making.

Today, not even the donors talk much about the PRS process in Bolivia, since they realize that this discourse will not help to establish a relationship with the new government. However, many donors continue to be concerned about having a framework that can guide government-donor relationships and efforts to reduce poverty. They believe that the NDP is not sufficient in this respect. They do not insist that the NDP adapt its original requirements to the PRS process (that is, the previous participatory process, with the medium term financing plan, with identified indicators, etc.) but they recognize that the NDP will require a great deal of work before it can become an executable plan. Both the bilateral donors and multilateral agencies have sought a way to work with the government in this situation, whether by promoting the creation of detailed sectoral policies derived from the NDP (some bilateral donors), by continuing ahead in a very pragmatic way through their existing aid programs (the IDB and the CAF), or by identifying areas of common interest where it might be possible to work (World Bank).

It is worth mentioning that the Morales government has less interest and less need than previous governments to adapt itself to the wishes and conditions of international cooperation. The President is looking to gas, and not so much to donors, to finance his NDP. In 2006, growth in the export of hydrocarbons and the collection of new taxes in the sector (a result of negotiations between the government and the oil companies) produced an unusual fiscal surplus of nearly 6% of GDP (UDAPE 2006).

In summary, little remains of the PRS process in Bolivia. The memory of the process has even been erased from government websites, and as a consequence, relationships between the government and international cooperation are not based on a national poverty reduction plan. In addition, the vision of creating a medium to long-term strategy was never realized: four presidents have produced five plans in the last three years, and these changes have negatively affected the evaluation of policy implementation and results-based orientation. It has been years since the publication of a progress report on the original PRS or any other national plan (though the Millennium Goals are still being monitored), and the National Mechanism of Social Control has not served as a monitoring and evaluation institution (See Chapter Four). In addition, the current national plan – the NDP – was created without a previous consultation process (though workshops have been held to “*socializar*,” or let people know about, the plan), and currently Bolivia has neither a PRGF with the International Monetary Fund nor a PRSC.

Nevertheless, some of what happened in Bolivia during the last year does appear to be consistent with the basic objectives of the PRS process. The most important happening is that actors and organizations who have been historically marginalized from political processes have now taken power as a consequence of the historic election of Evo Morales to the presidency. This has given a decided boost to people with close ties to the poor in the design of government policies. It is possible that the national dialogue processes, held within in the framework of the PRS process, may have served to strengthen the capacities and ambitions of the social organizations that contributed to the MAS victory. Morales' National Development Plan shows a will to confront certain elements of the economic and institutional model which, at least according to some, have restricted and are detrimental to the struggle against poverty (see below). International cooperation had little influence on the creation of this Plan, and therefore it is likely that there is more ownership of it by the government and some civil society actors than previous strategies.

Changes in Poverty Reduction Strategies in Bolivia

During the course of the past five years, there have been few significant changes in the sectoral distribution of the budgets and programs implemented in Bolivia, in spite of the fact that the visions and priorities of the presidents have changed frequently. This is due in part to an ongoing commitment to specific programs that began before the PRS (such as educational reform) and to investing in human capital. Another factor is that the difficulties the ministries and municipalities have had in executing the programs, which have only been exacerbated by the successive changes in government. The first months of the Morales administration were characterized by continuity in social measures, with the exception of a new emphasis on literacy and the distribution of cash grants to encourage school attendance. The primary adjustments the new government has made to the budget in 2006 have to do institutional changes and a decrease in the salaries of high-level public officials. No significant changes have been observed in the budget allocations for poverty reduction policies⁴ (De Jong et al. 2007b).

This could change in 2007, however, when the implementation of the NDP is expected to begin. The document is still very conceptual and does not contain many details about specific actions that will be taken, but it indicates the intention of the President to change the political and economic model that has prevailed in Bolivia during the last 20 years. Table 2.2 describes the strategic pillars of the original PRS in Bolivia,⁵ and Table 2.3 shows the changes that have been made with the NDP.

At the political level, the new administration emphasizes two ideas that appeared (but with less importance) in the first PRS. The EBRP proposed a bicultural vision of service provision and comprehensive development of indigenous peoples and communities; President Morales seeks the recognition of native peoples as the base for forming a multinational and communitarian state. While the PRS opened spaces for dialogue with civil society, the empowerment of social sectors is an intrinsic part of the new government's policies: President Morales proposes a new communitarian social power complementary to that of the state with the mission of demanding accountability from the state (Fourth Power, or *Cuarto Poder*). The topic of gender and the concern

⁴ The budget reformulated in 2006 included a higher budget for public investment but the execution estimates indicate that they will not be able to execute more than the average level in past years.

⁵ A detailed description of the original PRS is found in Komives et al. 2003.

about exclusion, discrimination against, and mistreatment of women has lost significance in the NDP as compared to the first strategy.

Table 2.2: Strategic Pillars of the Original PRSs

Bolivia	Honduras	Nicaragua
<i>Opportunities:</i> create employment through support to micro-enterprises and the rural sector	<i>Sustainable Reduction in Poverty:</i> Accelerate equitable and sustainable economic growth	<i>Broad-based Economic Growth</i>
<i>Capacities:</i> investments in education, health, and basic sanitation.	<i>Investments in Human Capital</i>	<i>Greater and Better Investment in Human Capital</i>
<i>Security and Protection:</i> protect vulnerable groups during economic crises and natural disasters	<i>Vulnerable Areas and Groups:</i> Strengthen safety nets for specific groups	<i>Protection of Vulnerable Groups</i>
<i>Social Participation:</i> strengthen the role of civil society in monitoring governmental actions and decision making	<i>Reduce Environmental Vulnerability</i>	<i>Governance and Institutional Development</i>
<i>Cross-cutting Themes:</i> – Gender equality – Development of indigenous communities – Protection and conservation of environment	<i>Participation in Civil Society and Decentralization</i> <i>Strengthen governance and participatory democracy</i>	<i>Cross-cutting Themes:</i> – Environmental Vulnerability – Social Equity – De-centralization

Source: Adapted from Vos et al. 2003.

The government's economic plan is based on the nationalization of hydrocarbons. The President's ambition is to invest the new resources obtained from gas into production, promoting industrialization and the transformation of primary production. This interest in investing in production did not originate with the new administration. The question of how to "create wealth" (instead of just "reducing poverty") has been an important point of political debate since shortly after the first PRS was published (which on the topic of production, limited itself to tourism, productive chains of agro-export products, and support for micro-enterprises) and the issue was the topic of the second national dialogue in 2004. Nevertheless, the NDP points to the definitive rupture with the past tendency of associating the struggle against poverty primarily with redistribution through investment in human capital. The role that the state can play in economic development is also changed, going from that of "facilitator" to a government with a direct and significant role in economic development. In addition to the "nationalization" of gas, it proposes a system of financing for productive development through a first tier government bank (Banco de la Unión with a majority of state ownership), and it seeks to re-establish a leadership role for the state in the electric industry. This economic strategy and the government's employment policies still need to be concretized. Likewise it will be a challenge in the future to find industries, transformation processes, and products that will both enjoy profitable markets and create sources of employment.

Table 2.3: Changes in Poverty Reduction Strategies: Comparison between the Original PRS and the Strategy Announced in 2006

	Bolivia	Honduras	Nicaragua
No change	<ul style="list-style-type: none"> * Macroeconomic stability * Emergency employment program * Distribution of HIPC II resources to the municipalities * Gender equity as cross-cutting theme 	<ul style="list-style-type: none"> * Macroeconomic stability * Growth strategy (investment, market access, productivity) * Strengthen governance/ combat corruption * Strengthen participation * Decentralization of PRS 	<ul style="list-style-type: none"> * Macroeconomic stability * Importance of education (improve efficiency), health (coverage and modernization), and nutrition * Transparent use of resources
Loses significance	<ul style="list-style-type: none"> * Investments in infrastructure for education, health, water * Agricultural productivity * Micro-financing (replaced by state bank for financing production) 		<ul style="list-style-type: none"> * Participation at national level * Judicial reform (was not possible)
Increases in significance	<ul style="list-style-type: none"> * Redistribution instead of titling lands. * Policies (not defined) to generate employment * Cultural strengthening as a fundamental part of the governing plan instead of a cross-cutting theme * Civil society participation moves to social organizations being the "fourth branch" of government. * Serve the poorest communities as a priority * Literacy 	<ul style="list-style-type: none"> * Investments in human capital (education and health) * Disaster prevention and mitigation * Investments in traditional economic infrastructure (ports, highways) * Political security 	<ul style="list-style-type: none"> * Participation on the local level * Create conditions favorable for GDP growth in general * The social safety net of the first PRS is integrated into a new safety net policy.
Change of strategy	<ul style="list-style-type: none"> * Hydrocarbons continue as an axis of growth and a source of public resources, but the plan is to nationalize them in order to receive greater benefits and direct the resources to national production development, especially in the social sectors. * Active role of the government in supporting production and providing energy services (as compared to the tradition established from the 1980s on) 	<ul style="list-style-type: none"> * More active role for public policy so that growth will result in the reduction of poverty, for example, policies to facilitate the poor's ability to access and use assets. * Focus on poorest individuals instead of marginalized areas. 	<ul style="list-style-type: none"> * Differentiation of interventions in the area of rural development according to a classification of the producers. <ul style="list-style-type: none"> – From assistance to the extremely poor to rural infrastructure and other rural development measures for farmers with productive potential * De-concentration of national functions to the departmental level, instead of strengthening municipalities

Source: Guimarães et al., 2003, 2004, 2005, 2007; Cuesta et al. 2003, 2004; De Jong et al. 2007a, 2007b; Komives et al. 2003, 2004.

Note: In Bolivia, the 2006 PRPs are found in the National Development Plan. In Honduras, it is the revised version of the PRS presented recently by the new government. In Nicaragua, we use the most recent NDP as the state of poverty reduction policies at the end of the Bolaños administration.

The original PRS supported the 1991 Law of the Agrarian Reform Institute which sought to accelerate the process of measuring properties and formalizing land ownership in the eastern part of the country and of obtaining titles for land in the valleys and highlands where an the Agrar-

ian Reform had taken place in mid 1990s. President Morales seeks to expropriate lands that are not fulfilling a social and economic function, compensating the landowner in return.

Investments in infrastructure for education, health, and water receive less attention in the NDP than the housing and electricity sectors do. Currently, HIPC II resources and additional funds from the National Compensation Policy are distributed to all of the municipalities based on a formula that takes into account both the population of poor people in each municipality (an indicator of need) and the non-poor population (an indicator of municipality's capacity to finance itself). In contrast, the NDP seeks to prioritize investments in the 30 poorest communities. This plan has not been presented in much detail, and the uncertainty about the future direction of investment policies has left programs like the Social Production Fund and the National Fund for Rural Development practically paralyzed.

The NDP does not touch on some important elements of poverty reduction policy. For example, it has not proposed changes in macroeconomic stability policies or in the framework of safety nets. The NDP adopts the emergency employment program with few changes.

In summary, the biggest change in strategy seen over the last few years is the growing importance of economic policies in the fight against poverty; the objective has moved from "reducing poverty" to "creating wealth". Until now, it has not been possible to make much progress on the implementation of these ideas, primarily because of the constant changes in government. Another change that is introduced with the Morales government is the Constituent Assembly, based on the idea that it is essential to make changes in political processes and institutions.

To what extent has the PRS process had an influence in moving the political debate about poverty reduction in these new directions? As noted previously (Komives et al 2003), the original PRS did not constitute a new vision for poverty reduction, but rather regrouped the social programs of the 1990s. The new visions included in the NDP are a reaction to this idea that poverty reduction policies are exclusively social policies. Still, it is important to recognize that the PRS process, with its two dialogue processes, has increased capacity and provided a national platform for social actors and local actors who previously had little official participation in the policy discussions. The influence of their ideas in the dialogues, and later in the new administration, has led to a change of direction, at least in the poverty reduction discourse if not yet in the policies that are actually implemented.

2.2 Nicaragua

History and Current Status of the PRS Process in Nicaragua

A primary motivation for the Alemán administration (1997–2002) to enter the PRS process was gaining access to the HIPC II debt relief. The Interim PRS was presented in August 2000, and the final PRS was presented a year later in September 2001. In between, a process of participation was organized at the national level, but it was more symbolic than real since the government incorporated very little of the results of the consultations into the final PRS document. In spite of this deficiency in the process, the PRS was approved by the World Bank and the International Monetary Fund.

With the change of government, the new administration (Bolaños, 2002–2007) continued implementing the approved PRS and producing progress reports (remember that they had not yet arrived to the HIPC II

completion point), but at the same time, worked on refining its own development plan so that it could be accepted as the revised PRS. In December 2002, the administration was able to reach a PRGF agreement with the International Monetary Fund (IMF). After keeping the PRGF on track for one year, Nicaragua reached the Completion Point for the HIPC II Initiative in January 2004. During this period, the Bolaños government produced several strategies (National Development Strategy or ENADES, the National Development Plan or NDP, an Operative NDP, and the 2005–2009 NDP) before the final version of the NDP was accepted by the international community as a PRSP II and was approved as such by the World Bank and the IMF in January 2006.

Recent advances in the area of participation in Nicaragua are somewhat contradictory. On the one hand, the NDP was subjected to practically no national consultation before its approval. The NDP was presented to CONPES (National Council for Social and Economic Planning) in June 2005, but this happened after having formulated the final document, and with the clarification by the President's Secretariat for Coordination and Strategy that "this presentation does not constitute a consultation; I prefer that it be seen as a dissemination of the National Development Plan so that people can take ownership of it." There was a process for participation in the departments about the already drafted plan which involved a large variety of local actors, but the participation in these processes was limited to the expression of opinions that were not always taken into account by the government (Vado 2006). This did not help civil society to take ownership of the new strategy.

On the other hand, the government continued designing a National System of Consensus Building and Participation (PASE) that established how the government, civil society, private sector, and the international community would interact in the definition of the objectives and priorities of public policies, laws, and strategic development plans. Furthermore, towards the very end of its mandate, the Bolaños administration restructured the CONPES. This council, which has been a consultative body of the President of the Republic since its founding, played a very important role in the consultation about the first PRS, but suffered a considerable decline when it was partly ignored and partly used by the same president for political ends, especially to compensate for the administration's political isolation in conflicts with other branches of the government (Guimarães et al. 2006). This had led many people to look at CONPES as a political arm of the government more than as a body for dialogue and social and economic consensus-building. The council was reorganized and reinforced in 2005 with the inclusion of departmental and regional delegates and representatives of more civil society organizations, limiting the number of members nominated by the President. The Ministers coordinating sectoral cabinets were given a presence on the council, and the Executive Secretary was elevated to the level of Minister.

The evaluation and monitoring systems that constitute one of the most useful legacies of this government continued to be reinforced. Among these systems, the most developed are the Integrated System for Financial Management and Auditing (SIGFA), the National System of Public Investment (SNIP), the National System for Monitoring Development Indicators (SINASID), as well as the computerized information systems at the sectoral level installed in the various institutions of the government. In 2005, another system was added that was based on the policy matrix from the joint budget support agreement.

Unlike Bolivia, the skeleton of the PRS Process is still in place in Nicaragua. While there is no broad ownership of the PRSP II, nor was there significant participation during its drafting, the government and international cooperation accept this document as a legitimate replacement for the original PRS, and the country has CONPES as an active institution that could facilitate a dialogue between the government and civil society. Progress reports on the advances made thus far continue to be produced, and they are supported by ongoing progress in the national systems for monitoring and evaluation.

Changes in Poverty Reduction Policies

The strategic pillars of the original PRS in Nicaragua included broad-based economic growth, greater and better investment in human capital (for example, greater efficiency), the protection of vulnerable groups, and the strengthening of governance and institutional development (Table 2.2). Compared to the PRS, the NDP (PRSP II) places much more emphasis on simple growth in GDP to reduce poverty and does not seriously seek an answer for pro-poor growth. This change of emphasis is reflected in a redefinition of expenditures on poverty reduction, which was first implemented in 2004. This new definition includes not only resources with direct redistributive effects on the poorest of the poor and those that increase employment and improve economic capacity among the poor, but also expenditures that seek to improve public administration, governance, and the business climate in general (for example, the promotion of investments and exports, strengthening competitiveness of productive sectors through improvements in regulations, the formal demarcation of property, and financial services).⁶

Another strategic change occurred in the field of rural development. There, the decision was to prioritize the farmers who have the potential to make productive investments. The very poor, on the other hand, are offered a policy that is based more on direct assistance.

Education, health, and nutrition have maintained a central position in poverty reduction strategies during this period. In education, the plan is primarily about improving the efficiency of service provision. The health plan emphasizes coverage and modernization. The percentage of central government expenditures dedicated to education has grown from 15% to 18% between 1998 and 2006, and in health from almost 12% to 13%. A large part of the increase corresponds to increases in salaries and in contracting additional personnel.

Table 2.4: Nicaragua: Central Government Expenditures: Percent Distribution

Sector	1998	2001	2006
Education	15.51%	16.22%	18%
Health	11.88%	12.48%	13%
Housing	0%	0.41%	1%
Other Social Expenditures	8.54%	8.80%	14%
Non Social Expenditures	64.07%	62.09%	54%

Source: Guimarães et al. 2003–2006.

Efforts also continue to be made to improve monitoring and evaluation and to improve transparency in the use of public resources, though other institutional reforms – such as the proposed reform of the judicial branch

⁶ Unlike the previous definition, this definition excludes central administrative expenditures in the ministries.

– have fallen off the policy agenda because their implementation has proved to be impossible. A new social protection policy, driven by donors, is included in the NDP; this policy includes the safety nets of the first PRS. The government continues to promote local participation – for example, the NDP was discussed at the departmental level – but as mentioned previously, there was little participation on the national level. Decentralization continues to occupy an important place in the NDP, but there is a change in emphasis: instead of strengthening local governments (which was the focus of the first PRS, especially for the Atlantic Coast), the proposal is to de-concentrate national functions to the departments.

In sum, the current Nicaraguan poverty reduction strategy is to promote GDP growth, strengthen systems of governance, and help the poor with social protection programs and basic services. The strategy raises doubts that poverty reduction is truly a priority of the Bolaños administration (Guimarães 2005 and 2006).

2.3 Honduras

History and Current Status of the PRS Process in Honduras

In Honduras, the Interim PRS was drafted in the year 2000, participation processes were then organized, and the final PRS was presented in October of 2001. With the change in government (President Maduro, 2002–2005) there was a time of uncertainty around the PRS. The new president took office with his own “National Plan,” but given the importance of debt relief for the country, the government finally decided to accept the PRS (through it expanded it in 2003 with a redefinition of “poverty spending” to include programs, projects, activities etc. in the general budget of the Republic). The Maduro administration wrote a PRS progress report and respected the formal structure of the Consultative Council of the PRS (CCERP). Thus, in April 2005, the country was able to reach the completion point for the HIPC II Initiative.

The projects and programs that would be carried out with the resources freed up by debt relief had already been agreed on with civil society (Cabezas 2005). Nevertheless, in the last few months of his mandate, President Maduro proceeded to implement a new consultation or “prioritizing” process on the projects to be implemented with debt relief funds in 2006. The result was that none of the 33 previously agreed-upon projects was implemented (diminishing trust in the previous consultation processes), and once again a great deal of expectations were generated about projects that would be implemented in the following year. One explanation for President Maduro’s decision to reopen the question of how to use the resources is that he wanted to send the message that the projects chosen would only be implemented if the current government survived the elections (De Jong et al. 2007a). In the end, the liberal candidate Manuel Zelaya won the elections and did not respect the results of the Maduro consultations.

President Zelaya raised the profile of the PRS process in his presidential discourse. The two previous presidents rarely referred to the PRS, leaving the impression that it was a public issue of lesser importance. In contrast, President Zelaya mentioned the PRS process in his inaugural speech. He did not delay, however, in presenting a proposal to revise the PRS. His revised PRS did not go through a participatory process, and to date has not been officially accepted by international cooperation agencies as a replacement for the existing PRS.

Most of the debt relief resources have been dedicated to keeping President Zelaya's campaign promises, including raises for teachers and medical personnel and hiring more members of the security forces. The government left a sum of 887.6 million lempiras "to allocate to PRS expenses" in the budget presented to the National Congress. Of these, the National Congress decided to transfer 700 million to the 298 municipalities for them to execute projects considered in the PRS,⁷ instead of assigning them to the projects that had been previously agreed upon with civil society. In order to divide the money, the congressional representatives originally proposed the formula defined in the Law of Municipalities, which is based primarily on the absolute population of each municipality. This decision by the Congress led immediately to protests by civil society organizations and the CCERP (which expected the resources would be used for "its" projects). International cooperation (the "Group of 16" donors or G-16) added its voice and requested that the PRS formula – which takes into account the percentage of the population in poverty – be used to distribute the funds to municipalities. The lobbying process of the civil society organizations, the G-16, and other forces forced the Congressional representatives to look more closely at the PRS and to debate it until they ended up accepting the PRS formula. Municipalities are required to distribute the PRS resources they receive in the following manner: 55% for production projects, 35% for social projects, and 10% for institutional strengthening and governance. These criteria imposed from above could weaken local democracy in that they do not respect the Municipal Investment Plans (PIMs) that were formulated through local participation processes. They also interfere with implementation because the PIMs currently include almost no production projects.

In 2006, another actor became involved in the Honduran PRS process – the PRS Commissioner. During the Maduro administration, she was the Vice-Minister of the Presidency and served as Secretary of the Consultative Council of the PRS (CCERP) and was, therefore, the primary reference person for the PRS. Instead of following the operating procedures of the previous administration, President Zelaya decided to create the position of the PRS Commissioner. The Commissioner is the "manager for the PRS" and the coordinator of the various secretariats and national and territorial entities, and "all of the activities conducive to assuring that the various PRS areas of activity will progress appropriately" (UNAT, 2006; 86). One disadvantage of this change is that it weakens the relationship between the Ministry of the Presidency and the CCERP and causes doubts about the role of the Minister of Culture who, as coordinator of the social cabinet, has the responsibility to advise the President on setting priorities and designing PRS related programs.

The PRS has had more vitality in Honduras than in either Nicaragua or Bolivia. International cooperation agencies, the national government, and civil society have all shown signs of wanting to fight for the continuity of the process, if not for the strategy itself. The higher profile of the National Congress in the process is also encouraging. It is difficult to determine, however, if the events of 2006 have strengthened or weakened the PRS process and the PRS itself. The ultimate impact of the leadership changes in the CCERP, of the lack of participation in design of the proposal to revise the PRS, and of the lack of follow-up on the process of selecting the projects to be financed with HIPC II resources is still unclear.

⁷ These transfers will be added to those that they already receive according to the Law of Municipalities (5% of the National Budget, which is not always complied with).

Changes in Poverty Reduction Policies in Honduras

The strategic pillars of the original PRS in Honduras included accelerating equitable and sustainable economic growth, investing in human capital, strengthening safety nets for vulnerable areas and groups, and strengthening participation and decentralization (Table 2.2). Between 2001 and 2005 the Honduran PRS was updated and modified slightly in the progress reports and implementation plans. Since 2003, “recurrent expenditures that contribute to reaching PRS goals” have been included in the strategy. Besides this, there were few significant changes – only the recalibration of goals and indicators and the inclusion of two additional goals of bringing electricity and telephone coverage to more people. President Zelaya seems to want to make changes in the PRS, but so far these changes have been limited to ideas presented in his revised PRS. It remains to be seen to what extent these ideas will be translated into real changes.

President Zelaya’s proposal introduces a new conceptual framework for the strategy, but it doesn’t represent a fundamental shift in content (Table 2.3). The names of the strategic pillars are different from the ones in the original PRS, but the great majority of the previous PRS’s actions and strategies are maintained. In the conceptual framework, a reinterpretation of the relationship between growth and poverty is introduced, starting with the ideas from the World Bank study on virtuous and vicious cycles, and the PRS is conceived as a comprehensive policy focusing on assets for the poor. This appears to mean that a more active role is needed for public policy in order to assure that growth is translated into pro-poor growth. More attention is given, for example, to labor legislation, investment in human capital (through social infrastructure and basic services projects), and the relationship between employment and human capital. The proposal is to advance policies to facilitate the poor’s access to and use of assets, in order to increase their productivity and their participation in markets, and to improve the targeting of policies and investments.

With respect to the targeting, the original PRS prioritized its actions in the most marginalized areas of the country (the south, the west, the rural zones of the central area, and marginal areas of the big cities). The revised PRS targets the poorest *families* (especially the 80,000 families who live in extreme poverty), though the “package” of actions taken to benefit these families will vary by region.

The new PRS proposal introduces an even broader definition of “expenditures on poverty.” The new administration proposes that the pro-poor expenditures include “all investment aimed at achieving greater economic growth, including developing the capacity of the productive and social sectors and all of the efforts oriented towards creating an adequate framework for governance, emphasizing those programs that directly influence the defined goals (UNAT, 2006). This redefinition means that expenditures previously financed outside the PRS framework would become poverty reduction expenditures. One example is in the area of security, which was an important element of President Zelaya’s policy agenda. This element is introduced in the proposed revised PRS as a factor for “guaranteeing the sustainability of the strategy.”

The total annual budget of the original PRS increased from approximately US\$178 million in 2001 to US\$830 million in 2006, due primarily to the redefinition of “expenditures on poverty” (38% of the national budget). The budget for Zelaya’s PRS in 2006 is even greater: US\$863 million. The PRS has become such a large part of the budget and

includes so many sectors, that it can almost be seen as a national development plan (De Jong et al 2007a). In this sense, the change in the Honduran strategy follows the pattern observed in the other two countries.

2.4 Conclusions

Has there been Continuity in the Strategies and in the Poverty Reduction Policies?

One fundamental objective of the PRS process was to assure continuity in poverty reduction policies, and the primary instrument for this was the elaboration of a medium to long-term strategy. The experiences of Bolivia, Honduras, and Nicaragua show how difficult it is to maintain a medium-term strategy in practice. Political pressure to abandon a strategy developed by the previous administration is evident in all three cases. Each new administration took office with its own policy agenda and government plan, though the new administrations in Nicaragua and Honduras decided not to abandon the original PRSs because of their desire to arrive at the completion point of the HIPC II initiative. In contrast, the Sánchez de Lozada administration in Bolivia abandoned the original PRS quickly (after already having received the HIPC II debt relief), but it didn't abandon the PRS process (in the sense that it continued writing progress reports and talking about creating a revised PRS) because it was interested in reaching a PRGF with the IMF. That is to say, the incentive for maintaining the strategies and continuing the process came from the conditionality imposed by international cooperation and not because of any ownership of the strategy on the part of governments or by society in general.

In all three countries, either the PRS idea has been abandoned (Bolivia) or another plan has been produced to replace it (Honduras and Nicaragua). It is important to highlight that the failure to maintain the strategies over the medium term has not meant that there have been significant changes in the poverty reduction policies that are implemented in practice. On the contrary, continuity exists in the policies even when new governments launch their own plans. Some changes in emphasis have been seen in the discourse, but these are not necessarily translated into real changes. Only in Bolivia does it seem that the Morales government has the intention, and the opportunity with the Constituent Assembly, to introduce significant policy changes.

According to the original PRS logic, the weak relationship between changes in strategy and changes in policies implemented would be something positive: it would show that there is a great deal of stability in the social and economic policies of these three countries. If it weren't for the problems of execution that arise with each change of government, this stability would allow continuity in implementation. But in the struggle against poverty, the stability of policies would only be positive if an effective way of reducing poverty had been found. This does not appear to be the case in Bolivia, Nicaragua, or Honduras. In previous reports, we have noted that the original PRSs did not touch on many of the most important and sensitive topics related to poverty (natural resources, redistribution, macroeconomic policies, problems in execution, etc.) and in practice, they did not bring about much change with respect to the policies that were implemented during the 1990s. With the exception of the new government in Bolivia, the national governments of the three countries have not been able to, or have not wanted to, make progress in these sensitive areas during the last six years. In addition to

this worrisome observation, we must add that the culture of evaluation that was hoped to be introduced with the PRS process has not been created. This means that there have been no marginal improvements to policies or implementation procedures based on the results obtained from evaluations. It is not surprising then, that progress towards the Millennium Goals has not been spectacular in Bolivia, Honduras, or Nicaragua and that monetary poverty rates have not been lowered significantly either.

Have there been Positive Changes in the Visions to Reduce Poverty?

While the PRS process has not yet led to significant changes in the policies implemented, it continues to be interesting to ask ourselves if there has been a positive change in the vision of how to reduce poverty. In the successive revisions of the strategies, the PRSs have been transformed into national development plans (even though it is not called this in Honduras). This has allowed governments to include many projects and programs – notably investments in productive infrastructure, in improving the business climate (in Nicaragua) and in security (in Honduras) – in their plans, without abandoning most of the content of the first PRSs. On the one hand, the expansion of what are considered “pro-poor” expenditures is positive since it means progress with respect to the idea that poverty can only be reduced by social spending. On the other hand, this change brings the risk that the programs that focus most on the poor may lose importance relative to the more generalized investments and expenditures. Unfortunately, the changes in definition complicate the monitoring of the expenditure patterns to help prevent this eventuality.

The visions expressed in the most recent plans in Honduras and Bolivia would seem to indicate positive changes in general. Both recognize that state actions are required in order to direct the benefits of the economy towards the poor. It remains to be seen, however, how these still very conceptual ideas are developed. In Nicaragua, there is less reason for optimism. The emphasis on the NDP increasingly points to a strategy that is primarily seeking growth while responding to poverty simply with more extensive safety nets.

The three countries have changed their vision of how to target their programs to assure greater impact of public policies. In Nicaragua, the proposal is consistent with the “developmentalist” vision of its NDP in that it prioritizes support to producers with possibilities for improving their productivity. In Honduras, the new emphasis is on helping the poorest *families*. Bolivia chose the opposite path: it specifically seeks to support the most marginal producers, and it prioritizes investments in the poorest communities of the country. It is still early to evaluate whether these changes in vision will have a real impact on the distribution of resources and on the execution of programs, or if one strategy is more effective than the other.

Does a PRS Demonstrate a Commitment to Reduce Poverty?

The PRS process starts with the premise that having a national comprehensive PRS is an effective way to evaluate each country’s commitment to reducing poverty. The experiences in Bolivia, Honduras, and Nicaragua lead us to question this premise for two primary reasons.

First, in Nicaragua there are serious doubts about the government’s anti-poverty proposal, in spite of the fact that it has been accepted by international cooperation agencies as an indication of the goodwill of the

government to reduce poverty. The fact that a national PRS is a requirement for accessing much international aid puts a lot of pressure on donors to approve the national strategy, even when there are concerns about its content. In these conditions, there is an inevitable tendency to ignore weaknesses in one area (the economic plan, for example) and to base support for a strategy on the content of other areas (like safety nets). This goes counter to the idea of needing a comprehensive poverty reduction strategy in order to achieve significant advances.

Second, the continuity that can be observed in the policies emerges in spite of, and not thanks to, the national strategies announced. We have seen that the national strategies are really short term strategies and that they contain agendas that are too broad and conceptual to be translated in a short period of time into effective execution (the revised strategies are less detailed and less operational than the first ones). The changes that have been made to the strategies are based not on an evaluation of the effectiveness of policies implemented, but rather on changes in government and political vision. Furthermore, there is no reason to believe that this tendency will change in the future in countries with active democracies.

All of this means that it is time to take another look at the objectives of the PRS process and question whether it is worth the effort to continue insisting that a national poverty reduction strategy be the basis for relationships between governments and international cooperation. We return to this question in Chapter 5.

Continuity and Impact of Participation

Aside from the need for a national strategy, another basic element of the PRS process is civil society participation in both the creation and the monitoring of the strategy. In all three countries, participation in the design process has been reduced with each new version of the national strategies. Even the donor community is not putting as much importance on prior participatory processes. It is notable, for example, that in Bolivia, cooperation agencies rejected a revised poverty reduction strategy because it lacked a prior participation process (during the period of Sánchez de Lozada), but now it is considering accepting the NDP which was also not created through a participatory process. In Nicaragua, the donor community found the discussion of the NDP acceptable, though in reality the consultation provided very little real possibility of making changes to the strategic vision of the government.

This reversal in the position of the donor community is not necessarily problematic. Participatory processes have yielded positive results, and one cannot discard the possibility that the dialogues, consultations, and discussions around the PRSs have, to a certain degree, had an impact on the evolution of national visions of how to reduce poverty, giving a notable impulse to discussion of economic topics and contributing to the development of the capacities of social actors. Nevertheless, they have been costly processes in terms of the time and energy invested and the support provided by donors. In addition, a great deal of disillusionment has been generated among the social actors involved due to the perceived lack of attention to their comments and suggestions. In the long-term, it would be better to seek more ongoing forms of dialogue and consultation, instead of investing so much in processes that are designed, in large part, to satisfy a condition. In the following chapter, we report on progress made in this direction.

In addition to civil society participation in designing the strategies, the PRS process was counting on civil society participation to monitor the strategies. This participation in monitoring and evaluation has been scarce, in part because of the simple fact that it is difficult to monitor unstable strategies. But it doesn't appear that civil society had much interest in monitoring the implementation of the strategies simply for the purpose of guaranteeing their continuity. In Bolivia, civil society has been more interested in seeking ways to participate in making political decisions. In Honduras, one reason for civil society organizations to participate in the PRS process has been the promise of having a definitive role in the selection of projects to be financed. These ideas are developed further in Chapter 3.

3. Institutionalizing Government Responsibility for Poverty Reduction

There is broad recognition, both among international donors and within national circles that choosing proper economic, social, and investment policies is only half the battle in the fight against poverty. Institutional changes are also necessary in order to establish an agenda for permanent poverty reduction. The hope is that the PRS process will institutionalize the commitment to fight poverty and increase the capacity of governments to fulfil this commitment successfully (see, for example, Driscoll and Evans 2005, Grindle 2004).

The PRS process and the PRSs in general introduce three types of broad institutional reforms:

- The first are reforms aimed at increasing governmental capacity to design and implement policies and programs (Grindle 2004). These include measures like public service reforms and changes in the relationship between the central government and local governments.
- The second are institutional reforms aimed at changing the role of the government in the economy so that it can promote growth, provide protection from external shocks, or redistribute resources (Bastiaensen, de Herdt, and D'Exelle 2005). These reforms can include changes in trade relationships or in the legal framework of land and credit markets.
- The third type of reform aims at increasing the accountability of government officials and strengthening official control mechanisms by introducing instruments that increase transparency and by creating spaces for civil society participation.

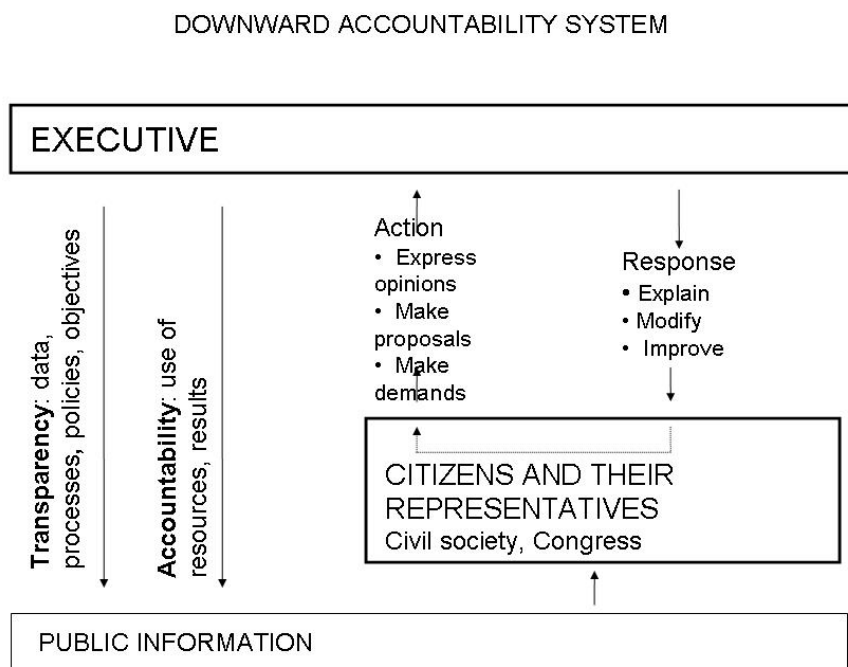
Within the logic of the PRS process, this last type of reform has a central role in creating an institutional environment that facilitates poverty reduction. When more information is available about government plans and actions, it is easier for actors inside and outside of the government to monitor results and demand corrective actions. Likewise, if government officials are evaluated according to their decisions and achievements, it is more likely that they will introduce policy changes and reforms designed to improve their results. In order to overcome weaknesses in existing government structures, the PRS process places a great deal of emphasis on the role of civil society in the quest to make the government accountable for the implementation of a poverty reduction agenda.

This chapter of the report investigates the extent to which downward accountability systems have been strengthened during the course of the PRS process. A downward accountability system consists of a series of mutually self-reinforcing interactions between government and non-governmental actors (Figure 3.1).⁸ Generally speaking, there are three phases in a downward accountability system.

- In the first phase, the executive branch has the responsibility to provide information to the public: it should be transparent in its processes, objectives, and policies, and it should share data and other relevant information. The executive branch must be accountable for the results obtained and resources used.
- In the second phase, citizens – represented by individuals, civil society organizations, or elected representatives (congressional or municipal) – take action based on the information provided by the government.
- In the third phase, the executive branch responds to the questions, criticisms, and complaints that it receives.

Transparency and accountability facilitate citizen action, which in turn leads to responses on the part of the government. Weaknesses in one phase of the system, however, can contribute to a failure of the entire system. For example, if the government does not share information, citizens will have difficulty taking action on substantive issues, and their actions may be limited to asking for transparency and accountability from the government. Or, if there is little civil society reaction to the information provided by the executive branch, there is little reason to expect changes in the way the government is run.

Figure 3.1: Components of a Downward Accountability System



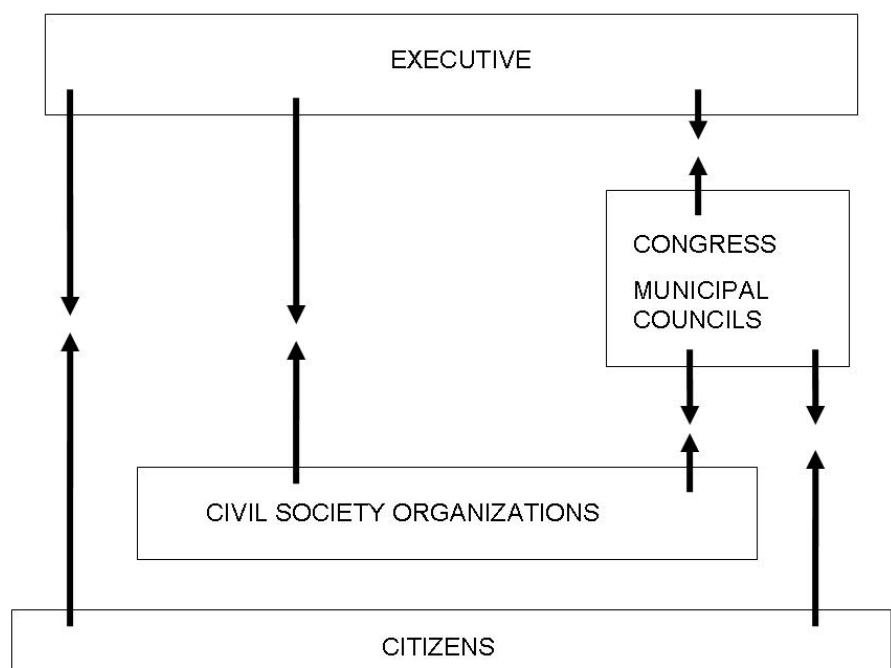
Source: Own elaboration based on Schacter 2001.

⁸ The concept of downward accountability that we use for this study was created based on a review of academic literature on this topic. See Annex I.

Downward accountability systems are made up of an infinite number of relationships and interactions, both formal and informal. Since the goal of the PRS process was to make formal accountability systems work, this study focuses on formal relationships. Figure 3.2 shows the primary relationships included in this work.⁹ First, there are the direct relationships between the executive branch of government, on the one hand, and citizens or civil society organizations (non-elected representatives of various groups) on the other. Second, there is a chain of responsibilities that connects citizens or civil society with the Congress or the Municipal Council and then with the executive branch. The public can demand accountability of its elected representatives, but Congress or the Council can also demand accountability of the executive branch on behalf of the public it represents. Within this framework, we look more closely at the bodies that have a close relationship with the PRS (for example, groups or agencies created through the process or by the Ministry of Finance).

What is missing in this Figure is the relationship between civil society organizations and the population they represent (Edwards and Hulme 1996). In order to evaluate whether the civil society organizations represent the interests of the citizens in general, it would be important to evaluate also the relationship between these organizations and their base. We have not included this dimension in this study, but our 2003 reports did include this topic, looking at how the poor were represented through civil society organizations in the process of creating the PRSs.

**Figure 3.2: Downward Accountability System:
Relationships Analyzed in this Report**



⁹ The importance of informal accountability systems in practice is recognized, however.

3.1 Results of Previous Studies

Few existing studies discuss the impact of the PRS process on downward accountability systems. However, some studies approach the topic by looking at how the process has affected transparency, monitoring and evaluation, or participation.

The recent World Bank evaluation of the PRS process concluded that progress has been made in the dissemination of information and data and that there have been interesting participation experiences, but that it has been more difficult to develop lasting systems for monitoring and evaluation (World Bank 2004). This suggests that progress has been made in developing the basic elements of a downward accountability system but not in consolidating true systems. Many studies agree with these general conclusions, but not all are as optimistic about achievements in transparency and the dissemination of information. According to CISDE-Caritas (2004), progress has been made in the publication of information, but the lack of transparency about the PRS process has been an obstacle for participation. Wood's evaluation of civil society experiences in the PRS process (2005) notes problems related to insufficient access to statistical information and to the poor quality of the information that is available. Hunt (2006) and Ahmed (2002) cite problems in the dissemination of information about the PRS in Honduras and problems obtaining information in general in Nicaragua.

Even more important than conclusions about progress are observations about the factors that facilitate or hinder the development of downward responsibility systems. Many explain the lack of civil society "action" by saying there is insufficient money and human capacity in these organizations. In this respect, funding from the international community could be a solution, but partnerships between donors and civil society reduce the autonomy of the latter (Wood 2005, CISDE 2004). Frustration over past participatory events (Molenaers and Renard 2006, Komives and Aguilar 2004), difficulty obtaining information (Wood 2005), internal divisions (Braunschweig and Stockli 2006), and the lack of a dynamic civil society in the country or locality (Coyle and Evans 2003, Braunschweig and Stockli 2006) are other explanations for low levels of civil society activity. According to Wood (2005), only organizations that are well known, have access to the press, and are capable of generating demands in the community are able to elicit a response from the government.

Creating spaces and opportunities for monitoring and dialogue facilitates the "actions" and "responses" necessary for true downward accountability systems. However, if the government is unwilling to open up very much to participation or transparency (Schelder 1999), or if the government doesn't respect civil society (Braunschweig and Stockli 2006) these interactions are weakened. Booth (2006) concludes that, even if there is a very active civil society, participatory processes would not actually impact public policies unless there is clear support from the government.

Molenaers and Renard (2006) suggest that the actions of the international community can consolidate or weaken national systems of government accountability. For example, if donors do not sanction governments for lack of compliance, how can we expect more from civil society? In many countries, the level of pressure coming from the donors explains the openness (or lack of openness) of the government to civil society participation. In Malawi, CISDE attributes government openness precisely to that kind of external pressure. But donors do not always insist

on participation in all countries. In fragile states, donors prefer to preserve the PRS process rather than insist on much participation (Rombouts 2006).

In terms of the role of Congress in downward accountability systems, many studies conclude that congressional oversight is very weak. The PRS process does not seek a solution to this problem; rather, it takes away more power from Congress by creating other non-democratic monitoring and evaluation mechanisms (Ahmed 2002). Booth (2006) concludes that the PRS process in Latin America has not created accountability mechanisms in Congress.

3.2 The PRS Process and Downward Accountability Systems

Transparency and Accountability at the National Level

One important step in the development of a downward accountability system is to improve the production and dissemination of data and information. In this area, the PRS process (and financial support from international cooperation) has brought about improvement in the three countries studied, especially in terms of producing information about financial resources and management and providing this information to the public. Unfortunately, less progress has been made in providing up-to-date information about poverty and social indicators. Information systems and web pages on social indicators tend not to be updated frequently.

- The Bolaños government in Nicaragua has invested a great deal in the ongoing development of planning and expenditure monitoring systems and in development indicators. Much of the information accumulated in these systems is made available to the public through the internet. Financial systems include the National System of Public Investments (SNIP) and the Integrated System of Financial Management and Auditing (SIGFA). A new Financial Administration Law requires the government to extend the SIGFA to decentralized and autonomous entities beginning in 2006. At the same time, a National System for the Monitoring of Development Indicators (SINASID) was created. During 2005, the SINASID data base was revised to permit the monitoring of the NDP, the Millennium Goals, the World Bank's PRSC, and the Joint Budget Support Agreement. A process to provide similar monitoring of the Departmental Plans has also begun. In spite of all of the effort invested in its conception and development, however, the system has yet to become a useful and effective monitoring instrument, in part because the data base is not always updated. In the area of poverty, part of the problem is the delay in the (official) publication of the results of the most recent household surveys: five years after entering the PRS process, Nicaragua's most recent poverty rate data is from 2001.
- In Honduras, the availability of information on resources and budgets has improved thanks to the 2004 renovation of the Integrated System of Financial Administration (SIAFI). The Secretariat of Finances publishes a great deal of economic and financial information on its website, but those who use it still don't have direct access to the SIAFI or to the System of Public Sector Investments. The Poverty Reduction Fund Law (2002 and reformulated in 2004) requires that the government publish quarterly and annual reports on PRS expenditures. Honduras also has a PRS Information System (SIERP). The SIERP is a second tier system that does not generate statistics but instead

gathers information from other systems and presents indicators. The SIERP website was opened to the public in March 2004. As with SINASID in Nicaragua, SIERP indicators are not always updated.

- In Bolivia, important progress has been made on financial information systems (notably SIGMA, the Integrated System for Management and Modernization), but these processes began before the PRS.¹⁰ Today, many ministries and public entities, and even the National Congress, make financial, economic, and social information available to the public on their websites, but the repeated changes in government appear to have created problems for updating this information. The information on the Vice Ministry of the Treasury and Credit website, for example, is from 2003–2004, and the social and fiscal indicators from the new Ministry of Planning and Development are not up to date either.¹¹ Information on poverty found on the National Institute of Statistics (INE) website is based on the 2001 census and the 2003–2004 household survey, though the INE is currently conducting another survey.

Using the internet to disseminate information has significant advantages in terms of reducing the cost of producing public information, and internet use is growing. Many people are still excluded, however, because of a lack of access to the internet. One possible solution to this problem is to use non-governmental actors as a bridge between information sources and the interested population. In Bolivia the NGO *Fundación Pueblo* plays this role through its “Public Access” program, which aims to empower “less privileged civil society groups [by providing] current, accurate, and understandable information.” In Honduras, one of the duties of the Consultative Council for the PRS (CCERP) – created in 2002 by the Poverty Reduction Fund Law¹² – is to channel government information to the population through civil society organizations represented on the Council. A report published by the government observes, however, that the civil society representatives on the CCERP do not have sufficient mechanisms for providing information to the sectors they represent (Republic of Honduras, 2006).

In Nicaragua, a National System for Participation and Consensus Building (PASE) has been developed that establishes mechanisms for how the government, civil society, private sector, and international community relate to each other in the area of development. There are mechanisms for disseminating information and consulting on public policy objectives and priorities, laws, and strategic plans. This system attempts to bring together three territorial levels – the municipal, the regional/departmental, and the national. While it does not function perfectly, it represents considerable progress in the dissemination and systematization of information on planning and public administration, compared to what existed previously.

¹⁰ Though SIGMA's future appears to be assured, there has been much discussion about the need to change the Law on Governmental Control and Administration (the SAFCO Law), passed July 20, 1990. Some of the sections of this law regulate the provision of information and how the acquisition and use of resources must be accounted for. Some of those interviewed for the study were concerned about the possibility of changing the SAFCO Law since it would put the whole expenditures control system at risk.

¹¹ With the support of GTZ, The Ministry of Planning is working to develop a new national planning system that would be connected to other computer systems, but the project is in its early phases.

¹² Currently, the CCERP is made up of representatives of the government, 12 representatives of civil society organizations, one representative of the Association of Honduran Municipalities, 3 representatives of the National Congress and 2 observers from international cooperation agencies.

All three countries have sought to create a legal framework to ensure access to information about public administration. In Nicaragua, the so called “Access to Public Information Law” continues to be in a stalemate in the National Assembly in spite of the fact that civil society has called repeatedly for its approval to be expedited. Civil society in Honduras also pushed for the creation of a Law on Transparency and Access to Public Information. The approval of this law was postponed, however, due to some controversial changes that were made to protect high level public officials, private enterprises that use public funds, and municipalities from some requirements of the law. In spite of these concerns, assembly representatives passed the bill into law in November 2006. In Bolivia, President Mesa issued a Supreme Decree to guarantee all citizens access to public information, but the current administration has not given any follow-up to the decree.¹³ At the same time, the Bolivian government, through the Ministry of Justice, had been working since 2003 to draft a bill for a Law on Access to Public Information. In late 2006 the bill was ready to be debated and approved by the legislative branch before being signed into law by the President of the Republic.

To date, none of the three countries has systematized a real results-based accountability system. Progress reports on the PRS, NDP, and Millennium Goals continue to be produced, but, as there is a significant time lag between the data and the production of the reports, the reports do not always help to evaluate the administration of the government that is in power when the report comes out. Nor do all reports contain a very detailed analysis of the reasons why some of the goals were not met. Even so, the civil society stakeholders interviewed in Nicaragua valued MDG monitoring as progress in obtaining transparency in the fight against poverty. Bolivia has had many interesting experiences in transparency in its recent past, such as the Monitoring and Evaluation System for Results-based Public Management (SISER), initiated under President Quiroga, and UDAPE’s self-critical and reflective reports on the progress of the EBRP during the Sánchez de Lozada administration. Both initiatives have been discontinued, however – the SISER (which never became a complete and integrated system) at the beginning of this year, and the PRS progress reports in 2003. The Morales government has now introduced an alternative accountability system, and in August 2006, it released to the press the primary results of the self-evaluation of its mandate. Social and labor sectors allied with the government also conducted an evaluation of the administration’s work.

Action and Reaction at the National Level

Progress in transparency and obtaining public information is a basic component of a downward accountability system, but for the system to function, civil society, or citizens, have to make use of the information to make demands of, complain to, question, or congratulate the government, and then the government must listen and respond. One contribution of the PRS process to this “action” and “response” was the creation of new spaces for interaction between government and civil society. These included spaces for continual dialogue between government and civil society and spaces for exercising “social control” (Text Box 3.1)

¹³ President Mesa’s Supreme Decree No 27329 established “that all institutions of the Executive Branch must make public, through their respective web pages and/or by any other alternative means,” the budget approved by the TGN, the number of officials, the terms of reference of people hired, their Annual Operating Programs, the budget execution reports, and the annual plans for contracting goods and services. The decree also guaranteed all people access to this information.

Civil society groups in the three countries have expressed a great deal of criticism of the dialogue and consultation processes. They felt that their opinions were not incorporated into the strategies; that the government was not present or did not listen to the discussion; that no follow-up was given to the issues raised in the consultations; that the time given to the dialogue was very short (especially in the original PRS and NDP consultation in Nicaragua); or that the questions asked in the dialogue were too limiting (criticism of the first PRS dialogue in Bolivia). However, everyone values the fact that these processes have facilitated encounters between civil society organizations and have helped develop the capacity of civil society actors (usually through the financial support of international cooperation). The training and organization of civil society that has occurred is an important input for developing the tradition of and capacity for “action” in a downward accountability system.

Beyond the dialogues and consultations, the PRS process sought to institutionalize interactions between government and civil society with permanent or semi-permanent spaces for interaction, monitoring, and follow-up. In Bolivia, an independent organization of civil society members was created to take the lead role in organizing monitoring and evaluation by civil society of the PRS and PRS-related funds. In Honduras and Nicaragua, the participatory bodies that were created combined the roles of consultation and dialogue with the responsibility for regulating government activities. In all three cases, the role of civil society in monitoring and evaluating government actions and results obtained has been very weak. It seems that there has been more interest in using these participatory spaces for political purposes, in order to directly influence decision making and project definition, than in using them for control and oversight purposes. In general, the civil society groups represented in the bodies have not been very successful in promoting political changes, except when their actions receive the support of international cooperation or when working together with civil society is a requirement imposed on government from the outside (as it was in the case of the *Directorio del Diálogo* in Bolivia). All of the spaces created have had financing problems and the solution has been found in funds provided by international cooperation agencies.

Text Box 3.1: Civil Society Action in a Downward Accountability System

In this document, the word “action” is used in a general way to describe the efforts made by civil society organizations to make demands of, complain to, question, or congratulate the government on its plans, use of resources, and achievements. In Bolivia and Honduras, “social control” and “social auditing” are the terms used respectively to refer to a coordinated action of this type taken by a group of individuals or organizations outside the political arena.

Social Control in Bolivia: The concept of social control is not new in Bolivia. Indigenous communities themselves have traditionally used social control as a way of providing a balance to delegated power. The community exercises social control as a mechanism to punish authorities who abuse their power or do not comply with the consensus reached and established in the Assembly (De Jong et al. 2007b). The 1994 Law on Population Participation establishes a citizen oversight (or “vigilance”) committee in each municipality with the role of monitoring the actions of the municipal executive. The concept emerges again in the Law for National Dialogue, which came out of the PRS process. There, “social control” is understood as “the right of civil society organizations and institutions to know about, oversee, and evaluate the results and impacts of public policies and participatory decision making processes and to have access to information and analysis about the instruments of social control.”

Social Auditing in Honduras: Social auditing is the process through which citizens (in organizations or individually) carry out actions of monitoring, verification, and quantitative and qualitative evaluation of public administration in order to make recommendations and proposals that ensure the efficient and satisfactory provision of public services according to social demands and development plans (González de Asis and Acuña, 2003, cited in Hernández and Ávila, 2006). According to another definition, social auditing is citizen participation (understood as a right and a duty) that includes one or several processes whose objective is to monitor or provide follow-up to a project, program, policy, process, budget, or commitments of a public institution (or a private institution that receives government funding) in order to garner recommendations from the citizens aimed at improving efficiency, effectiveness, quality, ethics, and /or transparency in public administration within the framework of democratic governance and in the interest of the common good (E. Hernández, 2006 cited in Hernández and Ávila 2006).

- In *Bolivia*, the National Dialogue Law institutionalized social control on the national level with the creation of the National Mechanism for Social Control-MNCS (an idea originally promoted by the Catholic Church). This law recognizes an MNCS made up of civil society representatives who monitor the execution of public policies and the use of resources, especially HIPC II money. At the beginning, the MNCS was part of the Inter-institutional Committee for the Monitoring and Evaluation of the ERBP (Bolivia's first PRS). In practice, however, its role (and the role of the majority of the Departmental Mechanisms for Social Control that were formed later) has been very limited. The MNCS had difficulty functioning because of insufficient resources and a lack of the clear legitimacy needed to assume leadership of “civil society” as a whole. Another problem has been its inclination toward joint management with the government (*la co-gestión*) and the fact that some of its members have used the organization as a vehicle to get to power. These people were not content with the role of social control; they wanted to use the institution to have a direct influence on the political decision-making process.

The MNCS is not the only example of this tendency. The same thing happened in the *Directorio del Diálogo* that was formed in order to give civil society a role in designing the second national dialogue. The civil society representatives who were in the *Directorio* forced the government to enact several policy measures (for example, government purchase of products of national origin) before beginning the work of planning and organizing the dialogue. Unlike the MNCS, civil society representatives in the *Directorio del Diálogo* had a good deal of power because both the National Dialogue Law and international cooperation agencies required the government to hold this second dialogue. In spite of being mentioned in the National Dialogue Law, the MNCS never had this kind of support for its functions.

From 2004 until mid 2006, the MNCS went through a real leadership crisis. Now there are signs that the Mechanism could have an opportunity to reassert itself with a role in the “Fourth Social Power of the Multinational and Multi-cultural State” (*El Cuarto Poder*) proposed by the new administration. Under the government's proposal, civil society representatives would have control and oversight duties over the three branches of government – the executive, legislative, and judicial – and over the assembly members charged with drafting a new Constitution. It remains to be seen, however, if the MNCS is

the only group of civil society organizations that aspires to take on this role. The new government's support for the idea of social control could be wind in the sails of the objective of instituting social control at the national level.

- *Honduras* has the Consultative Council of the PRS (CCERP), a tripartite institution created primarily to be a deliberative, participatory, and advisory entity to the Social Cabinet. The Council determines the eligibility and priority of actions to be taken, defines indicators, and selects methodologies for monitoring and evaluation. Other duties include reviewing and making statements about the PRS progress reports, proposing initiatives to strengthen civil society participation, disseminating information about the PRS process, and coordinating PRS implementation and monitoring. Civil society organizations in the CCERP feel like they do have power to ask for government accountability. They are also able to demand that the executive branch respond to the proposals the CCERP makes. One self-criticism made by civil society members in the CCERP is that they haven't been able to promote a systematic process of social auditing. They also think that their role in the PRS process has been too reactive. For this reason, they decided to formulate a Strategic Plan to promote "more proactive action." within the framework of a medium-term vision (Díaz Arrivillaga et al., 2006). It is worth mentioning that proposing policies, and even having a role in implementing them, goes beyond the role first envisioned for the CCERP. It is an indication – as in Bolivia – that civil society organizations participating in the spaces opened for social control aspire to have an active role in decision making; their priority is not social auditing or control.

One weakness the government recognizes in the CCERP is that civil society participants lack the technical capacity for following up on and monitoring PRS programs. The previous government had promised funds for training but never provided them, and to date it has not been possible to get funding for this purpose from the current government. Recently, funding from the World Bank and other organizations has made it possible to establish a technical team that will do the analysis for the civil society groups in the CCERP.

Another space for channelling civil society "action" in Honduras is the National Anti-Corruption Council (CNA) which was re-established in 2005 and is now made up only of civil society organizations instead of both civil society groups and the government. It is a decentralized organization with financial autonomy that receives support from the international community. The CNA is committed to "promoting and supporting mechanisms for accountability and social control on the central, regional and local levels through special legislation focused on the Poverty Reduction Strategy, PRS." With this goal, the CNA has been one of the groups promoting the Law of Transparency and Access to Public Information. It is also working on a methodology for social auditing of the PRS at the local, regional, and national level (see Hernández and Ávila, 2006). This system has much in common with the downward accountability system analyzed in this report.

- In *Nicaragua*, the central institution for bringing civil society and government together is the National Council of Social and Economic

Planning (CONPES). CONPES was created at the beginning of the PRS process as a consultative body for the Presidency of the Republic. It played an important role as a mechanism for consulting civil society, especially during the consultation process for the first PRS and at the beginning of the Bolaños administration. After a difficult period, CONPES has finally recovered some of the prominence it once had. The Council has been reconfigured, new funding sources have become available, and the Executive Secretary has begun a deliberate policy of re-establishing cooperation with other government institutions.

The role of CONPES is not to demand accountability from the government. Rather, it is a space for consultation, where civil society representatives can make recommendations and propose policies. The CONPES people interviewed value their ability to put topics on the political agenda, though in general they have little influence on the decisions made. CONPES has eight sectoral commissions that offer spaces for debate between the government and civil society at the sectoral level, but those interviewed said that government representatives are not participating. The most important discussions occur between the government and donors at the sectoral coordination roundtables (where civil society representatives are not always present).

With this division between government-donor discussions and government-civil society discussions, civil society has lost influence compared to the situation that existed immediately after Hurricane Mitch. There is an almost universal perception among civil society organizations that the role and influence of civil society reached its peak during the period immediately following Hurricane Mitch. During that time, government and donors consulted with and received support from civil society, both to identify needs and to plan and implement the work necessary to rebuild the country. Nothing that has happened afterwards can compare to the participation of civil society in the process following the Stockholm agreements.

Even in a formal system of downward accountability, “action” is not confined only to the entities created for this purpose. Civil society organizations and voting citizens have other possibilities for monitoring the government’s work and development results. In Honduras, for example, the Citizen Participation Law (2006) establishes citizen participation mechanisms like plebiscites and referendums. In Bolivia, President Mesa held a referendum to demonstrate popular support for his gas policy. In Nicaragua, one example of coordinated civil society actions directly related to the PRS process is the critique of the first PRS published in 2001 by the Civil Coordination, under the title “The Nicaragua We Want.” This critique lacks prioritization but contains a very good analysis of the situation of the country. It emerged out of civil society’s frustration with the almost total lack of government response to its suggestions in the initial process of the consultation. Another more recent example in Honduras – though with less direct ties to the PRS – is the social auditing of the National Program against HIV/AIDS. In Bolivia, *Fundación Pueblo* publishes a bulletin called *Datos y Hechos* that presents information and analysis on poverty reduction policies under an agreement with the MNCS. CEDLA (Center for Studies on Labor and Agrarian Development) published its critical analysis and policy alternatives in the framework of the Citizen Control Project (supported by

Social Watch). One problem is that this type of civil society effort frequently depends on the support of foreign donors; if donors lose interest in the topic, civil society activities in this area will tend to decrease.

Since no tradition of civil society monitoring and evaluation of governmental activities has been established on the national level, it is difficult to speak of the “response” of the government as part of a downward accountability system. However, those interviewed for the study in Nicaragua generally sense a greater openness at the intermediate levels of government and a much more closed, and even arrogant, attitude at the high levels of the government hierarchy. In Bolivia, the new government (and even the Mesa administration earlier) has been more open to critiques and proposals coming from non-governmental actors (at least actors associated with the government), compared to the Sánchez de Lozada government. During Sánchez de Lozada’s second term, the lack of response to voices “from the streets” was notable. It remains to be seen whether the Morales government will be open to all citizens or if it will limit itself to listening only to the social actors that support it. In Honduras, it is too early to come to conclusions about the openness of the Zelaya administration.

The Role of Congress

Until now, we have only spoken of the relationship between civil society and the government. But there is another critical path in our conception of downward accountability systems – a link between citizens and government through Congress. Congress represents the population and can act on the basis of the pressure and suggestions it receives “from below.” It also transmits messages from the people to the national government. Our previous reports have already discussed the many weaknesses of Congress in the three countries, weaknesses that show that it is not playing an active or significant role in supervising or monitoring the work of the government.

In Nicaragua in particular, the relationship between the National Assembly and the executive branch was characterized by considerable antagonism during the entire period of the Bolaños administration. This kind of sharp politicization tends to make relationships – and therefore transparency, accountability, and response to requests for information – more difficult. In Honduras, assembly representatives were elected by direct vote for the first time in 2005, and as a result there was a turnover in 80% of congressional seats. It is still too early to predict whether this change will mean a more active role for Congress in a system of downward accountability in the future, but the new congressional representatives interviewed for this study emphasized that they need better mechanisms for control and monitoring, more active participation, and “ongoing communication with the people.” In Bolivia, there are mixed opinions about how open the new Congress is to civil society and how much possibility there is for change. It would seem that the new administration has its sights set on institutionalizing social control through the “Fourth Power” and not by increasing the capacity of Congress itself.

In general, we observe that the PRS process has not strengthened the role of the congressional representatives in monitoring the work of the executive branch. Nor has it awakened active interest in poverty reduction topics (with the notable exception of the recent debate in Honduras about the use of the HIPC II resources). Beyond the recent efforts to pass laws to improve transparency, there has also been no evident civil society interest in communicating their proposals and demands through Con-

gress. In general, more direct routes to the executive branch are preferred when they exist (through participatory spaces, or in the case of Bolivia, through the Constituent Assembly).

The Local Level

Local governments and institutions can play various roles in a downward accountability system.

- First, as service providers in charge of planning and executing projects at the local level, local government has the responsibility – just like the national executive branch – to be transparent and accountable to its citizens and to listen and respond to the critiques made of its administration. That is to say that downward accountability systems should exist at the local level.
- Governmental and non-governmental organizations at the local level can also be important liaisons between local citizens and organizations on one hand and the departmental or regional government and the national government on the other, channelling information from above to below and from below to above.

In terms of the first point, the decentralization of resources and functions has progressed somewhat in the three countries during the last six years, and all three countries have established elements of a governmental accountability system at the local level. However, the PRS process does not appear to have had an impact on these local systems, apart from its general support for decentralization.

- Of the three countries, Bolivia has the longest history with decentralization and social control at the local level. The governing systems in the indigenous and peasant communities have long incorporated the tradition of social control. With the 1994 Law on Popular Participation, a Citizens Oversight Committee (*Comité de Vigilancia*) was created in each municipality composed of representatives of the “territorial base organizations” (neighborhood committees, indigenous communities, and peasant farmer organizations). The citizens’ oversight (or “vigilance”) committee participates in the creation of the municipal investment plans but also has an explicit role in social control over municipal management. The control that the committees exercise is focused more on the implementation of municipal development plans than on overseeing expenditures. In the recent municipal elections, various former members of the citizen oversight committees were elected mayor. This has created a new openness for social control in these municipalities.
- In Honduras, local governments have a tradition of holding town meetings to help the local administration communicate with its citizens. Since 2001, local governments have begun establishing Transparency Commissions with the primary objective of promoting transparency in the municipality and avoiding corruption in the use of public funds. The main activities of the commissions are reviewing the financial reports of the municipal corporation, making requests for accountability in town meetings, supervising projects, and monitoring grants. The commissions are made up of around five or six respected members of the community. Currently, commissions have been established in more than half of the Honduran municipalities, and there are some interesting experiences in social auditing at the local level. It is a slow process, however, and requires auditors who are

well trained and have a high level of knowledge about the area or sector in which they will be conducting the audit. To facilitate the expansion of these activities, the National Anti-Corruption Committee is designing a social auditing methodology for the municipal level. It is worth mentioning that the idea of social auditing did not come from the PRS or from the transparency commissions. Local experiences of social auditing date back to the Hurricane Mitch period.

- In Nicaragua, municipal governments do not have social control bodies. There is a Municipal Development Committee, but its role is focused on planning and not on social control (Helmsing 2003). Municipalities hold town meetings, but in reality, the transmission of information to the public depends on the political will of the mayor and is difficult because of the lack of resources and management systems in the municipalities. One possible explanation for the marked difference in social control between Bolivia and Honduras, on the one hand, and Nicaragua, on the other, is the fact that municipal governments in Nicaragua have had less responsibility for providing services and implementing projects. But while there are no formal spaces for social control at the local level in Nicaragua, some social auditing experiences have been led by non-governmental organizations (Helmsing 2003). So far, however, there is no evidence that the civil society activities or capacity to take on this role at a local level has increased in recent years. Nonetheless, the recent consultations about the National Development Plan and the Departmental Development Plans have reinforced the ability of local organizations to participate in policy discussions. Previously many had come poorly prepared to play a decisive or useful role in the discussions (Guimarães 2007).

If we evaluate the local governments as part of an integrated downward accountability system (point two above), we cannot conclude that the PRS process has had much of an impact. In addition, there is little knowledge at the local level about national strategies (and in the case of Honduras, there are no regional development plans related to the national strategy), which explains the lack of local concern about overseeing their implementation. Dialogue and consultation processes related to the PRSs and the NDPs have helped promote the transmission of information from the national government to the local level, and to a certain extent, they have pushed national governments to seek out local ideas and concerns. These links have not yet been systematized, however. Nicaragua has made more progress on this area with the development of its PASE system (described previously) and with the recent opening of the CONPES to departmental and local actors. In Bolivia, the original idea was to create a national social control system with links between the local citizen oversight committees, the departmental social control mechanisms, and the national social control mechanism. For some time, it was possible to establish coordination between the national and departmental levels but the relationship was never consolidated with the municipal level. Furthermore, the work of the departmental mechanisms has varied quite a bit; some have been more active and effective than the MNCS, but many have ceased to function due to lack of resources. Now the NDP is emphasizing the need to create a link between local, regional, and national arenas in participatory planning and social control, with the region as a point of encounter.

3.3 Conclusions

Our analysis comes to some of the same conclusions as previous studies of participation, monitoring, and evaluation in the PRS process. We concur with the World Bank study that the PRS process has produced more progress in the dissemination of information than in the institutionalization of monitoring and evaluation. With some exceptions, progress in disseminating information has been concentrated at the national level and has depended on the internet. Dialogue and consultation processes, the National System of Consensus Building and Participation (PASE) in Nicaragua, and the actions of some social organizations have helped, to a certain extent, to take the data produced at the national level out to the regions and municipalities and to groups that do not have access to government websites. It is also important to recognize that at the national level, more progress has been made in producing and disseminating data and in accounting for resource use and budgets than for development results. The computer systems that seek to gather information to monitor results are not being updated well in any of the three countries or are still in the process of being developed and reformulated. It is worrisome that the most updated information available on poverty in Nicaragua at the time of writing this report was from 2001. These problems are due at least in part to the tendency of donors to support data collection (for example, the census and household surveys) instead of providing more generalized and ongoing support for developing the capacity of institutions charged with collecting and analyzing data.

Civil society activities to monitor and evaluate poverty reduction policies have been very limited at the national level. This is explained in part by the low level of civil society ownership of the poverty reduction strategies or national development plans and by the fact that the plans are not very concrete and therefore difficult to monitor. Other important factors are the lack of access to information, funding problems or capacity problems among the social actors, and the fact that these actors are more interested in participating in discussions about designing and prioritizing public policies than in oversight activities. There is a long time lag between data collection and report publication, which reduces the usefulness of the reports in a downward accountability system. The results can't always be used to evaluate the work of the current government.

Bolivian municipalities and a growing number of Honduran municipalities have better established and more institutionalized traditions of social control than what has been established at the national levels. So far it hasn't been possible to link the municipal level with the national level in a downward accountability system. The National System for Consensus Building and Participation (PASE) in Nicaragua is a first step, but its goal is consultation and the dissemination of information, not social control.

It is clear that international cooperation agencies have had and continue to have a very large influence on the development and functioning of the subcomponents of downward accountability systems at the national level. At the local level, the influence of foreign aid is less evident. At the national level, aid agencies fund (sometimes inadequately) many of the spaces created to facilitate interaction between the government and civil society and many efforts to improve computer systems and the availability of data. The emphasis of donors on the importance of participation was a driving force behind the creation of many of the

participatory spaces that exist. Their support for civil society positions enormously increases the possibility that the government will “listen” and “respond” to them. On the other hand, this emphasis on civil society participation has weakened, or left aside, the Congress.

The high level of dependence on the international community means that the sustainability of what has been achieved at the national level in this area is not assured. Much depends on the attitude of the new administrations and the behavior of international cooperation in the future. In the case of Bolivia, it seems that the government will look for ways of strengthening social control on its own initiative. Given the influence of international cooperation on this issue, the question posed by Molenaers and Renards (2006) is very important: if donors continue to support governments that do not implement their strategies or comply with conditions, how can more scrutiny of government results be expected of civil society? More emphasis on results and less on plans on the part of cooperation could stimulate better use of monitoring and evaluation systems.

4. Support from the Donor Community

Bolivia, Honduras, and Nicaragua receive very high amounts of foreign aid (Tables 4.1). While the absolute amounts do not differ greatly among the three countries, Nicaragua receives much more than the other two countries in per capita terms and especially as compared to GNP (Tables 4.2 and 4.3). The annual variations in the aid the countries receive differ greatly due to things like Hurricane Mitch in 1998, the economic and political crisis in Bolivia in 2003, and the HIPC II completion point in Bolivia in 2001 and Nicaragua in 2004.

Table 4.1: Foreign Aid in Millions of US\$, 2000–2004

	2000	2001	2002	2003	2004
Bolivia	475	735	681	930	767
Honduras	450	679	472	392	642
Nicaragua	562	931	517	833	1232

Source: World Bank (2006b)

Note: Includes debt relief

Table 4.2: Aid per capita in US\$, 1998–2004

	1998	1999	2000	2001	2002	2003	2004
Bolivia	79	70	57	87	79	105	85
Honduras	52	131	70	103	70	57	91
Nicaragua	126	138	113	184	100	158	229

Source: World Bank (2006b)

Note: Includes debt relief

Table 4.3: Aid as % of Gross National Product, 1998–2004

	1998	1999	2000	2001	2002	2003	2004
Bolivia	8	7	6	9	9	12	9
Honduras	6	16	8	11	7	6	9
Nicaragua	18	19	15	24	14	21	29

Source: World Bank (2006b)

Note: Includes debt relief

The importance of foreign aid in these countries means that the governments need to draft poverty reduction strategies or national plans. In the framework of the PRS, the international community makes a commitment not only to contribute financially to the implementation of the strategies, but also to improve coordination with the national governments, aligning its own conditions and assistance goals with the priorities identified by the governments. In part, this has meant shifting from project support to budget support and sector-wide support.

In previous reports we observed that some progress was made in the coordination and ownership of the aid, with various high and low points, but that these changes had little relationship to the PRS process. In Nicaragua and Bolivia, the countries with the least continuity in the PRS process, there was more movement toward joint donor agreements in budget support – the mode that most reflects harmonization and ownership. In Honduras, the structure of donor coordination was the result of Hurricane Mitch and not of the PRS; a more stable PRS process has not promoted significant changes in the modalities of aid.

Changes in aid coordination and ownership processes, reflected in the shift to more budget support and sector-wide support modalities, are due more to pressures coming from international processes like the Rome and Paris Declarations on Harmonization and Alignment. In reality, certain donors (Nordic countries, DFID, The Netherlands, and Switzerland) look more favorably upon these more flexible aid instrument than others. For this reason, more changes have been seen in Nicaragua and Bolivia than in Honduras, where Sweden was for a long time the only bilateral donor promoting budget support.

Given the growing importance of international processes for the discourse on donor coordination in the countries, we begin this section with an analysis of the progress the three countries have made in the “Paris Agenda:” ownership, alignment, harmonization, results-based management, and mutual accountability. A discussion of budget support follows.

4.1 The Paris Agenda in Practice

Ownership: Recipient countries exercise leadership over their development strategies and policies and coordinate their execution

In the name of “ownership,” aid recipient countries commit to drafting national plans or strategies to reduce poverty and to operationalize these plans with frameworks of multi-year expenditures and annual budgets. In addition, it is expected that the countries will take leadership in convening sectoral roundtables that will include the participation of civil society and the private sector as well as donors. Here, a contradiction is noted between “ownership” and “coordination” because it is assumed that the governments will take leadership in the coordination of sector-wide policies and at the same time that they will give the donors a very large role in the co-definition of plans and projects at the sectoral roundtables (Hayman 2005).

In practice, the changes in government in Bolivia and Honduras in early 2006 brought a high turn-around in government personnel. This meant that progress made toward the frameworks of multi-year expenditures came to a standstill, as did the leadership of the sectoral roundtables. Recently (June–August), these governments presented new (or updated in the case of Honduras) development plans and proposals to reactivate the sectoral roundtables. In Nicaragua, additional progress was made in public financial planning, but government leadership was

not always present at the sectoral roundtables and the execution of the sectoral plans varied. One government representative observed that some donors do not want this kind of government leadership; they prefer to coordinate the execution of sectoral investment themselves. Among the roundtables that function in the three countries, few have the participation of civil society and the private sector. Governments often express the opinion that this participation is not “opportune” and donors generally accept this argument.

Alignment: Donors base all of their support on the strategies, institutions, and procedures of the recipient countries

In Honduras and Nicaragua, representatives of international donors state that the PRS (or another national plan) continues to be the point of reference for their work. But in practice, the plans are broad enough to include all of the projects and programs of the donors. The PRSs began as broad plans but over five years they have grown even further to become national development plans. When it comes to defining concrete projects or defining indicators and goals for (sectoral) budget support, the plans are not sufficiently concrete to serve as a direct source of these conditions and objectives. All of this means that this alignment doesn’t have much real content.

Experiences of aligning aid to the recipient countries’ systems (budgets, bank accounts, monitoring and auditing systems, and procurement rules), are varied. According to the director of the VIPFE (Vice-minister for Public Investment and External Funding) at the time in Bolivia, almost all of the aid was inside the national budget by 2003, but the results of a recent OECD-DAC survey question this. In Nicaragua, in the last year all aid has been made visible in the national budget. In Honduras, 85% of the aid is within the budget (Government of Honduras 2005). While this is progress, being inside the budget is only the first step in the agenda of aligning aid. Many donors maintain their own bank accounts, mount execution units for their projects and programs, pay high salaries, impose their own procurement rules (including sometimes requiring purchases in the donor countries—tied aid), and organize their own monitoring and auditing systems. In Nicaragua, various donors were not able to, or did not wish to, tell the government about their multi-year commitments. In these aspects of alignment, practice is still very far from the Paris Declaration.

Harmonization: Donor actions are more harmonized, transparent, and collectively more effective

Harmonization in the Paris Declaration refers to joint agreements, common systems of monitoring and auditing, joint missions, and simplification of procedures, with the aim of reducing transaction costs for the recipient country and in general. Thus, the Joint Financing Agreements for Budget Support established in Bolivia and Nicaragua in previous years are in themselves good examples of harmonization.¹⁴

The harmonization of aid in practice depends in large part on the work of the sectoral roundtables. In Nicaragua, some roundtables were still functioning. In education and health, there are common funds for coordinating missions, evaluations etc. But donors are not happy with the government’s execution of the sectoral plan on education, and this has already had consequences in terms of their willingness to contribute

¹⁴ Progress in the area of budget support is discussed later in the report.

to common funds in general. The common fund for health is the most recent and also includes a delegation or “silent partnership.”¹⁵ In Honduras, there is some coordination at the sub-sector level, for example in the “Education for All” (EFA) initiative and in a program for controlling Chagas disease. In Bolivia, some progress is still evident in the execution of the common funds or baskets based on sector-wide plans developed by the previous government. In general, little progress has been made in simplifying or unifying procedures, missions, reports, monitoring, and evaluations. Most of the aid in the three countries is still being executed in separate projects. In Bolivia, budget support represented only 23% of total aid from 2000–2005, but this number is somewhat inflated because it includes CAF loans that are not concessional and have a higher than average percentage of unrestricted funds (Jong et al. 2006). In Nicaragua, budget support was only 14% of total aid during 2000–2005, and it is not likely to be higher in Honduras.

Results-based Management: Improve the management of resources and results-based decision making

Little progress has been made in Bolivia and Honduras in the area of results-based management, and the governments did not present PRS Progress Reports. Due to changes in governments, there was also no progress in the budgetary processes towards multi-year expenditure frameworks and results-based budgeting.¹⁶ In Nicaragua, the government continued making progress on creating medium-term expenditure frameworks. A progress report of sorts was drafted on PRS execution during 2003–2005 and included in the National Development Plan presented in November 2005; another report came out in May 2006 in the context of monitoring budget support. Within the various budget support systems of the three countries, certain progress can be seen towards having more results indicators (see below).

Mutual Accountability: Donors and recipient countries are mutually accountable for the results of development

The Harmonization and Alignment Plans in the three countries represent progress in terms of mutual accountability because they outline the current situation and the commitments of both parties with respect to progress towards the Paris Agenda. In the case of Bolivia, the Plan was presented during the Paris meeting. In Honduras and Nicaragua, the plans began to be drafted after the Paris meeting. The Nicaraguan plan is now the most advanced in that it has concrete actions, indicators, and goals. But all of the plans run the risk of ending up only on paper; the plans in Honduras and Bolivia were drafted by previous governments, and though the new governments have formally taken them up, there hasn’t been much concrete progress yet. The fate of the Nicaraguan plan after the recent elections is also unclear, since it hasn’t been approved by the National Assembly.

Harmonization at the Political Level

The Paris Declaration doesn’t mention it specifically, but the unification of donors’ political agendas can also be considered a way to harmonize aid. The Paris Declaration assumes, however, that donors will always

¹⁵ This means that a donor authorizes funds without participating in the dialogue with the government. It is represented by another donor or by a group of donors.

¹⁶ The presentation of new national development plans can be considered in June–July 2006 as part of the first phase of a new round of efforts toward results-based management.

support the position of the government. In practice, this is not always the case. Thus, unification is not automatically beneficial for the recipient country. It could lead to more pressure and more political influence from donors on the government or the parliament. The donors could also use their influence to promote the interests of one or another group within the government (executive, legislative) or within the country in general (civil society, private sector etc.). The immediate and long-term effects of this kind of intervention on the balance of political powers in the country and on political (in)stability are difficult to evaluate.

In Bolivia, donors clearly do not hold a single position on the current political situation. The European countries and the European Union have a basically positive attitude towards the new government and are willing to continue their cooperation, and the IDB continues its operations. The United States, the IMF, and the World Bank are taking a more cautious position.

In Honduras, in the year of the change of government, there was evidence both of unilateral actions and joint actions by donors. The IDB supported the national consultation convened by the Maduro administration in its final months, while many donors said that this consultation was not necessary and that the government should prioritize the execution of projects already planned. At the same time, the G-16 was able to an important unifying role in reconciliation during the conflict between civil society in the Consultative Council of the PRS (CCERP) and the National Assembly about who would have decision making power over the HIPC II funds. This effort at reconciliation coincided with the G-16 interest in maintaining the institutionality of the PRS process, in this case in order to rescue civil society participation in the CCERP.

Coordination at the political level in Nicaragua has happened for many years through the *Mesa Global* of donors where all of the ambassadors and representatives of donor organizations meet. But since 2004, coordination has also happened through the Budget Support Group (BSG). While not all donors provide budget support, all or almost all of them are BSG members as observers. This is already creating certain duplication of efforts because both are asking for the presence of highest level government officials, and sometimes they discuss the same issues.

During the last year, the BSG had a certain level of success influencing government policies and the policies of the National Assembly. The Group suspended budget aid collectively during some months of 2005 (June–October) because the country had not complied with all of the goals defined in the PRGF with the IMF. Macro-economic indicators were positive, but the National Assembly had not approved certain laws that were also part of the program. In the opinion of the Fund, this could negatively affect stability in the future. Donors asked for a comfort letter from the IMF confirming that the quantitative goals of macroeconomic performance had been met. But the IMF postponed several missions and when it finally wrote the letter in October (which was really more of a “letter of discomfort” imposing many new demands on the government) the donors finally disbursed the funds. As a consequence of this collective pressure, both the executive branch and the Assembly did everything that was requested in the IMF letter.¹⁷

It is interesting to analyze the interests that have driven the donors in their collective political actions and whether these interests might pro-

¹⁷ In the case of the Assembly, the possibility that the results were more cosmetic cannot be discounted. For example, it changed the Tax Code Law so much that the IMF immediately required the law to be reformed.

mote poverty reduction. In Honduras, the donors used their collective pressure to maintain the institutionality of the PRS (in this case, the operation of the Consultative Council of the PRS) while also assuring that Congress could play its representative and legislative role. In Nicaragua, they used it to reinforce the IMF's ability to pressure the country, even though they knew that macroeconomic stability was the number one priority of the current administration and that there was no imminent danger to that stability. It becomes apparent that they have not used their collective power to improve governance or to increase government efforts to reduce poverty.

4.2 Budget Support

Text Box 4.1: What is Budget Support?

Budget support is a form of program aid in that it is aid not tied to projects. The other kinds of program aid are balance of payment support and debt relief (because it frees up resources). The program aid money is freely spendable, but this support is generally accompanied by conditions involving the implementation of certain policies or achievement of certain goals; for example, poverty reduction. Budget support can be general or sectoral. In both cases, the money goes into the Treasury and is not earmarked, but in the case of sectoral budget support, the conditions or goals are applied only to a specific sector.

The original idea behind the PRS process was that once long-term poverty reduction strategies existed, were approved by donors, had the consensus of the population, and had concrete goals, donors would support the strategies with flexible aid for the government including budget support (BS). Seen in these terms, budget support is really a way of giving the recipient government ownership of the aid. The change towards this kind of aid is also motivated by the desire to support government systems for budgeting, auditing, and monitoring instead of weakening those systems with projects that are directed and administered by the donors. These arguments coincide completely with the Paris Declaration objectives of “ownership” and “alignment.” If the donors were able to unify their budget support systems, budget support would also be the most advanced form of donor harmonization (See Text box 4.1).

In practice, however, the existence of a PRS has never been a sufficient condition for providing BS; nor has it been a necessary condition. First, a PRS almost never fulfils all of the requirements (a long-term strategy, reached in consensus, and with concrete goals); and second, there is heavy pressure from the main offices of some agencies to provide budget support even if there is (still) no PRS approved as such, as was the case in Bolivia in 2005. In general, donors also impose many other conditions before approving the BS. Conditions vary with each donor but may include aspects of governance, budget quality and accountability, and macroeconomic stability, generally reflected in an agreement with the IMF. In practice, few countries fulfil all of these requirements. However, donors now want to offer this modality even in circumstances that are not ideal. They begin to use budget support to try to influence government policies and achieve certain results, both in selection criteria (governance, macroeconomic stability, public finances, the existence of a PRS) and in the area of poverty reduction. If a PRS is not sufficiently concrete or up to date, the donors and the government negotiate the

necessary goals and actions for reducing poverty, leaving aside the spirit of the PRS process, which was to arrive at priorities by consensus through public debate.

Clearly, another contradiction emerges here; this time between conditionality and ownership. What Rogerson called “schizophrenia about conditionality” is evident within the donor community, because the Paris Declaration is silent on conditionality (Rogerson 2005). This schizophrenia can be considered the result of two contradictory “narratives” among the donor community about the failures of the previous aid paradigm; that is, project support accompanied by structural adjustment loans (Renard 2005). According to the first narrative, donors were to blame for the fact that project support was not very effective; coordination was lacking, too many requirements and procedures were imposed, transaction costs were high, and in general there was not much ownership of the aid. In addition, adjustment loans were too strict and were based on overly simple ideas of policy prescriptions that would succeed everywhere. The second narrative maintains that this previous paradigm failed because of a lack of adequate policies in the recipient countries: governments were not interested in reducing poverty and donors were not strict enough with them. This second vision calls for more conditionality and more ex post conditionality (selectivity) to correct the problems. A stronger role is recommended for civil society in monitoring government policies.

The new aid paradigm that went into effect with the PRS reflects both narratives at the same time (Renard 2005). Both narratives are also present in the reasons for providing budget support to the three countries. On the one hand, donors want to promote ownership and alignment; on the other hand, they want to increase their influence over the country’s policies. The next section will analyze the events surrounding the harmonization of budget support in the three countries. It will then look at several aspects of conditionality, and finally, at the predictability of the disbursements. The latter is an indicator of the alignment of budget and planning systems.

Harmonization and Budget Support

In practice, different budget support systems are present in the three countries. Since 2005, Bolivia and Nicaragua have had a Joint Financing Arrangement for General Budget Support signed by seven and nine donors respectively. This means that the donors came to an agreement about some fundamental principles that the government needed to abide by and about a performance matrix with actions and targets the government would have to meet in various years. This does not mean, however, that budget support is completely harmonized in these countries, for various reasons:

- In some cases, donors that signed the joint agreement do not provide budget support (US in Bolivia, for example) or they already had their own budget support program that continued operating outside of the joint agreement (European Commission in both countries, World Bank with KfW in Nicaragua, IDB in Bolivia)
- Bilateral agreements generally take legal precedence over multi-lateral agreements
- Different donors sometimes assign different levels of priority to the

previous conditions (the fundamental principles) or to the actions and goals of the Performance Matrix; for example, DFID in Nicaragua makes its own evaluation of the fiduciary risks and its disbursements depend on this evaluation.

- Some donors provide budget support within their own systems without participating in the joint agreement; the World Bank in Bolivia, IDB in Nicaragua.
- In some cases, donors even require budget support funds to be used in a certain way. This leads to various reporting and monitoring systems (DFID and some others in Nicaragua), though this is contrary to the definition and spirit of the BS.

In Bolivia in 2005, the donors of the joint agreement, the Multi-year Budget Support Program (MBSP) assessed government performance in different ways. Some donors disbursed, but no bilateral donor disbursed the amount of budget support originally committed, in spite of a rather high level of compliance with the performance matrix (Vos et al. 2005). On the other hand, donors in Nicaragua were able to maintain unity when they evaluated the performance of the government in 2005 and also in the period up through October 2006.

In Honduras, different multilateral donors (World Bank, IDB, and European Commission) have separate budget support programs. In 2006, Sweden took the initiative of convening a Budget Support Group in which Germany, Spain, and Sweden participate, in addition to multilateral agencies. Its objective is to better coordinate the conditions of the various programs. Sweden and Germany are considering supporting the World Bank's new PRSC through co-financing or parallel financing. But the "double agenda" of budget support can also be seen within this group: on the one hand it is an agenda of harmonization and alignment; on the other hand, the donors hope to increase their influence over government policies.¹⁸

The Conditionality of Budget Support

In order to evaluate conditionality, we studied four dimensions of conditionality: (1) ex post or ex ante conditionality, (2) conditions involving processes or results, (3) the type and number of sectors to which the conditions are applied, and (4) the relationship between conditions and the poverty reduction strategy. Some general observations can be made about these four dimensions:

- Ex post conditionality includes both *preconditions*, in terms of policies made and results obtained, and *entry conditions* or fundamental principles. Ex ante conditions are the *commitments* the government makes to implement certain policies or to try to reach certain benchmarks. In principle, ex post conditionality is stricter than ex ante conditionality; with ex post conditionality, the country should not receive any money if it does not comply,¹⁹ while with ex ante conditionality, the country receives the money, and non-compliance with the commitments may only affect the budget support in the following period.
- If conditionality is focused on *processes* (policies, measures, and actions), donors come up with the prescriptions and don't give much leeway for the recipient governments to elect their own ways of

¹⁸ One of the donors participating in the groups stated that the BSG "doesn't have influence yet."

¹⁹ Though in practice, donors can take into account the reasons why a government has not reached the goals or complied with the policies.

reaching an objective. Conditionality in the form of *results-based* targets and indicators is more compatible with ownership, in principle, because donors limit themselves to defining goals and allow the country the freedom to choose its own measures and policies. Defining results-based indicators and targets also carries risks, however. On the one hand, it can lead to data manipulation,²⁰ and on the other hand it can lead to difficult assessments and decisions, because it is not always possible to establish a direct relationship between government efforts and results.

- As conditionality is applied to more sectors and more areas of government policy, it becomes more extensive and probably reduces the sense of ownership.
- Finally, one can ask to what extent conditions come from the PRS itself. If they do, you can assume that the government itself has developed the policies and goals and, therefore, that ownership exists.

In general, we observe that ex post conditions – that is, strict selection criteria – have increased. But this does not mean that the donors are more selective about beginning budget support systems. Donors begin the programs in the hopes that explicit selection criteria like “fundamental principles” or “preconditions” will have an influence on policies. For example, one condition in Bolivia’s joint program was that there “had to be a PRS,” and in Nicaragua, judicial independence and government commitment to poverty reduction were among the fundamental principles; but neither of these terms had truly been met when the program began.

The growing weight of ex post conditionality is also evident in the budget support programs of the multi-lateral agencies. The World Bank’s PRSCs have a high number of preconditions that must be met before the first disbursement, and there are “triggers” that must be present for the second disbursement. The IDB’s sectoral budget support loans also have many preconditions, and now there are also “performance based loans,” in which a 20% advance is given on the total amount of the loan and all other disbursements depend on compliance with certain actions and targets. This instrument has already been applied in Bolivia and Honduras, beginning in 2006. The annual disbursement of the “variable tranches” of EC sectoral budget support grants depends on the level of compliance with certain targets. All of this means a greater probability that the promised amounts will not be totally disbursed. On the other hand, this “hard” conditionality does not always mean that the donor’s influence increases. For example, in Honduras, the World Bank did not disburse the second PRSC payment in 2005. The biggest problem was that the Civil Service Law had not been passed yet which would have potentially ended political clientelism in public service. In 2006, however, the World Bank began negotiations on a new PRSC, accepting that the law had not been passed. Government officials have said that if this is really a requirement for receiving aid, the Congress could pass the law but that it would never be implemented.

With the gradual rise in the percentage of aid given as BS, aid that is conditioned to macroeconomic stability is becoming the largest portion of the aid. And though “being on track with the Fund program” is no longer a formal condition for most of the donors, in practice, the conditions imposed by the Fund, including its structural reforms, are still a

²⁰ One government representative said that if donors kept insisting on results indicators, it would force the government to deceive the donors.

dominant factor in the evaluation of this “macroeconomic stability” (see Text Box 4.2). This also leads to a stronger conditionality because a greater percentage of foreign aid also depends on the opinion of the IMF.

With respect to the nature of the conditions (of processes or results), we can conclude that there are more results indicators now as compared to the 1990s when these indicators were practically non-existent. All of the budget support programs, both the joint programs with their matrixes and the multilateral agencies’ programs now have a good number of results-based indicators. At the same time, however, the number of process indicators (required policies, actions, and measures) has not decreased. All of the programs and matrixes now are full of policies and actions to be implemented. In general, the number of actions, measures, policies, and indicators has increased. Therefore, in these three countries, there is still a great deal of detailed interference in policies.

PRSC “triggers” in Nicaragua in 2004 included, for example, restructuring the Rural Electricity Fund so that it would be “acceptable to the World Bank;” giving titles to at least five indigenous land areas; drafting a strategy for water and sanitation; changing the law on municipalities and the pension system (both with the objective of increasing their financial viability “in the opinion of the Bank”); and establishing 80 primary schools under the regime of participatory education preferred by the World Bank.

Text Box 4.2: The Role of the International Monetary Fund

Macroeconomic stability has always been a formal condition for all program aid and was generally operationalized as “having a program with the Fund,” or “being on track with the Fund.” But many bilateral donors and the European Commission no longer have this as a formal condition. According to interviews with donor representatives in August 2006 in Nicaragua, most [donors] no longer want to be as dependent on the formal position of the Fund. They prefer to judge the macroeconomic and fiscal situation more independently, though they say that the Fund’s opinion will always have an influence. In the new 2006 Performance Matrix, the donors have included four of their own indicators for judging macroeconomic stability. However, these seem to have come directly from the current IMF program. In general, it seems that it is very difficult for the local representatives of bilateral donors to defend themselves vis-à-vis their headquarters (who are members of the Fund!) if they want to provide budget support against the opinion of the Fund. In practice, there is still little evidence that donors will act in ways that are contrary to the Fund’s opinion.

PRS processes seem to have led to increasing the number of sectors in which conditionality is applied. Conditionality continues to be strong in macroeconomic stability and in structural reform. Conditions in the area of governance have been expanded as have conditions related to poverty reduction and to social sectors. In addition, there is strong conditionality in the area of improving public finances. If we look at the World Bank’s PRSC in Honduras and Nicaragua, no sector from the broad spectrum of public policies appears to be excluded: public finances, governance, water and sanitation, climate for private sector, the environment, policies for infrastructure, health, education, etc. Another example is Nicaragua’s Joint Financing Agreement which includes as fundamental principles, among other things, the respect for human rights and for democratic principles including free and fair elections, the independence of the

judicial branch, accountability and the fight against corruption, and the commitment to reduce poverty (Joint Financing Arrangement, preamble, paragraph vii). The performance matrix includes macroeconomics, public finances, poverty, social sectors, the productive sector, environment and water, and governance, with a total of 160 goals and actions for two years in 2005, reduced to 115 in 2006. The matrix for the 2005 joint agreement in Bolivia was much more modest; it included only 23 goals and actions, of which 18 had to do with public finances. The programs of the EC and the IDB are all sectoral and have conditions related to a variety of sectors (Table 4.4).

Table 4.4: Sectoral Budget Support Programs of the European Commission and the IDB in the Three Countries, begun between 2004–2006

Donor	Country	Sector	Initial Year
European Commission	Bolivia	Water and Sanitation	2004
	Honduras	Decentralization	2005
	Nicaragua	Education	2004
		Support to NDP, especially in Health and Education	2006
IDB	Bolivia	Public Administration	2005
		Tax Reforms	2006
	Honduras	Social: Health and Education	2004
		Financial Sector	2004
		Health	2005
		Fiscal Management	2006
	Nicaragua	Fiscal Reforms	2004
		Social	2006

Donors generally say that the conditions come from the PRS or other national strategies, but in practice it is not always possible to use these strategies as a source of conditions: they are not sufficiently concrete and sometimes they also require some updating. But even if it were possible to use the strategies as a basis for conditions, this would put the level of ownership over the strategies themselves in doubt. In practice, donors come with proposals and negotiate them with the relevant sectors of government. This practice hasn't changed much with the PRS as compared to traditional conditionality.

Conditionality has gotten more strict in the sense that there are now more prior conditions (conditions to be met before receiving aid, that is conditions to be judged "ex post") and these conditions are more results-focused. But attention to processes has not been diminished and therefore detailed micromanagement of policies continues. Conditionality includes more sectors than ever; in reality, no sector of government policy is excluded. Finally, the existence of a PRS doesn't mean that there is more ownership of the conditions because conditions are rarely based on these strategies.

It must be recognized, however, that the countries don't always meet the conditions. There are still cases of non-compliance, partial compliance, formal or cosmetic compliance, and delayed compliance. But, unlike the past, if the countries don't comply (completely) with certain conditions, they now generally receive fewer loans or grants.

Predictability and Budget Support

The predictability of Budget Support is important for the recipient country so that it can plan and budget well. Predictability of disbursements is an important element among the donors' commitments in the Paris Declaration (in order to improve mutual accountability). As the Multi-donor Evaluation of General Budget Support commissioned by the OECD has established (IDD and Associates 2006), predictability has two aspects: predictability of disbursements throughout the year, and predictability of multi-year commitments. Predictability during the budget year is important for the Treasury's cash flow, especially in the context of complying with IMF-imposed goals such as ceilings on fiscal deficits by quarter. Medium-term predictability is important for medium term budgeting and planning within the multi-year expenditures framework.

There is a fundamental contradiction between conditionality and predictability, especially as regards to medium term predictability. If the country does not comply with the fundamental principles (budget support), the triggers (World Bank), or certain results indicators (EC), it will receive less aid. While the conditions are clear in most cases, donor reactions cannot be predicted at various levels (or interpretations) of non-compliance, because there are many subjective and political factors that come into play.

There was poor predictability of budget support in Bolivia in 2005 because for various reasons many donors did not disburse the amounts they committed to, or they disbursed less than what was expected. In Nicaragua, the generalized suspension of budget support between July and October 2005 was also a problem. When most of the funds committed finally arrived, the government had problems using the money. Because of this, a significant part of the budget support was not spent and only increased international reserves. During 2006, budget support entered the country according to a previously planned scheme, and predictability during that year was excellent. Many donors made multi-year commitments, in principle, for the 2005–2006 and 2005–2007 periods. It remains to be seen, however, how predictability will continue with the new government in 2007. In Honduras, the predictability of the small amount of budget support received has been partial: in some cases, donors have reduced the amounts planned because of non-compliance with some condition. The World Bank, for example, did not disburse funds in 2005 because of the problem with the Civil Service Law. It did not begin to disburse the already negotiated new PRSC in 2006 either because the country did not meet the targets of the IMF's PRGF program, nor was there an approved and accepted (by the government) PRS in place.

4.3 Conclusions

Regarding donor coordination, the three countries have written their Harmonization and Alignment Plans as demonstrations of good will. Progress has been negatively affected in practice by inertia and resistance on the part of the donors, and in Bolivia and Honduras it has also been curtailed by the changes in government. The percentage of aid that is truly aligned with national processes and procedures is limited, and there is a great deal lacking in terms of harmonization as well.

Budget support is still a small part of the total aid (23% in Bolivia in 2005, 14% in Nicaragua, and certainly less in Honduras where statistics are not available.) There are many different budget support systems. In general, budget support is characterized by strong conditionality: there

are more prior conditions than before (in the 1990s), interference in processes has not decreased in spite of increased results indicators, and conditionality includes more sectors than ever before. The predictability of budget support is reduced by the increase in hard or “ex post” conditionality.

It is very difficult to come to conclusions about what kind of impact the actions of donors have on the promotion of poverty reduction policies. Even if all of the project aid was aligned with national strategies and if these strategies were oriented to poverty reduction, it would not be possible to conclude that project aid has probably helped. It is possible to see as positive the fact that most of the aid is already inside the budgets and that an effort is being made to increase coordination through sectoral roundtables (with still limited tangible results).

In terms of contributions to joint budget support programs, the results for poverty reduction cannot be visible yet because these programs have just been recently introduced. In Bolivia, and to a certain extent in Nicaragua, immediate results might be an improvement in the management of public finances. These conclusions are in line with those of the multi-donor evaluation of general budget support in seven countries (IDD and Associates 2006). On the other hand, there are no results for promoting poverty reduction policies through the matrixes in Bolivia because there has been no continuity in the BS. Nor are there results in Nicaragua because donors used their conditionality more for increasing the influence of the IMF than for promoting poverty reduction policies.

5. Reflections on the PRSs and the PRS Process

Initially, the framework of the PRS process was identical for Bolivia, Nicaragua, Honduras, and for the other countries participating in the process. Over time, however, the processes in the three countries have taken different paths.

- In Bolivia, shortly after the approval of the original PRS, there was a change in government. The new president, Sánchez de Lozada, did not waste time in announcing that this strategy would have to be changed. Since then, various new strategies have been produced, none of which has been accepted by the donors as the new PRS. Donors rejected the first “second generation” PRS because no participatory process was used in its preparation. Since then, the successive presidents have distanced themselves from the PRS and have not called their national strategies “poverty reduction strategies,” even when their plans show a growing concern for combating monetary poverty and inequity.
- President Bolaños in Nicaragua did not accept the original PRS promoted by the previous president, either. But since the country had not yet reached the Completion Point for the HIPC II Initiative, the President finally decided to retain the original strategy. In 2005, however, he managed to get the National Development Plan accepted by the donors as a replacement for the PRS. Unlike Bolivia, then, Nicaragua has had, at least formally, a PRS since the beginning of the process. However, President Bolaños never took ownership of the original strategy, and the content of the “PRSP II” is so oriented toward pure growth that serious doubts exist about its effectiveness for reducing poverty.
- In Honduras, as in Nicaragua, the concern for reaching the completion point for the HIPC II initiative helped the first PRS and the tripartite entity created to monitor its implementation survive changes in government. The public profile of the PRS has been raised recently because of the discussions about how to use and direct HIPC II resources. At the same time, President Zelaya has proposed some changes in the conceptual framework of the PRS and the way in which it will be implemented. These changes increase the activities and sectors that fall within the PRS to such a degree that it has taken on the character of a national development plan, like those produced in Nicaragua and Bolivia.

Some important questions about the PRS process emerge from these varied experiences. At the heart of this process is the idea of having a national poverty reduction strategy. We question whether it is worth the effort to continue insisting on having these strategies (or a national development plan along these lines) as a basis for relationships between government and international cooperation. Five primary reasons exist for requiring aid-recipient countries to have a national poverty reduction strategy.

- *There is a need for a multi-sectoral vision of how to reduce poverty, with clearly identified priorities.* The PRSs and NDPs are broad strategies (the current versions are even more ambitious than the originals) that do not identify a manageable quantity of priority actions. The PRSs and the NDPs are comprehensive in the sense that they include actions in many sectors, but they are not integrated visions of how to reduce poverty. For example, in past reports, we cited the lack of relationship between macroeconomic policies and the rest of the poverty reduction strategy. Neither do economic strategies necessarily incorporate a concern for pro-poor growth. This is particularly visible in Nicaragua this year, but a vision for how to achieve pro-poor growth has not been consolidated in Honduras or Bolivia yet either.
- *The participatory process of creating national poverty reduction strategies improves the quality of the policies and generates a commitment in and outside of the government to implement them.* The participatory processes of the past had little direct influence on the policies proposed in the PRSs and did not generate much ownership of the strategies (which doesn't mean that other results of the process, like developing capacity in civil society, have not been important). More recently, international cooperation agencies have stopped insisting on these participatory processes, and high level government officials (but not necessarily society in general) feel more committed to their "second generation" strategies."
- *A national strategy allows continuity and monitoring and evaluation of poverty reduction policies.* In practice, there is a great deal of continuity in the social policies implemented over the last 6 years, but this seems to have little to do with the existence of a poverty reduction strategy. The strategies have been short-term strategies. We cannot rule out the possibility that the PRS process has increased attention to the issue of poverty reduction in general, thus contributing to more social spending or to the development of social safety nets. Even if this is the case, however, it is not clear that a national poverty reduction strategy is needed to focus the attention of the government and donors on the problem of poverty. In spite of the progress made in developing information systems, a tradition of monitoring and evaluating policies has not been established. It is not likely that short-term strategies will help much in establishing this practice. Stable, medium-term strategies would not resolve the problem either, however, because there are other reasons why progress has not been made in monitoring and evaluation, as the chapter on downward accountability systems demonstrates.
- *A national strategy is needed to move forward with more flexible modalities of aid.* Donors have found that the strategies designed thus far (even the originals) are not sufficiently detailed or prioritized to serve as a base for sector-wide support or budget support. Nor were the strategies a necessary pre-condition for this form of aid: many donors provide budget support even when there is no strategy approved (by donors) or accepted (by the government).

- *The government should show its commitment to poverty reduction.* There is little sense in evaluating a prospective strategy to judge commitment to poverty reduction, because, as we have seen, the strategies don't necessarily correspond to the programs that are finally developed and implemented (See also Gould 2005). It would make more sense to judge the results achieved by the governments or evaluate a "progress report" where the government presents the progress made and evaluates why policies have or have not functioned well for reducing poverty. The difficulty is that with the current monitoring and evaluation systems, it can be difficult to evaluate the effectiveness of a government's actions, especially during the particular period of its mandate.

If national poverty reduction strategies (and the national development plans that have replaced them) have not achieved these objectives, wouldn't it make sense to consider alternative frameworks for relationships between donors and governments? Two alternative approaches in particular merit attention:

- One alternative would be to arrive at an agreement on a limited common agenda and to work in areas where the strategy to be followed is relatively clear and the monitoring not very complicated (as is the case with some of the Millennium Goals).
- Another possibility would be to develop and then implement sectoral strategies that would possibly have more chance of surviving a change in government. The comprehensive nature of the strategy is lost with this option, but because it is on a smaller scale, a sectoral strategy could possibly improve the quality and impact of participation and later of the monitoring and evaluation process.

More fundamentally, in order to achieve the objective of monitoring, evaluating, and making adjustments based on the results of poverty reduction policies, it will be important to keep moving forward with efforts to systematize the production, dissemination, and analysis of reliable and recent data on poverty and development results. Much of what has been achieved in this area so far is due to the work and funding of donors, but so far donors have placed less importance on these systems and the information they provide than on the formulation of PRSs and NDPs.

Annex 1

What is a Downward Accountability System?

Downward accountability systems are receiving a great deal of attention lately, but there is no single and clear definition of the concept. Neither have existing definitions been translated into concepts precise enough to allow a detailed and comparative analysis of these systems. As a result, many evaluations of downward accountability are somewhat vague and do not differentiate effectively between, for example, participation and civil society's contribution to a government accountability system.

The concept is based first on the traditional idea of accountability, where organizations (or individuals) report to an authority that in turn judges their achievements and actions. This concept includes two ideas: an obligation on the part of the subordinate organization or individual to report on what it/he/she is doing and has achieved, and the imposition of sanctions by the authority when the actions and achievements are not acceptable (Schelder 1999). If this system functions well, the application, or threat, of sanctions will bring about an improvement in the behavior of the person or organization being monitored. When this relationship exists between two government entities, the term used is usually "horizontal accountability."

Recently, another accountability concept has been introduced: the accountability of institutions to their "clients," otherwise known as "downward" (Edward and Hulme 1996) or "vertical" (O'Donnell 1999) accountability. For example, NGOs are accountable to their clients or to the geographic areas they serve, governments are accountable to the public in general, and elected politicians are accountable to voters (Najam 1996, Peruzzotti and Smulovitz 2000). In these "downward" accountability systems, non-governmental individuals or organizations take on the role of the "authority," demanding information about what government institutions have been doing and improvement in their work.

It is possible in practice for there to be a link between horizontal and vertical (or downward) accountability. These so-called "diagonal" accountability systems exist when governmental and non-governmental actors work together in an entity to monitor and ensure good public management or to make sure that rules are followed and promises are kept (Goetz and Jenkins 2001). Accountability chains also exist, for example when pressure from below brings about a strengthening of internal accountability systems in government institutions.

The difference between horizontal and vertical or diagonal accountability systems is not limited simply to the actors involved. Unlike a

governmental authority, non-governmental actors that evaluate the work of the government normally cannot impose sanctions for non-compliance. One exception would be the electoral sanction of voting against a political candidate who has not satisfied the public. But in most cases, non-governmental actors depend on other types of actions in their relationships with the government; they demand information, do independent analysis and disseminate the results, use the press, and organize marches and protests, among other things. Likewise, government accountability to the public goes beyond the simple obligation to inform the public about what it is doing and what it has achieved. Some suggest that the government also has the responsibility to explain why certain decisions have been made and to provide opportunities to the population to give input into the formulation of policies or to participate in decision making (Bastiaensen, de Herdt and D'Exelle 2005; Bardham 2002).

While the objective of all government accountability systems is to improve government administration, different accountability systems may focus on different aspects of the government's work. Avina (1992), for example, distinguishes between a government being accountable for its strategy ("strategic accountability") and being accountable for its actions ("functional accountability"). In the PRS process, strategic accountability has to do with the obligation to choose policies that support poverty reduction, while functional accountability has to do with the way that resources are used and the impact or results obtained from these resources. The PRS process, with its various processes and instruments, aims to strengthen both aspects of the work of the government.

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SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 20 88 64
sida@sida.se, www.sida.se