

Evaluation and monitoring of
Poverty Reduction Strategies – 2003

Regional Report





**Evaluation and Monitoring of Poverty Reduction
Strategies (PRS) in Latin America**

2003 Regional Report

**Can Poverty be Reduced?
Experience with Poverty Reduction Strategies
in Latin America**

**The Hague,
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This report was prepared by Rob Vos (coordination), Maritza Cabezas and María Victoria Aviles. Valuable inputs by José Cuesta, Kristin Komives, João Guimarães, Geske Dijkstra, Bert Helmsing and Irene van Staveren are gratefully acknowledged.

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Abbreviations and Nomenclature

AMHON	Association of Municipalities, Honduras
Sida	Swedish International Development Cooperation Agency
ASONOG	Association of Non-Governmental Organizations, Honduras
CABEI	Central American Bank for Economic Integration
WB	World Bank
CCER	Civil Society Coordinating Group for Emergency and Reconstruction, Nicaragua
CDF	Comprehensive Development Framework
ECLAC	Economic Commission for Latin America and the Caribbean
CONADES	National Council on Sustainable Development, Nicaragua
CONPES	National Council for Economic and Social Planning, Nicaragua
SDC	Swiss Agency for Development and Cooperation
DN	National Dialogue
EBRP	Bolivia Strategy for Poverty Reduction
ERCERP	Reinforced Strategy for Economic Growth and Poverty Reduction, Nicaragua
PRS/PRSP	Poverty Reduction Strategy/ Poverty Reduction Strategy Paper
ESAF	Enhanced Structural Adjustment Facility
FONAC	National Forum for Convergence, Honduras
FOSEDEH	Forum of External Debt and Development of Honduras
GDI	Gender-sensitive Human Development Index
HIPC	Initiative for Highly Indebted Poor Countries
IDB	Inter-American Development Bank
HDI	Human Development Index
IFIs	International Financial Institutions
IMF	International Monetary Fund
INEC	National Institute of Statistics and Census, Nicaragua
IPEA	Institute of Applied Economic Research, Brazil
I-PRSP	Interim PRSP Report
ISS	Institute of Social Studies
MDG	Millennium Development Goals
ISLC/MECOVI	Regional Program of Improving the Survey and the Measurement of Living Conditions
MTEF	Medium-Term Expenditure Framework
UBN	Unsatisfied Basic Needs
UN	United Nations
OECD	Organization for Economic Cooperation and Development
NGO	Non-governmental Organization
CSO	Civil Society Organization
PAI	Project for the Support and Implementation of the ERCERP, Nicaragua
PASE	Support Project for Follow-up and Evaluation, Nicaragua
GDP	Gross Domestic Product
UNDP	United Nations Development Program
PPP	Purchasing Power Parity
PRGF	Poverty Reduction Growth Facility
PSIA	Poverty and Social Impact Analysis
SETEC	Technical Secretariat (of the Presidency), Nicaragua

SIERP	Follow-up System for PRS Indicators, Honduras
SINEG	National Management Evaluation System, Honduras
STD	Technical Secretariat for Dialogue, Bolivia
SWAp	Sector-wide Approach programs
UDAPE	Analysis Unit of Social and Economic Policies, Bolivia
EU	European Union
UNAT	Technical Support Unit, Honduras
UPET	Unit for Transparency in Execution, Honduras
VP	Vice-President

Preface

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

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

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

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

The 2003 Regional Report was prepared by Rob Vos (coordination), Maritza Cabezas and María Victoria Aviles, with valuable inputs by Geske Dijkstra, Bert Helmsing and Irene van Staveren.

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Can Poverty be Reduced?

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1. Introduction

Poverty Reduction Strategy Papers (PRSPs) were introduced a few years ago as an organizational framework for the policies and programs to combat poverty in low-income countries and to coordinate the development aid funds provided to these countries by the international community. Because of their comprehensive vision of the problems of development and poverty and their adaptation of strategies to the particular situation of each country, PRSPs were expected to infuse new energy into international donor assistance and the fight against poverty. How far have we come in the three or four years since this new framework was introduced? The experiences of three Latin American countries—Bolivia, Honduras and Nicaragua—seem to indicate that PRSPs have stimulated a national dialogue on how to reduce poverty. They also show that the basic ideas of the PRSPs are not easily put into practice. The comparative evaluation of the three cases undertaken in this report provides important lessons on how the process in these countries might be continued as well as critical reflections on PRSP principles.

This introduction sketches the origin and basic ideas of the PRSP and examines some of the criteria for evaluating the design and implementation processes of the Poverty Reduction Strategies (PRS). It also summarizes the basic content and scope of this report.

Background

In early 1999 the World Bank introduced the Comprehensive Development Framework (CDF), a long-term strategy for achieving a more integrated and comprehensive development. Within this framework, macroeconomic and financial aspects are linked to social, human and structural aspects, and key stakeholders are defined along with their responsibilities for facilitating the sense of partnership, coordination and accountability.

In December 1999, the World Bank and the International Monetary Fund approved a joint initiative to combat poverty. In this initiative, low-income countries that wish to obtain financing from the international financial organizations or qualify for a debt reduction plan within the framework of the Initiative for Highly Indebted Poor Countries (HIPC) are required to present a strategic plan for poverty reduction (the PRSP). PRSPs are documents written by each country that contain a description of the country's macroeconomic situation, social policies, programs for promoting economic growth and reducing poverty, and an explanation of the financing that would be required to implement the strategy. (See text box below on strategy objectives and principles.)

Governments that receive foreign aid should become jointly responsible for the results of the programs that are adopted. This would be true for the program's design as well as its implementation. Civil society groups—especially the poor—are expected to define priorities, allowing for greater local support and follow-up.

The International Monetary Fund's Poverty Reduction and Growth Facility (PRGF) is one of the modalities of financial support to the PRSPs, and the approval of the strategy is one of the conditions for receiving PRGF support. Efforts are still being made to make the PRSPs more compatible with the macroeconomic conditionality related to this funding modality.¹

¹ See IMF (2002).

Three general characteristics determine the link between the PRSP framework and renegotiation of public external debt. First, the operational link between the PRSP and the HIPC Initiative² has been designed such that in order to reach an agreement on debt reduction within the HIPC framework, a country must be able to present an Interim-PRSP—a short document containing the diagnostic and poverty reduction policies—while it continues to work on elaborating a full PRSP. Second, the resources obtained through debt relief must be used exclusively for poverty reduction. Third, foreign financing within the PRSP framework should, in a general way, benefit programme and sector-wide support rather than project financing. Creditors should coordinate their policies in support of PRSPs, using the PRSP progress reports as a tool to follow up and monitor the efficient use of their resources.

In September 2000, the United Nations made an additional effort to commit the nations of the world to the fight against poverty. UN member countries defined the Millennium Development Goals (MDGs),³ consisting of 8 objectives, 18 goals, and 48 indicators for the period of 1990-2015. The MDGs are aimed at orienting development policies to create improvements in the following areas: incomes of the poor, education, the situation of women, health, the environment, and donor assistance. The United Nations is responsible to monitor achievements towards these goals.⁴ In 2002, the Monterrey Consensus linked the PRSPs to the attainment of MDG goals within a specific time period and broadened the scope for PRSP coordination between government policies and donor support.

By July 2003, 27 countries (of the 38 potentially eligible ones) had completed their PRSP implementation report. Forty-five countries have an interim PRSP and seven countries have presented their progress reports. Among them, four Latin American countries have completed the process of formulating a Poverty Reduction Strategy (PRS): Bolivia, Guyana, Honduras, and Nicaragua. Five other countries in the region are eligible for the HIPC debt reduction program (Belize, Dominican Republic, Guatemala, Paraguay and Peru) and are in a similar process of formulating a PRS. The aim of the present report is to evaluate the experience with the design and implementation of the PRS in Bolivia, Honduras and Nicaragua from a comparative perspective and within the context of the drastic economic and social reforms introduced throughout all of Latin America beginning in the early 1990s.

PRSP Objectives

How should we evaluate these experiences? At first glance it does not appear difficult since principles and objectives have been very clearly defined in the definition and implementation of the PRSPs.

² After several frustrated attempts to improve the payment capacity of these countries, the Bretton Woods institutions launched the HIPC Initiative for Debt Relief in 1996. HIPC brings together various foreign creditors, including multilateral institutions, previously absent in debt reduction plans aimed at making debt sustainable. This initiative was reviewed and expanded in late 1999 with the goal of providing a more immediate and definite solution to debt sustainability, by broadening the focus for those countries committed to poverty reduction.

³ Millennium Development Goals is an expanded version of the OECD's International Development Goals (see Wodon, 2002).

⁴ See UNDP (2003).

The principles stipulate that the PRSs should be:

- country-driven and –owned, predicated on a process of broad-based participation in the formulation and implementation and in the monitoring of progress toward goals;
- results-oriented, focusing on outcomes that will benefit the poor;
- comprehensive in the diagnosis of poverty, recognizing the multidimensional causes of poverty and measures to combat it;
- partnership-oriented, providing a basis for the active participation and coordination among development agencies involved in supporting the country strategies (PRSs should improve the coordination among multilateral and bilateral donors and NGOs);
- based on a medium and long-term perspective, recognizing that poverty can not be reduced overnight.

The central objective of the PRS, of course, is to reduce poverty taking into account the multiple dimensions of poverty. For this, the central objective is linked to the MDGs as indicated above.

The priority public actions of the strategies should include four key areas:

- macroeconomic and structural policies to support a sustainable growth in which the poor participate.
- improvements in governance, including financial management in the public sector and decentralization in policy implementation.
- appropriate sectoral programs and policies.
- realistic costing and appropriate financing levels for the primary program.

According to the PRSP agenda's own objectives, each country should then define its strategy according to its own possibilities and institutional and economic problems and do so based on a national dialogue. It is to be expected, then, that the PRSP content will differ from country to country, both to ensure "national ownership" of the strategy and to provide an adequate response to each country's problems as it guides the process of poverty reduction. In practice, however, the definition of strategies has not occurred in an isolated fashion, nor has it started from scratch. The initial results of the strategy will depend on the institutional, political and economic context in which the PRSP was defined. This seems to be an obvious point, but it is also an indication of the difficulty of making comparative assessments of PRSP progress towards its goals and of assessing the value added of the PRSP in comparison to the counterfactual situation of, say, no change in existing policies.

Because PRSPs are in an early phase of implementation, this study does not aim at evaluating the impact of PRSPs on the reduction of poverty. Rather, it aims to assess progress in the process itself. It is important, therefore, to focus on analyzing the intermediary processes that lead toward the final results. Within this perspective, the central questions asked are the following: To what extent is the PRSP process generating significant steps in the direction of the agreed-upon objectives, within the overall goal of reducing poverty in a structural way? To what extent do PRSPs add value to previous and existing processes?

In sum, this report concentrates primarily on verifying whether the PRS design process is establishing the basic conditions for effective poverty reduction strategies, according to its own objectives.

What's new? And what should be evaluated?

We must be realistic when we try to identify new factors in the PRSP processes or the ways in which the PRSP focus may be different from previous and existing efforts to lift restrictions and increase the possibilities for the various actors to focus on reducing poverty. On the one hand, the PRSP initiative has a different rationale from previous efforts, particularly in that it aims to involve a group of stakeholders that is much broader than in previous national dialogues on poverty reduction. The PRSP strategies are also supposed to be comprehensive in linking macroeconomic actions with sectoral reforms and interventions targeted at the most vulnerable groups, while at the same time considering the severe economic limitations and weak implementation capacity of poor countries. This implies, on the other hand, that we must also be realistic about the changes that can be achieved in a relatively short period of time. It would be an illusion, for example, to expect that by introducing the PRSP process, the old forms of conditionality imposed by the donor communities would disappear *de facto* (in spite of the central role of donors in the PRSP initiative.) Rather, it appears—as we will further analyze later in this report—that the new conditionality of the PRSP is added to the previous conditions of the HIPC framework and structural adjustment loans (ESAF).

It can be expected, nevertheless, that the PRSP process will move the balance much closer to a sense of national ownership, because of the way it is designed as:

- the result of national dialogue processes that stakeholders can control (that is, to say that national actors should take ownership of these processes);
- comprehensive in scope;
- results-oriented in terms of resource allocation.

The basic premise is that a poverty reduction strategy and a policy design process that manage to combine these three objectives have a greater chance of success than most of the policies implemented in recent decades. To express it negatively: programs that do not have a sense of national ownership, do not work; poverty reduction programs financed by international donor agencies that operate parallel to programs financed by national governments tend to be inefficient; and established goals are not likely to be achieved if resources are allocated according to the provision of inputs to implementation entities without considering their effectiveness.

An additional premise needed for a realistic vision of the possible achievements of the process is that a PRSP document which has been approved by the government and the donor community may imply a commitment to common objectives, but it does not necessarily mean that all of the actors have the capacity or even the willingness to implement the necessary actions. Implementation can become difficult because of weaknesses in institutional capacity, and this means that strategy must often be significantly modified during the implementation process. Therefore, the implementation process is not a simple technical operation for executing decisions already made during the strategy design. Rather, it is a part of a broader process of key decision-making.

Concretely, it would be necessary:

- To ensure a political and institutional process with some minimum level of coordination between the executive and legislative branches in order to avoid later problems.
- To translate the commitments made in the context of the PRS into a corresponding allocation of resources, beginning with the national budget to give it greater viability. The mechanisms for ensuring that the resources get to their destination and are used

effectively towards achieving the PRS goals are even more important than the allocation of resources.

- To make the explicit connection between the proposed actions (inputs), the budgetary allocation (costing), and the objectives to be achieved (results). When there is a “missing middle,” the monitoring process loses transparency from the beginning.
- To include some room for learning from experience. The strategy design should indicate why similar initiatives implemented earlier did not work. Strategies must take into account what has been done to improve the institutional capacity to execute programs.

These aspects are true for all design and policy evaluation processes. In the case of poverty reduction strategies, they have become even more important since developing comprehensive policies for reducing poverty is particularly complex. Policies must be implemented within contexts of very scarce resources and low institutional capacity for implementation. In this sense, it is important to put a great deal of emphasis on evaluating the intermediate processes on the road to the final results. The central questions that we ask ourselves, therefore, are the following:

- To what extent is the PRSP process generating significant steps toward the agreed-upon objectives, under the overall premise that this will ultimately serve to reduce poverty in a structural way?
- To what extent does the PRSP add value to previous and existing processes?

This assessment, therefore, is concentrated primarily on verifying whether the process of designing the PRS is providing the basic conditions for effective poverty reduction strategies, according to its own objectives. We will put the most emphasis on determining whether the PRS process is generating a greater sense of national ownership of anti-poverty policies; whether it is helping to define more explicitly how the inputs will be translated into results in line with policies and resource allocation; whether implementation models are viable; and whether the international donor community is adjusting itself to the requirements of the strategy.

Scope of the Study

The evidence presented is based in large part on an extensive stakeholder analysis in Bolivia, Honduras and Nicaragua that provides much greater depth than other evaluations available to date. This process is explained in detail in the country reports. The information was verified and completed with all of the documentation that was able to be collected on the PRSP processes in the three countries. This report compares the main results of the three country cases.

We are aware of the existence of a growing quantity of assessments of the process, especially those commissioned by the donors.⁵ We believe that the additional value of the present analysis is the following: it is completely independent from the design, implementation and financing process; and it is a more exhaustive analysis in terms of the consultation and dialogue process involved in the systematic stakeholder analysis,⁶ that includes visits to various municipalities of the three countries.

The rest of this report is organized in the following manner: Section 2 gives a review of the economic situation in Latin America during the 1990s and the progress made on poverty reduction and movement toward the MDGs. Economic and social progress is assessed in the

⁵ See Appendix A.1 for a review of the most important existing studies on the three cases.

⁶ For a detailed explanation of the methodology used to select stakeholders for interview, see the three country reports (ISS 2003a, 2003b, 2003c).

context of the economic reforms and social policies put into place during that period. In addition, in part the PRSPs are born out of dissatisfaction with the outcomes of the reforms of the 1990s. In Section 3, we make a comparative analysis of the PRSP design and implementation process in Bolivia, Honduras, and Nicaragua. We emphasize eight aspects: 1) the changing economic and political context of the three countries; 2) the consultation and dialogue process through a stakeholder analysis; 3) the poverty diagnosis according to the three PRSPs; 4) the strategic choices and proposed actions; 5) the progress made towards result-oriented budgeting; 6) the institutional capacity to implement the PRS; 7) the development of monitoring and evaluation systems for the PRS; and 8) the role of donors in the entire process. In Section 4, we summarize the main conclusions and present some recommendations how to move forward with process.

2. Poverty and Economic and Social Reforms in Latin America

Economic Growth

Over the last few decades, aggregate social welfare indicators show progress for the people of Latin America and the Caribbean. Serious concerns persist, however, about inequality and social exclusion, as large groups of people have not benefited from the improvements in human development. The region's economic growth path has been unstable and not kept a sustained pace, and this has no doubt slowed poverty reduction efforts and social progress. In fact, most of the region's economies have actually demonstrated negative performance in the early years of the new millennium. Per capita income has declined in half of the countries, and almost all of the economies have slowed relative to the first half of the 1990s (See Table 2.1).

The rate of growth in average wellbeing for the entire region declined from 2.0% annually in 1990-95 period to 1.3% for 1999-2001. The countries in South America experienced a reduction in per capita income in the latter period, and 2002 and 2003 have not been anymore favorable. Bolivia shows the same trend as the other countries, but its growth rates are below the regional average. Honduras has improved economic performance modestly to 1.2% annual growth during 1999-2001. However, this performance has been inferior to that of the rest of Central America throughout the 1990s. Nicaragua's economy improved after experiencing negative growth from the 1980s through 1995. Per capita income growth accelerated to around 3% annually, though with a clear downward trend after 2000.

Not only the speed of economic growth has been disappointing, growth also has been volatile. Using the standard deviation of the per capita growth rate an indicator of volatility, Table 2.1 shows that the deviation from the trend has been much greater than the average growth. This puts Latin America high on the list of regions of the world with high levels of economic insecurity.⁷ Economic volatility during the 1990s was not greater than that of the previous decade, but it has grown in comparison to the 1960-1980 period when the region's countries had greater and more stable growth rates. Though volatility has not increased in comparison to the 1980s, the probability of crisis years occurring is still high. Between 1995 and 2001, two-thirds of the 23 countries listed in Table 2.1 had at least two years of recession. That is to say they had a reduction in per capita income. Bolivia had three crisis years between 1995 and 2001, Honduras had one, and Nicaragua was the exception without a recession in those years. After 2001, however, the economic situation has worsened in all three countries.

⁷ See IDB (1995), De Ferranti et. al. (2000) and Rodrik (1999) for comparative analyses of the economic volatility in Latin America and other parts of the world.

Table 2.1 Latin America: Growth in Per Capita Income and Economic Volatility

	Annual Per Capita GDP Growth (%)						Volatility ¹			Years of Recession (No.)
	1960-80	1980-85	1985-90	1990-95	1995-2000	1999-2001 ³	1960s & 70s	1980s	1990s	1995-2001 ²
Argentina	1.8%	-4.0%	-5.8%	5.1%	1.3%	-3.8%	4.8	5.5	5.7	4
Bolivia	1.0%	-3.8%	-3.8%	1.6%	1.0%	-0.5%	4.3	2.7	1.6	3
Brazil	4.6%	-1.0%	-0.8%	1.6%	0.9%	1.6%	3.7	4.7	3.0	2
Chile	1.5%	-0.7%	4.3%	6.9%	2.9%	2.3%	5.0	6.3	3.5	1
Colombia	2.7%	0.1%	2.6%	2.5%	-1.0%	0.2%	1.7	1.6	2.7	3
Costa Rica	2.4%	-2.6%	-1.0%	3.0%	2.8%	-0.5%	2.6	4.4	2.8	2
Cuba					4.2%	5.4%				0
Dominican Republic	3.4%	-0.2%	0.7%	2.4%	5.8%	3.3%	6.9	2.9	4.2	0
Ecuador	3.5%	-0.6%	-0.9%	1.2%	-1.9%	2.0%	5.1	4.4	3.1	3
El Salvador	1.0%	-3.5%	-2.9%	4.0%	1.0%	0.0%	3.0	5.5	1.9	2
Guatemala	2.8%	-3.6%	-3.2%	1.6%	1.2%	0.2%	1.9	2.7	0.7	1
Guyana	1.0%	-4.2%	-5.9%	6.8%	2.2%	-0.6%	5.5	4.9	4.2	2
Haiti	0.5%	-2.8%	-4.5%	-5.2%	0.0%	-2.2%	4.3	2.9	5.4	3
Honduras	1.8%	-1.5%	-1.4%	0.6%	0.2%	1.2%	3.1	2.6	2.7	1
Jamaica	0.6%	-1.5%	2.6%	0.3%	-1.4%	-0.5%	5.6	4.6	2.0	5
Mexico	3.5%	-0.3%	-0.6%	-0.3%	3.9%	1.6%	2.3	4.3	3.6	2
Nicaragua	0.3%	-2.4%	-7.8%	-1.5%	3.2%	3.0%	8.6	4.8	3.2	0
Panama	3.1%	1.3%	-1.4%	3.6%	1.8%	-0.2%	2.9	6.1	2.5	1
Paraguay	3.8%	-1.3%	-0.6%	0.5%	-1.9%	-1.3%	2.7	5.3	1.6	5
Peru	1.6%	-2.0%	-5.8%	3.7%	0.8%	0.0%	2.6	8.0	4.9	3
Suriname		-2.9%	-3.3%	0.5%	2.9%	-2.0%		8.8	7.6	2
Uruguay	1.5%	-4.4%	-1.3%	3.2%	1.4%	-3.0%	2.8	6.5	3.7	4
Venezuela, RB	0.4%	-3.4%	-3.4%	1.1%	-1.4%	1.0%	3.0	4.8	4.4	3
Weighted Average										
Latin America and Caribbean	2.8%	-1.4%	-1.6%	1.8%	1.4%	0.6%	1.60	2.56	2.03	3
South America	2.7%	-1.9%	-1.9%	2.5%	0.8%	0.1%	2.06	3.43	2.49	3
Central America, Mexico and Caribbean (excl. Cuba) ⁴	3.2%	-0.5%	-0.9%	0.0%	3.6%	1.5%	1.73	3.58	3.07	2
Average										
Latin America and Caribbean	2.0%	-2.1%	-2.0%	2.0%	1.3%	0.3%	0.99	2.05	1.23	2
South America	2.2%	-2.1%	-1.6%	2.7%	0.2%	-0.2%	1.15	3.09	2.20	2
Central America, Mexico and Caribbean (excl. Cuba) ⁴	1.8%	-2.0%	-2.4%	1.3%	2.1%	0.7%	1.50	1.70	1.04	0

Source: Data from World Bank.

- Notes:
1. Volatility is defined as the standard deviation of the per capita GDP growth rate.
 2. Number of years of recession. Recession is defined here as a year with a negative per capita income growth rate.
 3. For Cuba the period refers to 1999-2000.
 4. Sub-region also includes Suriname and Guyana.

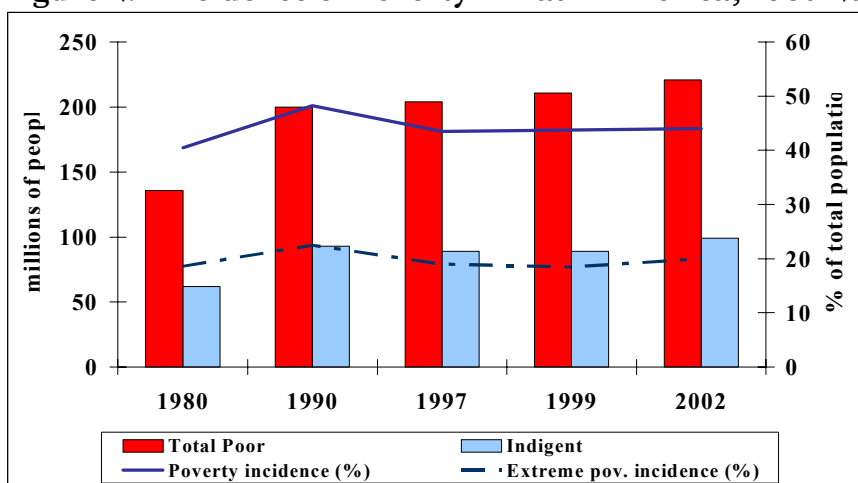
Poverty, Inequality and Social Progress

According to recent studies, little progress has been made in poverty reduction in Latin America in the last 25 years in terms of monetary poverty. As Figure 2.1 shows, based on ECLAC data (2003a) and using national poverty lines, the incidence of moderate poverty remained at 40-45% of the population and extreme poverty at around 20%. During the 1990s, there was a slight

reduction in the moderate poverty rate (from 48% to 44%), but the absolute number of people living under the poverty line grew from 200 to 221 million. Again according to ECLAC data, the absolute number of people in extreme poverty (indigence) grew during the 1990s: from 93 to 99 million between 1990 and 2002.

Other studies tend to confirm such tendencies, though clear differences exist between countries with some showing substantial increases in poverty and others showing a reduction. (See, for example, Vos et. al. 2002, Wodon et. al. 2001, Székely 2001)⁸ To a large extent, the discrepancies are due to differences in methodology, coverage and poverty lines used. This is not the space to go into this, but the fact that international organizations like ECLAC, UNDP, the World Bank, and the Inter-American Development Bank have different ways of measuring poverty in the region does not facilitate a proper comparisons of trends.⁹

Figure 2.1 Incidence of Poverty in Latin America, 1980-2002



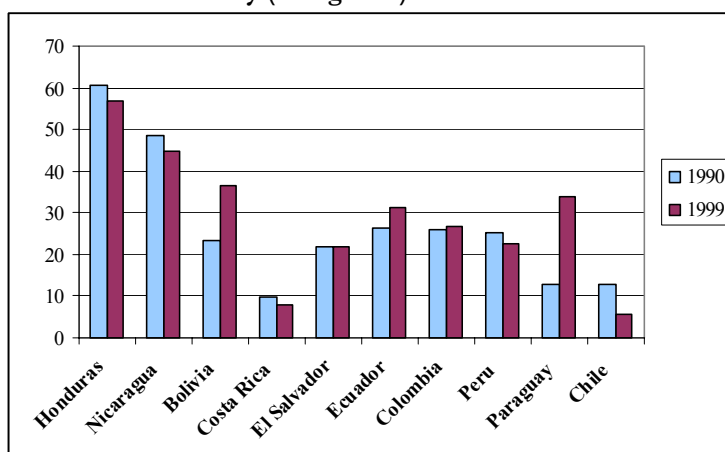
Nevertheless, all available evidence shows that the degree of poverty tends to be higher in the poorer countries of the region, including Bolivia, Honduras, and Nicaragua (see Figure 2.2). In addition, according to ECLAC data, Honduras and Nicaragua show a slight reduction in the incidence of extreme poverty, though there is an increase in the case of Bolivia.

Existing studies also coincide in saying that the level of inequality in income distribution has increased in a vast majority of the region's countries during the 1990s for reasons that will be discussed further ahead. Figure 2.3 shows that trend for the same set of countries, with Honduras being an apparent exception. One notable aspect of the figure is that the three HIPC countries also seem to have a higher level of inequality than the other countries which have higher per capita income levels. This suggests that Bolivia, Honduras and Nicaragua not only have the highest poverty incidence, but also that economic growth benefits the poor the least. This in turn implies that without more equitable growth, these three countries will have a much harder time than their neighbors reaching the millennium goals for reducing extreme poverty.

⁸ Vos et. al. (2002) show rising poverty in 4 of 15 countries and decreasing clearly in 8 (until approximately 1998). Székely finds that poverty increased in 6 of 17 countries and fell substantially (by more than 10 points) in 5 countries (until approximately 2000).

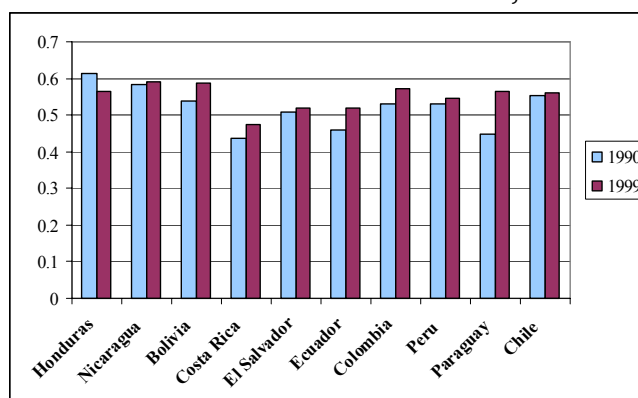
⁹ For example, ECLAC estimates the extreme poverty incidence for Honduras, Nicaragua and Bolivia, respectively, at 57%, 45% and 37% around 1999. In contrast, the World Bank's World Development Indicators (2003) define extreme poverty based on a poverty line of one dollar a day per person (at purchasing power parity), leading to estimates of the extreme poverty incidence of, respectively, 24%, 82% (!), and 14% for 1998.

Figure 2.2 Incidence of Extreme Poverty (Indigence) in Selected Latin American Countries, 1990-99



Source: ECLAC, 2002.

Figure 2.3 Inequality (Gini Coefficient) in Per Capita Income Distribution in Selected Latin American Countries, 1990-99



Source: ECLAC 2002.

If the existing inequality in income distribution stays the same, the region will require a per capita growth rate of at least 4 per cent—more than double the average of the 1990s—to be able to achieve the MDG of reducing in half the percentage of the population that subsists on less than a dollar a day by 2015. A report recently published by ECLAC, IPEA and UNDP (2003) estimates that if the trends in economic growth and poverty reduction would not change from those observed during the 1990s, only 7 of 18 Latin American countries will be able to reduce extreme poverty by the year 2015. This list would include countries like Argentina, Chile, Colombia, Honduras (!) and Uruguay, countries—with the possible exception of Chile—that have had serious reversals in economic growth since 1999, implying that projections should be revised for these cases. In the case of Nicaragua without a change in the pattern of growth as observed between 1990 and 1999 (that is, if the rate of growth does not accelerate and if distribution does not improve) the country might be able to reach the MDG of halving extreme poverty no earlier than 2025. In the Bolivian case, the study suggests that it is not possible to reach the goal even in one hundred years without a substantial acceleration in the growth rate and a significant redistribution of wealth. To be able to reach the goal by 2015, Bolivia will require, according to these projections, a reduction in inequality (Gini coefficient) of 4.7% and a per capita income growth of 4.4% per year. This is a far cry from current reality.

How would the persistence of poverty and inequality affect the ability to reach the other MDGs? The persistence of poverty can negatively affect changes in other social indicators of the MDG considering that deprivations in terms of education, health, security and access to services are in part determined by income poverty.

Box No. 1 summarizes the progress toward the MDG for Latin America in general and for Bolivia, Honduras and Nicaragua in particular. In general terms, we can say that the region as a whole has made substantial progress in past decades in terms of social indicators, but the process stagnated in many countries during the 1990s. In terms of the millennium goals for education and gender equality in access to education, the countries of the region have almost reached the goals for primary education. Reaching the MDG in this area for 2015 should be possible in principle if there is no reversal in existing efforts. That observation also holds true for Bolivia, Honduras and Nicaragua though they are behind the regional average. There are many more concerns about access to secondary education, an issue that requires much greater attention and is especially worrisome given the requirements for skilled labor generated by the globalization process. (See, for example, Vos, Taylor and Paes de Barros, 2002.) Other concerns in the area of education have to do with low levels of education in rural areas and the quality of education in general.

In the same way, significant progress is observed in the area of health, as maternal and infant mortality rates have been reduced. Health and immunization programs as well as extending coverage of drinking water systems have undoubtedly contributed to reducing mortality rates. Concerns persist, however, about the quality of services in poor areas and because lack of income is a limiting factor for accessing health services. In the case of Bolivia, for example, though the average infant mortality rate for the country as a whole has been reduced to 80, the rate for the poorest quintile remains as high as 146.5 deaths per 1000 live births.¹⁰

¹⁰ Ibid.

Box No. 1: Progress Toward MDGs in Latin America:

Reduce by half the proportion of the population living in extreme poverty between 1990 and 2015

As the text explains, progress was very slow for the entire region in the last decade, but there are noticeable differences between countries. According to World Bank and UNDP figures, 14.4% of Bolivia's population lived on less than a dollar a day in 1999. The figures are 23.8% in Honduras and 82.3% in Nicaragua for the same year..¹

Achieve universal access to primary education by 2015

The Latin American average is getting close to the millennium goal with a primary school enrollment rate of close to 97%. Improvements were made in the 1990s though at a slower pace than in earlier decades. There are greater problems in secondary school enrollment and in access to basic education in rural areas. The enrollment rate for primary education improved for both sexes in Bolivia, moving from 90.7% to 97.1% during the 1990s. Nicaragua's enrollment figures for primary education shows an upward trend reaching a net enrollment rate of 79.9% in 1994. By 2001, this percentage had increased to 81%. The figures for Honduras show a decline in enrollment rates during the 1990s. The latest available figures for 2000 shows a net rate of 88%, though it had been above 90% in previous years

Eliminate the gender disparity in primary and secondary education by 2005

The gap in access to education by gender has almost been eliminated in the region. Between 1990 and 1998 the percentage of girls versus boys studying in primary and secondary schools was 99:100 for Latin America as a whole. The increase in girls' enrollment rates in Bolivia is significant as it moved from 86.7% in 1990 to 96.8% in 1998. The ratio of girls to boys in Honduran enrollment rates was 0.98 in 1990, and it moved to 1.01 in 2002. In Nicaragua the net rates of enrollment in primary and secondary schools have been higher for girls than boys during a good part of the 1990s.

Reduce by two-thirds the mortality rates among children under five between 1990 and 2015

Since 1990, the Latin American region has progressed quickly on this indicator. In 2000, the rate was 36.7 deaths for each 1000 births, a reduction by 26% compared to 1990. In Bolivia, the rate has dropped to 80 per 1,000 live births which puts the country half way the MDG in this area. During the second half of the 1990s, infant mortality fell 16.6% in Nicaragua. This reduction stagnated in 2000 and there haven't been any significant advances since then. While there had already been a reduction in infant mortality rates in Honduras, reaching a rate of 38 per 1,000 live births, the rate would have to drop further to 22 in order to reach the MDG.

Reduce by three-quarters the maternal mortality ratio between 1990 and 2015

Unfortunately, data for this indicator are little reliable. Available statistics for the past five years suggest that progress made in the 1990s has stagnated. However, because of reproductive health and prenatal care programs as well as the percentage of births attended to by qualified health care providers in most countries, there are hopes for positive change. In Bolivia the maternal mortality rate declined from 650 deaths per 100,000 live births to 550 deaths in 1995 and 390 in 2001. Though these rates are still very high, the decline indicates that it is possible to reach the MDG. In Nicaragua, maternal mortality rates increased during the first half of the decade, then went back down to rates similar to those of 1990, 150 deaths per 1,000 live births. Maternal mortality in Honduras dropped by 50% during this period, reaching a rate of 110 in 2000.

One important determinant of the reduction of maternal mortality rates is the percentage of births attended by qualified health care providers. In Bolivia, this share increased from 43% to 59%, which is in line with figures from Honduras and Peru, but far from the health personnel coverage of countries like Colombia or Chile where percentages are near 100%. In Nicaragua, the percentage of births attended by health personnel has not improved much in the past decade.

Halt and begin to reverse the spread of HIV/AIDS virus and malaria and other illnesses by 2015

In the last four years, the incidence of HIV/AIDS among adults between 15-49 years of age in Latin America appears to have stabilized at a level between 0.5 percent and 1 percent, though it is at 2 percent in the Caribbean. In general, the virus affects men more than women, but infection rates for women are increasing quickly. The incidence of AIDS in Bolivia increased among young women at the end of the 1990s. In 2002 the percentage of women between 15 and 24 years of age who had developed the illness was 0.07. Honduras has the highest rate in Latin America: 1.8% according to official statistics. These numbers may be underestimated, however, as HIV/AIDS is especially serious among women and has become the leading cause of death in women of child bearing age. In Bolivia the rates for men are stable at around 0.15.

There were some advances with respect to malaria and dengue in the 1990s, but infection rates remain high in some areas.

Box No. 1 (continued)

Ensure environmental sustainability

The region has made significant progress in the provision of clean water and sanitation services, and the percentage of the population without access to these services was reduced by one-fifth between 1990 and 2000. A continuing concern for the region, however, is that during the 1990s, 14 Latin American countries were listed among the 40 most deforested countries of the world.

In Bolivia, the share of forested areas has dropped to 48.9% of the total area of the country, and the consumption of CFCs, which damages the ozone layer, went from 14% in 1990 to 79% in 2002. In Nicaragua CO₂ emissions have increased slowly during the 1990s to 713 kg of CO₂ per capita in 1998, and ozone-damaging CFF consumption was reduced by almost half from its highest level in 1995.

Only 38% of the rural Bolivian population has access to sanitation services and 55% have access to potable water. Little has changed during the last decade in this respect. Among Bolivia's urban population, 82% have access to sanitation services and 93% to potable water sources, but 92% already had access to potable water in 1990. In Nicaragua, the percentage of the national population with access to potable water has improved and is on line with what is needed to meet their proposed goals. This progress on a national level is primarily due to advances in rural areas where in 2002, 59% had access to potable water.

Source: World Bank data, and UNDP Development Indicators 2003.

Note: 1. The World Bank (World Development Indicators, 2003 version), estimates the extreme poverty incidence using a poverty line of \$1.08 per person per day based on the 1993 PPP prices. The large differences in the estimates may be due to revisions in the PPP conversion factors for Nicaragua. The poverty estimates using the national (extreme) poverty line seem more realistic. (See Figure 2.2)

Economic Reforms of the 1990s.

Since the late 1980s the vast majority of the region's countries embarked on a series of economic reforms that sought to improve fiscal and monetary policy and to increase growth and reduce poverty. Such reforms emphasized trade and financial liberalization, fiscal reforms and the privatization of public enterprises. The measures were implemented with certain uniformity and have been called "the Washington Consensus."¹¹ In general terms, macroeconomic stability was improved and growth rates increased initially, but—as we have seen—sustained growth had not been achieved, and results in the area of poverty reduction have been disappointing. Undertaking a retrospective analysis, John Williamson, among others, states that the scarcity of positive effects of the reforms is due to the fact that they were not completely implemented in most of the countries, or that they were contradictory, such as in places where the trade liberalization was accompanied by an overvaluing of the exchange rate. It was also due to the lack of adequate institutional support, the fact that the reforms were implemented in an adverse international (financial) context; and that the objectives of equity and good governance were overlooked. No consensus exists around this interpretation of the impact of the economic reforms.

¹¹ The name, "Washington Consensus," was coined by John Williamson, a researcher at the Institute for International Economics in Washington D.C. who discovered noticeable uniformity in the advice given by the International Monetary Fund and the World Bank to developing countries and to Latin America in particular. The Washington consensus emphasizes reforms in ten areas: 1) Fiscal discipline; 2) Channeling of public expenditures into activities of "high economic return and potential for improving income distribution;" 3) Fiscal reform that broadens the tax base and reduces the marginal tax rate; 4) Freeing of interest rates; 5) Setting exchange rates adequate for ensuring competitiveness and stability. 6) Free trade; 7) Reforms to attract foreign direct investment; 8) Privatization of public enterprises to promote competitiveness and improve service provision; 9) Deregulation to promote competitiveness; and 10) Protection of property rights. (Williamson, 1990)

There is no conclusive empirical evidence on the impact of economic reform on inequality and poverty. The most recent evidence suggests that financial and trade liberalization has led to greater inequality. Particularly, the shift towards more production for the world market has resulted in an increase in inequality among groups of workers, especially between those with greater and lesser education levels (skills) and between informal and formal sector workers. (See Vos et. al. 2002, Behrman, Birdsall and Székely 2001, and IDB 2002, among others.) The introduction of new technologies induced by liberalization has caused an increase in the demand for skilled labor contributing to greater inequality and a stagnation in the remuneration of workers with low educational levels (IDB 2002, Saavedra 2003). Unskilled workers were also limited in their access to the formal job market, which pushed them toward informal activities generally considered to be of low quality and with low remuneration. Saavedra (2003) notes that in countries like Peru, Venezuela, Argentina, Brazil, Colombia and Ecuador, informal employment grew by 40-50% during the 1990s, and the number of workers without access to the social security system grew by an even higher percentage.

The precise transmission mechanisms and levels differ substantially among the countries of the region. In addition, rising inequality has not necessarily translated into an increase in poverty (See Vos et. al. 2002). A substantial increase in capital inflows, especially in the early 1990s, has allowed an expansion of the aggregate demand and total employment in many cases. This has been a significant factor in the ability of many governments to reduce inflation. One important effect of this macroeconomic stability is that it has permitted improvements in real wages. Together with the growth in employment, this has allowed for episodes of poverty reduction.

As we have seen, however, these cycles have been temporary, and reduced access to external financing in the latter half of the 1990s contributed to a deceleration in economic growth, greater volatility, and an increase in unemployment rates. Macroeconomic instability is also reflected in fluctuations in the poverty rate. In some countries, particularly those of Central America and the Caribbean (including Honduras and Nicaragua), liberalization has brought an expansion of the *maquila* sector. This has been a significant factor behind the increase in women's participation in the region's labor force, which grew from 40% to 50% between 1989 and 1999. It has also contributed to the reduction of poverty in the same countries. Beginning in 2001, however, the *maquila* industry in Latin America has been on the decline, as many foreign investors move their capital toward Asia. (See ECLAC 2003b.)

The instability of foreign capital flows and the occurrence of major banking crises in several countries have led to a much more explicit recognition of the importance of the institutional arrangements that should accompany economic reforms, such as good banking supervision and capital control mechanisms. Volatility in capital flows and the reactions to this in terms of macroeconomic management (which are generally pro-cyclical), have obviously contributed to the large fluctuations in economic growth affecting employment and real wages. Such volatility has revealed, once again, the weaknesses in the social safety nets of the region's countries. Social protection of individual risks worsened in the 1990s due to labor market conditions (the creation of more poor-quality jobs). In most countries, the number of workers who lack health or pension benefits has increased. This is directly related to the increase in labor informality mentioned above. Microeconomic volatility (calculated on the hiring and firing rates) has increased in many countries due in part to the flexibility necessary to compete in global markets (Saavedra 2003). Social benefits and formal employment protection are not in line with the average productivity levels in the region and primarily benefit the firms which employ highly productive workers. Low-productivity businesses in the informal sector simply do not provide such benefits.

Social Policy Reforms

Several efforts have been made in the region to counteract deficiencies in social safety nets. The most well known are the social investment funds, pioneered in some ways by the Emerging Social Fund that Bolivia created in the hopes of softening the social blows of the structural adjustment policies of the late 1980s. This type of fund is generally focused on geographic areas with high poverty rates, and they have been introduced in many of the countries of the region. These programs are seen as having only a limited ability to create new jobs, but they have become ways to provide social infrastructure to more underdeveloped areas. The coverage of such funds has remained limited, however. They have rigid budgets and are not able to expand easily during times of recession to provide greater social protection (Jorgensen and Van Domelen 2001 and IDB 1998).

With the most recent economic crises, more efforts have been made to broaden and strengthen the region's social safety nets. Programs that focus on structural poverty (like the social investment funds) are being complemented by programs to assist the newly poor or people in extreme poverty affected by crises, idiosyncratic shocks, or adjustment problems in the transition to free trade. These assistance programs include both emerging employment programs (such as the "Trabajar" program in Argentina) and cash transfers to poor groups (such as the "Bono Solidario" in Ecuador or the "Progresa" program in Mexico).¹² This last kind of program has had a double purpose, both as a response to economic crises, and as a new way to ensuring greater investment in human development (conditioning resource transfers to children's attendance at schools and/or mothers and children going to health centers etc.).¹³ The relative success of the Progresa program (see Morley and Coady 2003) has led to the introduction of this kind of program in several countries of the region, with the strong support of the World Bank and the Inter-American Development Bank. While they are ways to support poor groups directly, there is no doubt that their mere existence is due to the failure of the universal social services systems (like education and health) and social security systems to provide everyone with access to a minimum level of social protection.

Reforms of the traditional systems of education, health and social security were also initiated in the 1990s. These generally implied more decentralized service provisioning, greater participation of the private sector, and higher contributions from clients to cover the costs of the services. Though there has been some progress in improving the efficiency of these systems, difficulties in the reform process have been more pronounced due to political resistance, inability to implement the reforms, and expectations (in many cases justified) that the reforms have given greater priority to efficiency in management and use of public resources than to assuring access equity for the poorest groups seeking education and health services.¹⁴

Part of the reasons for the slow progress in these areas also has to do with volatility of fiscal expenditures and difficulties in protecting social expenditures in the government budget. Fiscal expenditures have generally moved in a manner that is pro-cyclical with economic growth. Advantageously, at least during the 1990s, social expenditures have been less pro-cyclical than

¹² Recently the "Progresa" program's name was changed to the "Oportunidades" program. We continue to call it "Progresa" here as it is better known by that name.

¹³ See, for example, Morley and Coady (2003) for a recent discussion of the scope of this kind of program in Latin America

¹⁴ See, for example, Grindle (2001, 2003) for an analysis of the political and management problems of these reforms. See, for example, Lustig (2001) and IDB (2002) for persistent deficiencies in these areas and problems for ensuring greater equity in Latin America, and World Bank (2003) for a broader analysis.

total public expenditures, which suggests a certain level of improvement in the protection of the social expenditures. Governments have increased the budget line items allocated to social expenditures, which also increased as a percentage of GDP. A study of 23 countries showed that, on average, the central governments increased their social expenditures from 7.7% of GDP in 1970 to 12.3% in 1999 (See Casteñeda 2002). An ECLAC (2002) analysis of 17 countries including the social expenditures of local governments shows that social expenditures increased from 10.4% of GDP in 1990 to 13.1% in 1999. The per capita expenditure increased by 50% according to the Casteñeda study, and by 56% in the ECLAC study over the period of a decade. The same studies, however, show much less progress in improving the equity of social expenditures. Generally speaking, much of the increases are due to increases in expenditures on social security and pension systems. These are not distributed in a very equitable way since, as mentioned, such systems have low coverage, and the poor do not have access to them.

Consequences for Economic and Social Reforms

The PRSP agenda emerged, in part, from the HIPC Initiative, but it is tied to dissatisfaction with the results of the social and economic reforms as well as the design and implementation difficulties of the social reforms. The agenda of the Washington Consensus as well as the social sector reforms have obtained external support from international organizations, but in many cases little “national ownership” was generated explaining in part the political difficulties with implementation. At the same time, the social reforms and policies were developed in large part to compensate for the (temporary) social costs of economic reforms that were thought to be the most ideal for long-term development. The PRSP process must respond to these concerns, as Section One explains: by seeking a broad national base for determining the strategy and greater coherence and integration of social and economic policies. The actors must recognize that poverty reduction (and therefore, greater human development) is an important part of any policy for promoting economic growth, instead of seeing economic growth as the primary determinant to reduce poverty. Obviously, this brings with it a very broad and ambitious agenda, which is perhaps not new in its components, but is definitely new in its efforts to be comprehensive and participatory.

3. PRSs in Bolivia, Honduras and Nicaragua

In this section we attempt to respond to the two central questions mentioned in Section 1:

- To what extent is the PRSP process generating significant steps toward the agreed-upon objectives, under the premise that this will facilitate the reduction of poverty in a structural way?
- To what extent do PRSPs add value to previous and existing processes?

In Section 3.1 we discuss the progress of PRSP approval, and in Sections 3.2 to 3.9 we attempt to answer the above questions in terms of eight key aspects in the strategy design process: (1) the changing economic and political context of the three countries; (2) the consultation and dialogue processes through a stakeholder analysis; (3) the poverty diagnosis according to the three PRSPs; (4) the strategic guidelines and proposed actions; (5) progress made on results-oriented budgeting; (6) institutional capacity to implement the PRS; (7) the development of monitoring and evaluation systems for the PRS; and (8) the role of donors in the entire process.

3.1 Progress made to date on the PRSPs¹⁵

The time period between the Interim-PRSPs and the approved progress reports gives us a glimpse of how strategy implementation is proceeding (see Table 3.1a). **Bolivia** is the only country that reached its formal 2001 completion point according to the HIPC procedures. **Honduras** is behind schedule due to non-compliance with macroeconomic conditions (especially in fiscal management) and therefore does not have an approved PRGF. **Nicaragua** was able to get a PRGF approved in December 2002 and is the only one of the three countries that has presented its first official progress report. The other two countries have presented their own unofficial progress reports (not approved by the IMF and the WB within the framework of compliance with HIPC requirements). Bolivia and Honduras are behind schedule. Further along in this document, we will explore whether the given time frames for implementation are reasonable, and if not, what contingency measures are being coordinated within the PRSP framework to lessen the unacceptable wait of the poor.

Table 3.1a PRS Time Frames for the Three Countries

	Bolivia	Honduras	Nicaragua
Interim-PRSP approved	January 27, 2000	July 6, 2000	December 21, 2000
PRSP approved	June 5, 2001	October 11, 2001	September 25, 2001
HIPC Completion Point	June 8, 2001. HIPC-II funds transferred to municipalities starting August 2001. PRGF continuance delayed after June 2002 due to inaction on structural reforms. Stand-by agreement approved March 2003.	Behind schedule. PRGF suspended since December 2001 due to incompliance in fiscal management (public sector wage increase and weak tax collection). New PRGF expected in early 2004.	New PRGF approved December 2002. Previous PRGF (December 2000) was suspended due to incompliance in fiscal and monetary policies in 2001. Termination date: IV Trimester 2003.
PRSP Progress Report	March and June 2002, February 2003. (Note: these are internal reports, not officially approved by the IMF and WB.)	Has internal progress report (2003) prepared by UNAT, not approved by the IMF and WB.	November 2002 (Approved by IMF and WB)
New PRSP	September 2003 (Draft, unofficial document to be discussed in new national dialogue.)		

Table 3.1b Debt Relief in the HIPC Initiative and PRSP

	Bolivia	Honduras	Nicaragua
Estimated debt relief (in millions of US\$) and approval date	\$ 2,060 (June 2001)	\$ 900 (July 2000)	\$4,500 (December 2000)

¹⁵ By strategy implementation we mean the adoption of policies and reforms consistent with the guidelines established in the PRSPs rather than the formal stages of PRSP execution. In other words, the countries that have not completed an I-PRSP, those that have completed one, those that have advanced in the implementation of a PRSP and those who have brought a PRS to completion.

3.2 The Context of PRS Elaboration

The following sections focus on the macroeconomic and political contexts for reaching PRS goals and their possible influence on the process. A common denominator was the deteriorating performance in all three countries.

Economic Context

- In 1999, when the three countries were preparing their respective I-PRSPs, GDP growth rates in Bolivia and Honduras started to show a marked decline. Nicaragua, meanwhile, was experiencing the highest growth rate of recent years.
- During the PRSP implementation period, **Bolivia**'s economic performance lagged behind the goals set in the initial document. Economic growth was 1.9% for 1999-2003 (and negative for per capita growth: see Tables 3.2a and 3.2b), well below the goal of approximately 5%. Economic stagnation was accompanied by lower savings and investments levels, weakening the financial system and limiting private sector access to financing sources. Public expenditures for poverty reduction relative to total public expenditures (36.1% in 2002) have not increased since 1999. Furthermore, according to an August 2003 IMF report, efficiency of expenditures in health and education has been reduced. Social discontent and political fragmentation are making it difficult to implement the structural reforms intended to complement this socio-economic scene. The resignation of former president Gonzalo Sánchez de Lozada presents Bolivia with a new political horizon. To avoid future confrontations, that horizon should surely be accompanied by an economic strategy that is different from that of the outgoing government. In any case, the 2003 economic panorama implies making significant adjustments in the previously programmed goals.
- In **Honduras**, there has also been a departure from the economic plan originally proposed in the PRSP. Initial projections were overly optimistic and the promised structural changes have not been introduced. As a result, the financing expected for poverty reduction programs has been postponed. In consequence, the the degree of actual PRSP program execution in relation to what was originally planned has been very low (55% in 2001 and 42% in 2002 according to official figures.) GDP growth rate between 1999 and 2002 was 2%, which is less than the population growth rate for the same period and much less than the growth required to reduce poverty.

Table 3.2a GDP Growth Targets (%)PRSP Goal vs. Actual GDP Growth

	Bolivia		Honduras		Nicaragua	
	PRSP Original Document	Actual Figure	PRSP Original Document	Actual Figure	PRSP Original Document	Actual Figure
2001	4.0	1.2	3.5	2.6	3.0	3.3
2002	1.6	2.5	4.0	2.7	3.7	1.0

Source: Honduras: Progress in PRS Implementation (2003) Official Report. Nicaragua: Poverty Reduction Strategy 2001, IMF Country Report Nicaragua 2003. Bolivia: Bolivian Strategy for Poverty Reduction (2001), Stand-by Agreement, Government of Bolivia.

Table 3.2b: Per Capita GDP Growth (%): Actual and PRSP Goal (annual growth rate in %)

	1995- 2000	1999- 2003	2001- 2003	Original PRSP goal 2001- 2003	Long- term PRS Goal
Bolivia	1.2	-0.4	0.1	1.0	2.7
Honduras	0.4	-0.4	0.0	1.6	3.7
Nicaragua	2.7	1.2	-0.7	2.8	2.4
<i>Latin America and Caribbean</i>	<i>1.2</i>	<i>-0.4</i>	<i>-1.0</i>		

Source: ECLAC Figures for 2002 and 2003 are preliminary. Source of original PRSP long-term goal is the first official PRSP that was presented.

In **Nicaragua**, economic indicators started to deteriorate in 2000, and a significant departure from fiscal goals occurred as a result of the election period and a policy of increasing expenditures that ultimately weakened the financial situation. Projected growth rates of the initial PRSP have also been adjusted downwards. Though a 3.7% growth rate was expected for 2002, the actual rate was only 1%. In the last two years, Nicaragua has adopted several reforms (education and health laws, tax reform, the Nicaraguan Environmental Plan, Policies for Planning and Land Use, the National Plan for Decentralization and Local Development, and the monitoring system on expenditures to reduce poverty, among others), which have allowed the country to access financing and qualify for HIPC resources. Expenditures on poverty reduction grew slightly from 14.7% of GDP in 1997 to 15.6% in 2002. According to its authorities, Nicaragua is meeting all of the goals established in education in 5 of 9 indicators and has met 8 of 13 indicators for health goals to be reached by 2005.¹⁶ In spite of the setback in economic growth, the new government has been able to meet the macroeconomic goals set as conditions in the PRGF. This means it will probably reach its current PRGF completion point on time in December 2003.

Political Context and Governance

The three countries have democratic governments and, though each country went through a change in government after elections, support for the PRSP was maintained to a certain degree. The “political” priority of the PRSP varies significantly between countries, however:

- **Bolivia** had a certain advantage over Nicaragua and Honduras in guiding the PRSP process, particularly because it had prior experience with national consultations and decentralization processes in the context of the Law for Popular Participation introduced in 1994 and later complemented with the 1995 Law for Administrative Decentralization and the 1999 Law of Municipalities. After the 1997 National Dialogue (during the Banzer government and before the current PRSP process) an “Anti-Poverty Proposal” was elaborated. That experience, in fact, was the reason for selecting Bolivia as a pilot country to implement the Comprehensive Development Framework (see Chapter 1). This context laid the foundation for a new national dialogue with broad participation throughout the country that generated the *Bolivian Strategy for Poverty Reduction* (EBRP) in 2000. Bolivia was able to meet all of the HIPC Initiative requirements. Before and after the 2002 elections, however, political and social tensions increased. The tensions were associated primarily with coca eradication, land property rights and natural gas policy, as well as the growing dissatisfaction of the indigenous population. States of siege were declared on several occasions and the problems of the government

¹⁶ IMF News Brief 02/125, December 13, 2002.

mounted. New negotiations were opened in order to be able to comply with the legal reforms and quantitative goals set in the Stand-by Agreement with the IMF. In the current situation and under the current conditions of governance, the EBRP is seen primarily as a document written to meet the conditions for receiving external debt relief, not as a framework for a strategy to combat poverty. In September and October 2003, the political situation worsened with large mobilizations of peasant farmers and other groups who protested against the sale of natural resources (gas) to foreign countries, reflecting a generalized discontent with economic reforms that have not benefited the poor. In the midst of violent protests, President Sánchez de Lozada resigned, leaving the future of the EBRP in complete uncertainty.

- **Honduras** is at the other end of the spectrum as the country with the least social antagonism. Its history of military regimes and lack of unity among civil society has resulted in less manifestation of social division than in Bolivia and Nicaragua. The process of discussing and elaborating the PRS coincided with the final years of the Flores government (1997-2001), and the PRS for Honduras was finalized and approved during the 2001 election year. The redefinition of the civilian-military relationship and the Flores government's decision to support civil society forums have strengthened (in an irreversible way according to analysts) civil society participation in public political life. These are also key factors for understanding the PRS drafting process in Honduras. Another important point is that Honduras entered the HIPC-I process around the same time that Hurricane Mitch hit. The hurricane drew a great deal of international attention and foreign aid to Honduras, and the country gained experience with new mechanisms for making development plans for the allocation of reconstruction resources. In several ways, the Honduras's PRS was a vehicle to convert reconstruction efforts into an action plan to reduce poverty. In spite of the achievements made in the political arena, progress towards reaching PRSP requirements has been slower in Honduras than in the other countries. One significant obstacle was the difficulty of implementing fiscal reform and meeting the fiscal goals agreed upon with the IMF. Fiscal reform had been on the agenda since 2002 and was finally taken on in the context of a social pact among political parties, trade unions and the private sector. The lack of fiscal resources has limited social expenditures, which has resulted in a downturn in social indicators. Legislative branch leadership is and will be crucial for approving the legal reforms and for giving continuity to the PRSP. The temporary departure of other important actors (NGOs) from the national dialogue process (see ahead) has been less influential in stopping the ongoing process.
- The political process also changed for **Nicaragua** between 1999 and 2003. From the beginning, the political dialogue had been marked by governance problems and historical political antagonisms (between Sandinistas and non-Sandinistas, among others). As in Honduras, the process of formulating a PRS for Nicaragua was based in part on the experience of the post-hurricane reconstruction plans and allocation of aid resources. The PRSP drafting process began under the Alemán government (1997-2001). Then, large-scale government corruption was discovered and President Alemán was accused of diverting public resources. This could have easily put the credibility and sustainability of the PRS consultation and dialogue process in danger in Nicaragua. However, the new president, Enrique Bolaños, has undertaken a battle against corruption and has improved the Nicaraguan government's relationship with the donor community and with civil society. NGOs and other civil society actors feel a greater opening with this government and more genuine intentions to hold a dialogue on economic and social policy. Unlike Bolivia and Honduras, Nicaragua has already finished its first and second revisions of the Poverty Reduction and Growth Facility (PRGF) having met, among other requirements, that of a fiscal reform presented and approved in two

stages. In many ways, both government and civil society stakeholders perceive the process as a “necessary evil” to be able to make their external debt more manageable.

In sum, the three countries are different in their starting points and political contexts. Bolivia’s advantage in having more experience with national dialogues and decentralization processes has not helped to overcome the country’s political obstacles. Its experience also seems to have led to a desire to secure a more inclusive consultation process, which has been more difficult to implement. This background is the likely explanation of the creation of higher expectations in Bolivia than in other countries. Broadening the political base with local governments and civil society, as Bolivia and Honduras are doing, does not eliminate the risk of social conflicts emerging through more traditional political mechanisms (political parties and trade unions). The tax reforms in Bolivia and the experience in Honduras where macroeconomic goals were not met exemplify the case, as in both countries the policy reforms were perceived as having been “imposed” by the IMF.

As we will discuss ahead, some of these social tensions have emerged because social actors perceive that certain sensitive topics like macroeconomic policy, privatizations and other structural reforms were not discussed either in the beginning or in later stages of the dialogue. The PRSP process in all three countries has had to fight against the image of “being imposed from the outside.” Changes in governments have led to desires to revise the strategy and/or to a depreciation in the status of the PRS, which is no longer necessarily considered a central axis of social and economic policy and is not understood at all that way by a significant segment of the population. In Bolivia, the PRSP process is associated more with the National Dialogue than with a poverty reduction strategy. The turbulent political events of 2003, bordering on civil war in September-October 2003, show that a national dialogue process does not guarantee a continuous or peaceful participatory political process. In Honduras, the current government and civil society actors have only given limited support to the PRSP. Nicaragua’s PRSP, on the other hand, seems to have had greater continuity and some social support, thanks to the fact that the new government has greater credibility than the previous one.

3.3. The Consultation Process: Progress in Dialogue but without “National Ownership”

The Consultation Process

The processes of consultation and design of the PRS have country-specific characteristics. In principle, this is consistent with the PRSP philosophy. Tailoring the process to the conditions of the country is a prerequisite for obtaining “national ownership,” one of the principle objectives of the strategy. Though positive steps have been taken, however, that objective is still far from being reached in any of the three countries.

- *Were the participatory processes “bottom-up” or “top-down?”* Often it is thought that a participatory process must be a “bottom-up” process in order to be effective. We believe, however, that it is also possible to guide a good top-down participatory process, for example, with central government leadership facilitating a consultation process that enjoys the broad influence of various actors. What interests us here is to show how the consultation process was managed and whether that has contributed to generating the desired “ownership” of the process by the main groups involved. Categorizing the process as “bottom-up” or “top-down” differs for the

various stages of the PRSP process. *First*, in all three cases, the elaboration of the Interim-PRSP reports have clearly been “top-down” and directed by the central governments. *Second*, governments have also designed the dialogue process, the agenda, and the rules of the game. In **Honduras** the established rules of the game were the same for everyone involved in the process. These were made explicit from the very beginning, giving transparency to the process. In **Bolivia**, the dialogue included three separate agendas: one social, one political, and one economic. These three dialogue processes were to feed into a National Dialogue Roundtable that would culminate finally in a National Pact. Since each agenda had different representatives, however, the link between the three agendas was not very clear. In addition the actors in the consultative process did not have sufficient clarity about the final objective of the process in any of the three countries. This could have contributed to the dissatisfaction with (some of the) results of the process and the dichotomy felt between the dialogue and the actual definition of the strategy. *Third*, when the discussion centered on the social content of the PRSPs, in **Bolivia**, the consultation was expanded to include additional groups especially at the local level (municipalities, NGOs, peasant organizations, etc.). These discussions can be characterized as “bottom to top” consultations. The macroeconomic content, however, was discussed between national governments and the international financial institutions without considering the views of civil society groups. In the case of **Honduras**, the process remained essentially centralized. Civil society was consulted (to give opinions and suggestions) based on presentations on advances made in the poverty diagnosis and in the content of the draft PRSPs. Civil society was represented by the Commission for Civil Society Participation that brought together civil organizations representing about 90% of the organizations that existed at the time in addition to the National Forum of Convergence (FONAC), the Association of Honduran Municipalities (AMHON) and the chambers of commerce. These consultations also considered local proposals, but at no time did they depart from the vertical “top-down” dynamic. Civil society was limited to supporting or adding suggestions to the texts that had been drafted by the government. Dissatisfaction with this methodology caused the NGO platform (INTERFOROS) to withdraw from the dialogue and write its own PRS, which in the end did not gain recognition as a serious alternative to the official PRS. In **Nicaragua**, the process was top-down, and the central government was the main coordinator of the strategy. The grassroots were represented in a less direct way than in the other countries, since the National Council for Economic and Social Planning (CONPES)¹⁷ played a crucial role in channeling proposals between civil society and the government. It’s worth mentioning that Nicaragua is unique in that its consultation process was initiated very early on—even before the I-PRSP—in the planning meetings for the Geneva, Stockholm and Washington Consultative Group meetings for the post-Hurricane Mitch reconstruction programs.

¹⁷ CONPES is made up of representatives of chambers of commerce and industry, trade unions, selected community organizations, NGOs, universities, political parties, municipalities and the government (the government until 2002), among others. The poor, as such, are not represented.

- *What influence did the stakeholders have in the consultation process?*

The consultation process was inclusive in that it permitted the participation of a broad range of actors, broader than in similar processes conducted previously in the three countries. None of the countries established systematic methodologies or processes for selecting the participants, however, and there was no limit on the number of participants. Each country was different in terms of which groups were invited to participate and how intensely and consistently they were invited. In **Bolivia's** case, traditional structures like the *Ayllus* were not considered when participants were selected for the consultation process. Decentralization was promoted by giving municipalities leadership over the elaboration of the social agenda. There was no judgment or evaluation, however, about whether municipalities were the best groups to represent the poor. In Bolivia municipalities were clearly the leading actors of the consultation process. In **Honduras** the central government, international financial organizations and donors played the determinant role (in participation and influence). In **Nicaragua**, CONPES (government, business, labor unions, community organizations and political parties) were active in the initial phases, and NGOs represented by the civil coordinating groups were key in the process along with donors.

Parliament had more participation in the consultation process in cases that required the passage of laws to support the PRSP. This was the case in Bolivia with the National Law for Dialogue and with the approval of the budget including income and fiscal expenditures measures consistent with the time frames of the programs for the poor. In terms of the PRSP content, political parties and the parliaments received informative presentations but were not part of the consultation or decision making.

Some of the groups consulted—INTERFOROS and ASONOG in Honduras and the Civil Coordinating Group in Nicaragua—started processes parallel to the PRSP process as a result of their disagreement with the way things were going. In Bolivia, the Catholic Church was invited to co-sponsor the consultation process, but it decided to maintain its independence and organized the Jubilee Forum instead. Even though the Forum would focus on debt relief, it decided to emphasize the monitoring of government policies.

How, in summary, should we evaluate the consultation processes? The World Bank Manual on Poverty Reduction Strategies, in its chapter on participation, presents the basic definitions and components of a participatory process for the elaboration of Poverty Reduction Strategies. It defines participation as “a process by which the stakeholders influence and share control of the priority defining process, policy decisions, the allocation of resources, and/or the implementation of programs.” (Klugman, 2002: p. 237). It recognizes that participation is not a single or uniform process or experience. The Manual also recognizes that different countries may have varying processes of participation and national dialogue; they may attain different levels of participation; their civil societies may have various levels of organization; and they may have very different capacities for organization and for developing truly productive processes. Ideally, at least six characteristics are identified that would lead to an effective participation (Ibid, pp. 239-239): (a) government commitment and leadership in making the consultation process work (national ownership); (b) orientation toward the attainment of specific results; (c) inclusion of the primary stakeholders, including groups of poor and vulnerable people; (d) assurance of a transparent process in terms of the objectives, and in terms of the trust and support of all involved; (e) sustainability—the participatory process should be based on existing political processes that can

be institutionalized; and (f) recognition that the definition and implementation of the strategy is an iterant process and that the strategy will require ongoing adjustments and improvements.

According to these six characteristics, we must conclude that the main progress in the three countries may have been made on points (c) and (e) in terms of the *consultation process*, but that less has been achieved in other aspects. In terms of point (c), we affirm that the process was inclusive in all three countries with the broad participation of civil society. It is less apparent, however, that there was any true representation of poor and vulnerable groups and that the participation was result-oriented. In terms of element (e), the processes implemented did adapt to the existing consultation mechanisms that can be institutionalized (see below), but that in itself is not a guarantee of the sustainability of the process.

Table 3.3 tries to summarize the consultation process under these six criteria in the three countries. The governments of the three countries did take leadership in guiding the consultation processes and they showed a certain level of initial commitment to the process (*criterion a*). Many of the stakeholders said, however, that the donor community has had the greatest influence on the process and that the PRSP is, after all, a mechanism to obtain debt relief. That image has detracted from a sense of national ownership of the results of the consultation in the three countries and, therefore, over the PRSPs themselves. Criteria relating to the definition and implementation of strategies are met even less. The main complaint is that, although there was consultation, the suggestions made were not incorporated into the strategy, nor was there any feedback (*criterion f*). The attitudes of participants vary from country to country, however. In Honduras and Nicaragua, civil society, which had previous experience in the post-Hurricane Mitch reconstruction efforts, continued to respect the spaces of coordination even though they did not necessarily see their suggestions incorporated into the PRSPs. In Bolivia, the PRSP path is currently blocked precisely because of the fact that certain suggestions made during the consultation process were not incorporated in the strategy as they were considered too controversial upfront. In spite of the different approaches in the consultation process, the common denominator has been that authorities and civil society both have a weak capacity for prioritizing. This is due to the lack of a culture of medium-term planning; the lack of adequate information that clearly defines the problem of poverty; and the lack of spaces for formal organization and legitimate representation of civil society. In addition, the lack of a clear methodology for selecting stakeholders and the lack of feedback processes were present in all three countries.

Table 3.3: Description of PRS Consultation Processes in Bolivia, Honduras and Nicaragua

	Bolivia	Honduras	Nicaragua
(a1) Government commitment and leadership in the consultation process.	Leadership yes, but less commitment than shown by the previous government.	Leadership and commitment of previous government.	Leadership and commitment of previous government, but commitment decreased.
(a2) National ownership of the consultation results.	Low	Low	Low
(b) Results-oriented consultation process.	Low	Low	Low
(c) Inclusion, broad consultation	Yes. Bottom up process, but consultation process separated from process of elaboration	Yes. Top down consultation. Lacks representation of the poor (in the sense of poor citizens who do not participate in organizations.)	Yes. Top-down consultation. Consultation process begins even before I-PRSP
(d) Transparency and trust	At local level, yes, but discrepancy between central and local process.	Clarity on rules of the game in consultation process, but little transparency on objectives.	Clear game rules, but lack of transparency in the incorporation of suggestions. Loss of trust.
(e) Sustainability	Based in existing processes and National Dialogue Law but lacks political viability.	Base in post-Hurricane Mitch consultation mechanisms, little new or additional formalization in PRS consultation process.	Institutionalization of CONPES and CONADES offers some guarantees.
(f) Ongoing improvements (iterative process)	No ongoing iterant process. Dichotomy between consultation process and definition of priorities.	No ongoing iterative process. Dichotomy between consultation process and definition of priorities.	No ongoing iterative process, at least after PRSP elaboration. Dichotomy between consultation process and definition of priorities.

Institutionalizing the Consultation

- The PRSP is reinforced in Bolivia through the National Dialogue Law (2001) and the National Mechanism of Social Control (2001). Honduras has the Poverty Reduction Fund Law (2002). In the cases of Honduras and Nicaragua, decrees were issued to create or strengthen the technical administrative monitoring groups for the respective PRSPs.
- In **Bolivia**, the Technical Secretariat for Dialogue (STD)¹⁸ was created with a team of independent professionals to reduce government presence and give more legitimacy to the 2000 National Dialogue.
- In **Honduras**, coordination of the consultation process was led by the Social Cabinet and the Commission for Civil Society Participation. For the implementation phase, a Consultative

¹⁸ Officials of Swiss donor groups (COSUDE), Danish donor groups, the UNDP and USAID were made part of this team.

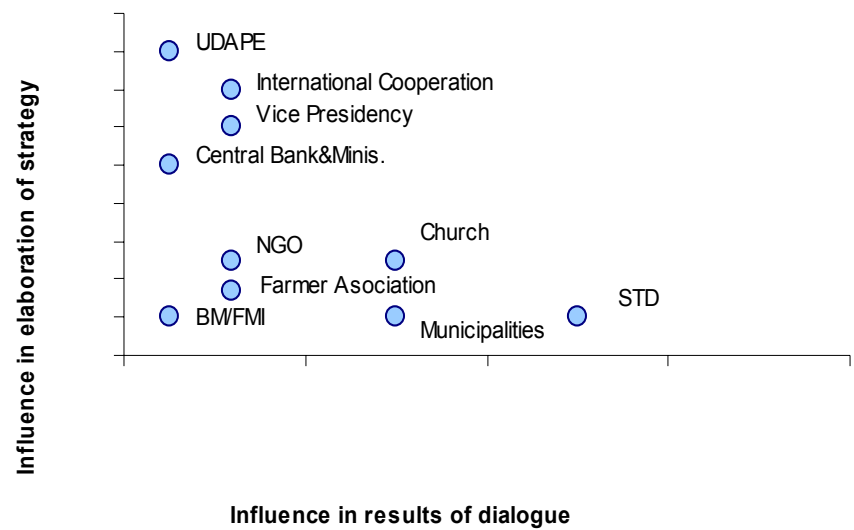
Council was created along with a National Fund for Poverty. The integrated monitoring system (SINEG) is to be reformed as well as the Unit for Transparency in Execution (UPET). Decentralized processes for PRSP implementation and monitoring are being planned.

- In **Nicaragua** the National Council of Sustainable Development (CONADES) was created as a national response to the 1999 Environment Summit in Río and the National Council for Economic and Social Planning (CONPES) made up of unions, business leaders, political parties, ministries, sectional governments and NGOs to advise on economic issues especially in light of Hurricane Mitch. Later CONADES and CONPES turned into a vehicle for dialogue within the PRSP framework.
- On the other hand, coordination and implementation of the economic program of the PRSP of the three countries have been the exclusive domain of the respective ministries of economy and central banks.

The Process of PRSP Elaboration

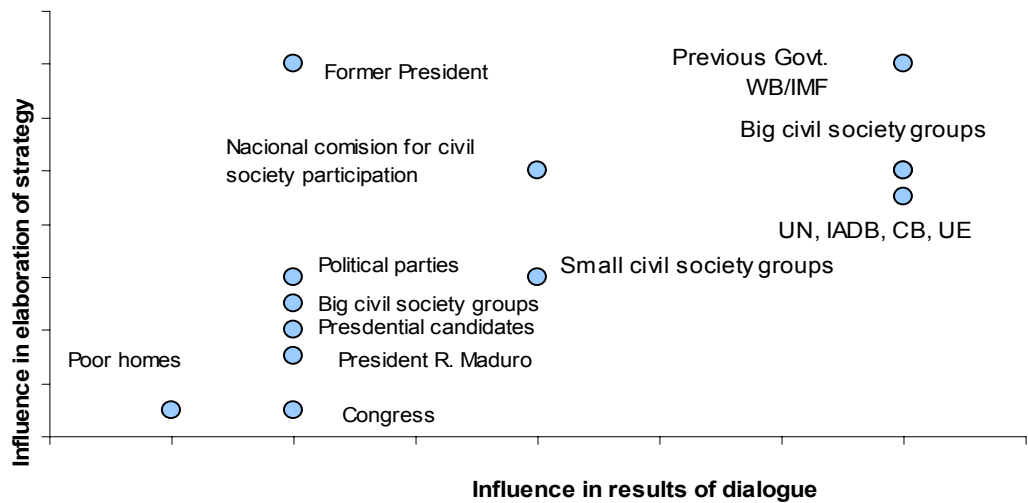
- *Has the PRSP writing process been disconnected from the consultation process?* This has happened in all three countries. To a certain point, this is inevitable. The dialogues established lists of problems to resolve and in many cases issues were not prioritized. The strategy itself, however, is supposed to establish priorities according to available resources. The problem may lie in the fact that there is no process that feeds back to the actors of the consultation process about the priorities being established. Much of the stakeholders' dissatisfaction with the PRSPs comes from the fact that they did not see a connection between the interests they had expressed in the consultation and the proposals that ended up being prioritized. Figure 3.1a clearly shows the dichotomy in the Bolivian case, where the influential actors in the consultation process were different from those who exercised an influence in the drafting of the strategy. During the consultation, the municipalities and civil society representatives were the principle protagonists. But central government agencies controlled the elaboration of the strategy. There was no iterant process of national consultation after the elaboration of the EBRP document. In Honduras, neither the municipalities nor civil society representatives had a decisive influence in the consultation process or in the elaboration of the strategy (See Figure 3.1b). In Nicaragua, the interim strategy document benefited from a first round of consultations with CONPES, civil society, and the donors around issues of poverty and strategies to reduce poverty. Later, as the document was being written, however, there was not necessarily any connection between the consultations and the writing. (Figure 3.1c).

Figure 3.1a Bolivia: Dichotomy between PRS Consultation and Elaboration



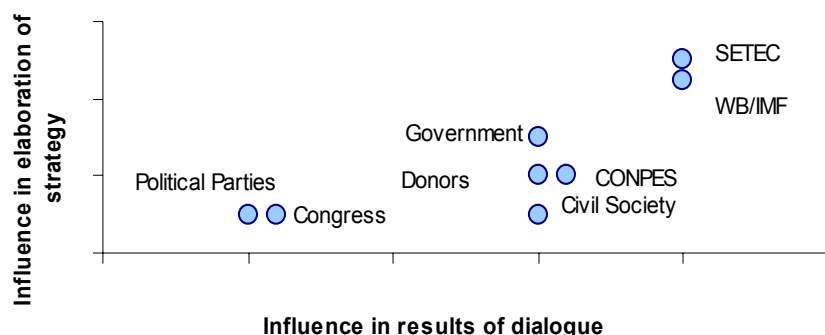
Source: ISS (2003a), Bolivia Report.

Figure 3.1b Honduras: Dichotomy between PRS Consultation and Elaboration Processes.



Source: ISS (2003b), Honduras Report.

Figure 3.1c Nicaragua: Dichotomy between PRS Consultation and Elaboration Processes



Source: ISS (2003c), Nicaragua Report. "Government" refers to previous (Alemán) government.

Conclusions about the PRS Consultation and Elaboration Processes in the Three Countries.

- All three countries carried out participatory consultation processes, and the processes have been institutionalized to a certain extent. One general conclusion that can be drawn is that the PRSP process has reinforced the national public dialogue in all three cases. In Bolivia as in Nicaragua, legal frameworks for national dialogue have been established. In Honduras there is no legal framework for the consultation process, but civil society organizations are guaranteed participation in the PRS monitoring process through sector-wide roundtables of the Consultative Council (sanctioned by law). As mentioned earlier, the political arena has changed in the last ten years and there is more space now for dialogue between the government and civil society. The PRSP process has doubtless added an extra push in the right direction in this sense. Nevertheless, the consultation and elaboration processes still do not come close to facilitating national ownership of the PRS. Therefore, this central objective has not been met.
- Previous experience with dialogues in Bolivia (1997 Dialogue) and with consultative groups for reconstruction after Hurricane Mitch in Nicaragua and Honduras facilitated PRSP work. Though Bolivia has laid the legal base for supporting the PRS, however, this has not translated into a relative benefit for advancing the PRS process. Representatives of social organizations have not been included in the coordinating team for macroeconomic programming in any of the countries. Similarly, the Minister of Finance and the President of the Central Bank are not involved as official members of the teams in charge of implementing the PRSP; at best, they participate as auditors such as in the case of the Social Cabinet in Honduras.
- Table 3.4 summarizes the relative influence of various actors who had a decisive role in the consultation process, as well as those who have influenced the elaboration and implementation of the strategy. The table shows clearly the type of dichotomy referred to earlier. No civil society representatives were considered decisive participants in the elaboration of the PRSP in any of the three countries. In terms of the implementation of the strategy, mechanisms for

civil society control and participation are mentioned—for example, the Social Mechanism of Control in Bolivia—but in practice only Nicaragua has an organization where some civil society groups participate, CONPES.¹⁹ The role of the donors has been more ongoing, not only because of their financial support for the process, but also because of the various approval points that have been defined for giving this aid. In Nicaragua, donors have also participated in meetings organized by the Good Governance Group to discuss the PRS. It is worth mentioning also that in the case of Honduras, the previous government launched the I-PRSP and the consultation process, but the current government has had less involvement in the PRSP implementation phase. We can conclude, then, that the level of influence of the various actors has ruptured at several points in the process. Furthermore, while the participation of civil society is a fundamental characteristic of the PRS, this has not translated into civil society being able to really influence the process.

¹⁹ In spite of this ongoing participation, the lack of feedback loops between the consultation and document-elaboration phases has generated dissatisfaction in Nicaragua's civil society. This has weakened the process of civil society ownership of the PRS.

Table 3.4 KEY ACTORS IN THE PRSP

Central Government				Congress			Municipalities and Departments			Civil Society			Donors, IFIs (1)		
	BO	HO	NI	BO	HO	NI	BO	HO	NI	BO	HO	NI	BO	HO	NI
Interim-PRSP	UDAPE	Flores Govt.	CONPES									CONPES	W. Bank, IMF	World Bank, IMF	World Bank, IMF
Dialogue (Bolivia)	ND - social	STD 2					Mayor, Municipal Council			Vigilance Committee			STD2		
	ND - econ	Min. of Economic Development								Small producers, Business chambers, Conf. of indigenous peoples					
	ND - polit	Ministry of the Presidency								Political parties, People's Ombudsman					
OTHER CONSULTATION PROCESSES, e.g. Jubilee 2000, Gobierno Escucha	UDAPE, STD (Gobierno Escucha)	Social Cabinet, UNAT	CONPES CONADES SETEC	CONPES						Church (Jubilee 2000)	Commission for Civil Society Participation	CONPES, CCER		UNDP (methodologies), NGOs (workshops)	
Laws to institutionalize PRSP, i.e. ND	Min. of Sustainable Development		Previous President												
PRSP elaboration	Previous Govt. UDAPE, Central Bank		SETEC												
PRSP Implementation	Ministries		SETEC, Central Bank and Min. of Finance, CONPES				Municipal Governments			Social Accountability Vigilance Committees, Council for Social, Econ, and Productive Development	Consultative Council to Monitor PRS	CONPES	IFIs, Bilateral donors	IFIs, Bilateral donors	IFIs, Bilateral donors

Decisive actors in practice.

Actors that must influence process because of legal role or official commitment
(1) Refers to influence in the process, not financial support of process. This is why institutions like the IADB are not mentioned.

3.4 Diagnosis of Poverty

Before summarizing the results of the PRS consultation and elaboration processes, it is helpful to evaluate how the PRSs and the participants in the consultation process identified the problems of poverty and its causes. According to the objectives of the PRSP process, poverty should be conceptualized as a multidimensional problem in terms of the following:²⁰

- (a) *Lack of opportunities*, meaning low levels of consumption and income relative to the cost of a minimum basket of basic needs (or poverty line). Lack of opportunity is associated with the human capital (education, health) that people possess and their access to social services and productive assets.
- (b) *Lack of capabilities*, meaning insufficient level of education and condition of health.
- (c) *Lack of security*, meaning high risk of being affected by unexpected events (shocks) in terms of income, health conditions etc. that could endanger their capacity to maintain a high level of minimum well-being.
- (d) *Insufficient empowerment*, meaning the lack of ability to participate and negotiate with responsible institutions on activities that affect their level of well-being.

In practice, there tends to be a high correlation (and interaction) between these dimensions of poverty. Obviously, the identification of the level of scarcity of various population groups and the diagnosis of the causes should be an essential base in the definition of the PRS. The diagnoses of poverty in the PRSs of the three countries can be summarized in the following.

- The three countries all apply a *multidimensional definition of poverty*, which is in principle in line with the concepts mentioned above. **In all three cases**, however, the primary emphasis of the diagnosis is in the identification of the lack of opportunities, using the more traditional concept of poverty. In other words, poverty is defined as a situation where there is insufficient income. In **Bolivia**, this definition of poverty is augmented by an indicator that includes a lack of capacities called Unmet Basic Needs (UBN). The UBN indicator identifies a group as poor when one of a number of dimensions is not satisfied. It includes the lack of access to education and health services, precarious housing conditions, and lack of access to potable water. This kind of categorization is also useful for making a geographic identification of poverty. In the case of Bolivia, differences in the population's living conditions are identified primarily through geographic-administrative units (departments, municipalities) and little attention is given to differences between socio-demographic groups. The PRSPs in **Honduras and Nicaragua** also apply multidimensional definitions of poverty, employing in addition to income (consumption) poverty indicators, a geographic specification and specification by socio-economic group of the levels and distribution of human capital. In Nicaragua's ERCERP the dominant concept is the identification of poverty and vulnerable groups by geographic location. Little attention is given to the groups' socio-demographic characteristics. Because of the impact of Hurricane Mitch, emphasis is placed on identifying the vulnerability (insecurity) to natural disasters.

²⁰ PRSPs are adapted to the conceptualizations of Amartya Sen (See, for example, Sen, 1987), which are also used in the World Development Report of the World Bank (2000/2001), the Human Development Reports of the UNDP, and the World Bank manual for PRSP elaboration.

The element of *empowerment* is almost nonexistent in the poverty diagnosis of all three PRSs. This contrasts with the perceptions of many stakeholders, especially civil society representatives, who have criticized the lack of attention to problems of clientelism and corruption as the reason why poor groups have little influence and why poverty continues to persist.

- The analysis of the causes of poverty is weak in all three cases (Table 3.5). Because of the emphasis on monetary concepts in the identification of poverty, “economistic” explanations predominate in the diagnoses. Lack of income generating capacity is related to educational deficiencies and low agricultural productivity is related to rural poverty. In all three PRSPs an association is made between these conditions of poverty and the distribution of assets, in terms of human capital (education) and other assets (land), as well as a certain association with particular demographic characteristics (ethnicity, gender). The country reports elaborated by ISS, however, conclude that the analysis of the causes of poverty in the PRSPs lack depth and that to a large extent they are simply lists of possible factors of influence. There is no clear attempt to differentiate between more and less important factors, which would help prioritize the actions in the PRS.
- The problem of gender inequality receives a generally weak treatment in all three PRSs. See Box No. 2.

Table 3.5: Comparison of (some) causes identified in the poverty diagnoses of the PRSPs for each country.

Bolivia	Honduras	Nicaragua
-quality and quantity of jobs in the cities. -discrepancy between workers and jobs available -low agricultural productivity -insufficient access to rural agricultural markets -unsustained economic growth -low per capita income -low productivity of factors	-unemployment - property rights not assured -limited access to infrastructure and public services -problem of land ownership -role of power and exclusion -environmental risks -demographic pressure on the environment -migratory movement in the sustainable growth of cities	-inefficient public administration -inefficiency in governance (centralization) -climate of corruption -pressure of demographic growth - low yield from human capital -geographic vulnerability -lack of security, information and gender equality

- The poverty diagnoses do not differ much from other studies available in each country. Furthermore, they are based largely on World Bank and UNDP reports. The visions of the main stakeholders coincide to a large extent with the given diagnoses. However, there are two areas of concern especially on the part of civil society representatives. The first, already mentioned above, is the lack emphasis on the issue of empowerment, particularly in the relationship between corruption and poverty. The second has to do with the relationship between macroeconomic management and economic liberalization processes that do not receive sufficient

attention as possible causes of poverty. In the consultation processes, these possible causes were not discussed. Rather, the macroeconomic framework and economic reforms are taken as a given in the PRSPs.

In conclusion, all three cases share the same criticism that the poverty diagnoses, in essence, consist of a statistical profile of poor and vulnerable groups and a list of possible causes without prioritization. There is also no clear explanation of the mechanisms of transmission between cause and effect, nor an explanation of the fact that these problems broaden when the crosscutting issues are being dealt with.

3.5 Results of PRSP Content

The consultation process had a certain influence on the content of the PRSPs in the three countries. In general, stakeholders in all three countries believe that the PRSPs have brought progress in the definition of strategic guidelines for fighting poverty. Appendices A.2 and A.3 summarize the main goals and strategic guidelines of the initial PRSPs in each country.

In Bolivia, the change of government in 2002 led to a new plan, Plan Bolivia, which coincides in part with the EBRP but leaves the EBRP as a second-tier document for the purposes of complying with donor conditions. The donors, for their part, have demanded a revised EBRP with a new macroeconomic framework, more explicit prioritizing of actions, greater attention to the stimulation of productive sectors towards a growth that will benefit the poor, and more attention to institutional problems of execution. The new EBRP draft (September 2003) complies with the requisites of the donor community, but the feeling persists that the EBRP is distant from the results of the consultation process. Civil society representatives still feel that the EBRP does not respond sufficiently to the need for structural reform (especially the need for an agrarian reform to reduce rural poverty and institutional reforms to combat corruption.) In Honduras and Nicaragua, the PRSPs are considered an advance because they offer more attention to participatory processes and to the process of broad-based or “pro-poor” growth. At the same time, some civil society actors (NGOs that are part of INTERFOROS in Honduras and CCER in Nicaragua) decided to organize their own consultation processes and prepare their own PRS. The official PRSPs were criticized for their unwillingness to recognize the need for structural changes in the pattern of economic growth in order to make it “pro-poor”, and especially for their lack of adequate action on agrarian reform and rural development. The governments of Bolivia (the previous government), Honduras and Nicaragua²¹ have developed or are developing proposals that complement or substitute the PRSPs. These proposals will need to be given to civil society and donors for consideration.

²¹ Nicaragua has presented a National Development Plan to be implemented by the current government.

Box No 2. Gender and the PRSs

The weaknesses in the poverty diagnoses extend to the gender analysis. Gender is probably the cross-cutting issue that needs the most reinforcement in the PRSPs. There is no methodology for identifying organizations that represent gender issues, for instance. Neither is there a system for channeling the suggestions of the representatives of the organizations who were invited to the consultation process. While some critical gender-related problems are identified, there are no indicators or policies, and no institutions have been identified that have the capacity necessary to take on the issues. Thus, the problems are not analyzed with sufficient rigor, and they are simply turned into a list of actions to be taken.

	Bolivia	Honduras	Nicaragua
Considers the suggestions included in the <i>PRSP source book</i> for the analysis of gender: a) separate chapter on gender, b) decomposition of data by gender, and c) gender dimension in poverty analysis.	No (a) No (b) +/- (c)	No (a,b,c)	No (a,b,c)
Pro-gender representatives in consultation process	Women participated at the municipal level thanks to a quota system. (22% participation of women in municipal roundtables.)	A long list of women's organizations and networks were invited to the consultation process, but no criteria were defined in the PRSP for the selection of these organizations.	Though 18% of CONPES participants were women, not one gender-focused organization was among those invited to represent civil society in CONPES.
Pro-gender actions in the PRSP	• Support for women in small and micro businesses • Improve women's access to education in rural areas. • Improve health conditions for women. • Reduce domestic violence	• Reduce domestic violence • Train women in business enterprises to prepare for labor market • Participation of black and indigenous women and information centers on women's rights.	• Reduce domestic violence. • Develop action plans for equal opportunity for men and women and assist rural women.
Policy decision on gender issues	Institutions responsible for implementing policy have been determined, but they do not necessarily coincide with the action plan for gender, nor have the necessary been budgets identified.	New laws and reforms for gender equality, budgetary policies, empowerment and training policies, and improvements in information systems.	No explicit mention of policies
Explicit mention of the MDG gender indicators: i.e. equal access to education and non-agricultural paid employment.	Yes, though only in a small number of proposed actions: women with micro-enterprises, girls' access to education in rural areas, and women's health	Yes, though without defining policies	Yes, some indicators with timetable
Balance	Proposals not implemented	Proposals not implemented	Weak in proposals and policies

What's New?

- *How is the PRS different from previous poverty reduction strategies?* The EBRP of **Bolivia** does not constitute a fundamental change from previous plans, including the 1997 Anti-Poverty Proposal, and decentralization processes begun in the mid 1990s are strengthened. In some ways, this could be an indicator of continuity, though the existence of many plans with a similar content and different names does not help to strengthen the credibility of the plans. The **Honduras** PRS contains many of the same strategy elements as in previous plans, especially in relation to policies and social programs. The PRS adds value by providing an organizational framework centered on institutional development and, thus, a bigger-picture. This existed before but only in proposals. In the case of **Nicaragua**, in spite of the critiques mentioned, the predominant vision is that the ERCERP adds to previous strategies: a broader perspective favoring “pro-poor” growth, greater efforts to invest in human capital, stronger social safety nets, and—above all—more explicit attention to resolving problems of governance. The complaint is more that in practice the policies don’t appear to be visibly different from those in place before the ERCERP.
- *Do the PRSs clearly prioritize actions?* None of the three PRSs have established clear priorities within their strategic guidelines or proposed actions. Neither goals nor instruments have been prioritized. In addition, there is no identification of the kinds of economic policies that might have less social impact than the currently proposed measures and reforms. In general, there is insufficient articulation between macroeconomic scenarios and the fight against poverty. Economic growth is a fundamental focus both for projections of fiscal goals and other macroeconomic aggregates, and for poverty reduction goals in all three cases. However, the three PRSPs have overly optimistic goals for economic growth (See Tables 3.2a/b, above). Since growth rates have been less than expected, readjustments have had to be made both on the macroeconomic plane and in the allocation of resources for programs to fight poverty. The PRSs do not have contingency plans in case the program gets off track due to macroeconomic or exogenous shocks, and they do not give many indications of how adjustment decisions should be made. The readjustments, therefore, will be made far outside of the PRSP consultation process.
- *Are the PRS goals consistent with the Millennium Development Goals (MDG)?* The three PRSPs made explicit reference to the MDGs, though with varying levels of detail. We must take into account the fact that the MDGs were developed after the PRSPs, and that in this initial stage there is still no full coordination between the two. Table 3.6 summarizes the correspondence between the PRS goals and the MDGs. (See also Appendix A.2.) PRS goals are undeniably ambitious in all three countries, beginning with the projection of optimistic goals for economic growth (See Box No. 1 above and Tables 3.2a and 3.2b.), but even these goals lag behind those envisioned by the United Nations in the MDGs. In addition, the PRS progress reports of all three countries now contain modified goals that are less ambitious. In the case of Honduras, there is some correspondence to the Millennium Development Goals, but the MDGs are much more ambitious.²² Nicaragua and Bolivia also show a correspondence to the MDGs, though in

²² The Millennium Development Goals (MDG) are more demanding in the reduction of differences in well-being with respect to the base year and between genders. The Honduras PRSP does not mention how to reduce the incidence of HIV/AIDS.

Bolivia officially there is already talk of being off track of the plan. In general the MDGs are more demanding than the PRS goals.

- More important than the congruence between the national and international goals, however, is the fact that the PRSPs are not clear about how to reach their goals. In principle there is an important role assigned to economic growth and to the rest of the measures proposed in the PRSPs, but priority guidelines are not established for reaching each of the goals. There is even less of a quantitative relationship established between proposed actions and the meeting of goals (through budgets, for example). This lack of precision in the mechanisms of transmission between proposed actions and goals constitutes a key “missing middle” that will complicate the monitoring and evaluation of the PRSPs and their impact on reducing poverty.

Table 3.6 Correspondence between PRS goals and MDGs

MDG (between 1990 and 2015)	Bolivia EBRP Goal	Honduras PRS Goal	Nicaragua ERCERP Goal
Reduce extreme poverty by 50% (daily income of less than US\$1	Yes	Yes	Yes
100% coverage for primary education	Indicator does not coincide	Yes	Yes
Gender Equality: eliminate inequalities at all levels of education by 2015	Yes	Indicator does not coincide	Not mentioned. Goal may already be reached
Reduce infant mortality by two-thirds (< 5 years of age)	Yes	Yes	Yes
Reduce maternal mortality rates by 75%	Yes	Yes	Yes
Halt and begin to reduce the incidence of HIV-AIDS and malaria	PRS does not mention	PRS does not mention	PRS does not mention
Reduce by 50% # of people without access to potable water.	Yes	Yes	Yes

Source: PRSP of Bolivia, Honduras and Nicaragua. See Appendix A.2 for a more detailed presentation of the goals specified in the PRSPs and their respective timeframes. Not all goals are specified with a 2015 horizon, but rather with the last year of the period to which the PRSP applies. In the case of Nicaragua for example, most of the ERCERP goals are set for the year 2005, but they are explicitly related to the MDGs for 2015.

In sum, both in the poverty diagnosis and the PRS actions, there is no clear prioritizing nor is there a clear break with past proposals for poverty reduction. What is produced is a list of actions needed to fight poverty and not a real strategy. Programs revolve around overly optimistic growth goals. Adequate channels of information and systematization have not been developed, and this weakens the program content. Given the reversal in the economic situation and the fiscal restrictions of the moment, this deficiency in the PRSPs endangers the efficacy of any

progress toward the goals. The PRSs are not flexible enough to adapt to new macroeconomic conditions. Neither is the dialogue process organized to reach consensus on any adjustments that must be made to the PRSs.²³ In all three countries the macroeconomic policy has been determined outside of the framework of the PRS consultations. Though it is consistent with what has been negotiated within the framework of the PRGF, this implies that there is still a framework of conditionality, like that of the ESAF, with a short-term vision. This introduces elements that are inconsistent with the long-term poverty-reduction strategy and will require sufficient resources to be implemented. In practice, the PRSs of the three countries do not constitute an organizing framework for all of the countries' social and economic policies. At least, they do not constitute a sufficiently effective organizing framework from the operational point of view. It could be called an "incomplete menu" or good practices that more or less enjoy consensus but do not have sufficiently clear specifications in the recipes needed to prepare the food that must be served to fight poverty. These menus also do not constitute a basic change in existing policies, though in the cases of Honduras and Nicaragua, the PRS has significantly broadened previous efforts.

The PRSs are characterized, then, as plans that do not establish clear priorities among the various proposed actions, which provide little detail on how to implement the guidelines, and equally little detail on how budgets will be allocated. This leaves the impression that governments are not truly committed to implementing the PRS as proposed. The lack of clear commitment, together with the dissatisfaction of many of the stakeholders and their impression that the PRSPs' main objective is to comply with the conditions for obtaining debt relief, *undermine any sense of national ownership over the content of the strategy that might exist in the three countries.*

3.6 Fiscal Administration and Budgeting: Achilles Heel of the PRS?

In the financial arena, the viability of the PRS depends on the resources available to carry out the strategy. The effectiveness of the PRS, at the same time, will depend significantly on the level of consistency between the allocation of resources and the costs of the planned activities. The analytical framework of the PRSPs is very clear on this point. It emphasizes that the strategies should adopt results-oriented budgeting mechanisms and a medium-term financial framework (MTEF) defined by the budgetary restrictions of the totality of the programs. The budgetary part should specify the fiscal implications of the strategy on three levels:

- (a) the consistency between the PRS and the short-term macroeconomic restrictions, as well as the strategy's financing requirements.
 - (b) the fiscal viability of the long-term PRS goals.
 - (c) the cost-effectiveness of the PRS programs.
- The PRSs of Bolivia, Honduras and Nicaragua contain estimated costs of the proposed activities. Tables 3.7a-c estimates the aggregate costs for the first phase of implementation of the three approved PRSs. Honduras is described separately since it presents a programming through 2015 in the official PRSP. Behind this, there are efforts at estimating the costs of the actions proposed by the PRSs. To date (December 2003), however, none of the three countries has adopted a multi-

²³ It is worth mentioning that in the case of Honduras, the Consultative Council, in which civil society representatives participate, does revise and debate the progress reports, but the government and the IMF/WB approve them.

year budgeting framework (MTEF) and none of the three PRSs has specified a clear relationship between the budget allocation and the objectives (goals), in spite of the fact that there are detailed matrixes naming actions and responsible parties/institutions. See the assessment given in Table 3.8. Information of this kind allows us to see which programs are lagging behind their targets and may help facilitate the prioritizing of the budget. There is no clarity, however, about the fiscal viability of the PRSs and even less clarity about how cost-effective the programs are. Therefore, it is difficult to understand how realistic the cost estimates are for the PRSs. In the case of Honduras, there is even a gap that would be financed primarily by outside sources. This complicates the viability of the “pro-poor” programs and projects from the beginning.

Table 3.7a Bolivia.* Estimated Costs of the EBRP (millions of US\$)

Bolivia 2001-2006	Estimated Costs
	PRSP 2001
Programs: Opportunities	3,328
Capacities	2,837
Social security and safety nets	282
Social participation	16
Cross-cutting issues	151
Institutions	68
HIPC II Debt relief	280
Total EBRP (Investments and Current Expenditures associated with investments) (a)	6,962
HIPC II EBRP	214
Foreign financing not assigned to investments.	183
Total Current Expenditures (b)	397
Total 2001-2006 (a + b)	7,359

Note: * Bolivia does not have information on the financing of the strategy.

Table 3.7b Honduras: Estimated Costs and Financing of the PRS (millions de US\$)

Honduras 2001-2005*	Estimated COSTS
Programs	Second Progress Report, 2003 (UNAT)
Accelerate equitable and sustainable growth	24
Reduce rural poverty	448
Reduce urban poverty	328
Investment in human capital	578
Strengthen protection for vulnerable social groups	131
Guarantee sustainability of strategy	160
<i>Sub Total</i>	1,669
Implementation and continuity PRSP	48
TOTAL 2001-2005	1,717

Table 3.7c Nicaragua: PRS Estimated Costs (in millions of \$US)

Nicaragua 2001-2005	PRSP COSTS
	2002 Updated
Primary Areas of Strategy	1,053
Broad-based economic growth	545
Investment in human capital	314
Protection of vulnerable groups	184
Governance	11
Cross-cutting Issues	207
Environment and ecological vulnerability	67
Decentralization	140
TOTAL 2001-2005	1,260

Some additional observations are important to highlight:

- In **Bolivia** the effort has been oriented toward the creation of a decentralized budget. This was a strategic decision under the assumption that local governments, with citizen participation, are better at identifying priority actions and programs for reducing poverty. Therefore, responsibility is given to the municipalities to determine the priority actions for financing. The National Dialogue Law regulates the decentralization of debt-relief resources and emphasizes that municipalities will define priorities and decide about financing services like education and health. The objective is to be able to satisfy the population's needs more effectively at the municipal level. Nevertheless, because of decentralized responsibility, these priorities are not necessarily defined according to the specific PRS goals. In addition, the municipalities tend to have very weak management and expense-monitoring capacities, and though several donors are supporting projects for improvements in these areas, the results to date have been limited. It is necessary, therefore, to define results-oriented budgeting in a different way than what is usually understood by the term. The "results" would no longer be identified primarily in terms of the impact on poverty indicators, but rather in terms of how well the resources that arrive benefit the poorest groups (or the poorest municipalities) and the extent to which municipal budgets are administered according to the priorities of the beneficiary population. Whether the allocation is cost-effective toward reaching these goals becomes less important. In **Honduras** and **Nicaragua**, the term "decentralized budgeting" is used, but in reality it refers to a small fixed percentage that is transferred to the municipalities.²⁴
- All three countries have adapted their annual budgets to the PRS, especially in areas that refer to the use of HIPC resources and the constitution of poverty reduction funds. In **Honduras** and **Nicaragua** separate funds have been created for the management of these resources. They are monitored by government ministries, donors and NGOs.²⁵ In **Bolivia**, HIPC resources are transferred to the municipalities.

²⁴ In Nicaragua, approximately 5% of public expenditures have been decentralized to local entities. In Honduras the percentage is 4%, and in Bolivia it is greater, 18%. See also Table 3.9 and Box No. 3.

²⁵ The creation of independent funds for budget management purposes is a permanent concern. Though it is meant to reduce the diversion of funds, it doesn't necessarily guarantee an effective concentration of resources for poverty reduction.

- Weaknesses in institutional capacity are reflected in the low level of budget execution in the three countries studied. This is an indicator that the problem lies not only in the lack of resources, but also in their management and administration.

One of the PRSPs' strong points is that the strategies' intentions and goals are explicitly related to the required budgets. This does not occur in practice, however. If the costs of the PRS programs are not correctly estimated, and if there is no specification of how the allocated resources are expected to help to reach the goals, the new PRSP focus's chances for success are reduced considerably. Furthermore, it will be easier to convince international organizations and donor countries to increase their support as necessary when the budgets are more credible and realistic. From what has been said thus far, it is obvious that the three countries have a long way to go in this area. At the same time, it must be recognized that the task is not easy. Analyses of cost-effectiveness in the social area are complex and require high-level technical studies. It is advisable, therefore, to undertake a gradual process of introducing the techniques recommended in the Manual for PRSP Elaboration (Klugman, 2002: Chapter 6) for results-oriented budgeting and MTEF elaboration. Donor support for strengthening institutional capacity in these areas should be considered a priority.

Table 3.8 Results-Oriented Budgeting?

	Bolivia	Honduras	Nicaragua
1. Is there a PRS cost estimate?	Only 2002-06	Yes	Only 2001-2005
2a. Total PRS budget (in billions of US\$)	Estimated costs for 2001-06: US\$ 7.4 billion <i>(The decentralized process affects these estimates since they will depend on the expenditures the municipalities decide to take on.)</i>	Revised estimated costs for 2001-15: US\$ 2.6 billion Revised estimate for 2001-5: US\$ 1.7 billion	Revised estimated costs for 2001-05: US\$ 1.3 billion
2b Financing gaps?	Not specified (Note: Rural electricity project does not have financing)	Total to be financed: US\$ 120 million (2001-5)	Not specified
3. Complete budget?	(a) Cost includes expenditure for investments and current expenditures part of the 4 pillars of the EBRP (b) Aggregate estimates (based on average unit costs)	Cost estimates include new programs, previous programs and those tied to HIPC funds.	There is an attempt to measure the fiscal cost of reaching intermediary PRSP goals, but there are no per-program or sub-sector estimates.
4. Are there multi-year budgets?	No (but there is an annual budget)	Annual budget (2001-5) and projection for 2001-15 period.	Annual budget for 2001-5.
5. How detailed are budgets?	Estimates are very aggregate. There is no relationship to social goals.	Estimates are very aggregate and without detail. No specification of unit costs.	Very aggregated
6. Is there an MTEF?	Not yet.	Not yet.	Annual budget for 5 years, but no specific

			reference to the MTEF.
7 Method of estimating costs?	Only rough description. No information on unit costs and assumptions.	Method not specified. No information presented on unit costs and assumptions.	Method not specified. No information presented on unit costs and assumptions.
8. Results-oriented budgeting?	No analysis of cost-effectiveness. Decentralization is complication. Much responsibility given to municipalities to determine priorities for financing. Results will be more in terms of whether resources have arrived to beneficiaries than the impact on social indicators (MDG).	No analysis of cost-effectiveness. Decentralization of budget but only small fixed percentage is transferred to municipalities.	No analysis of cost-effectiveness. Decentralization of budget but only small fixed percentage is transferred to municipalities.

3.7 Implementation and Viability of the PRSPs

The effectiveness of a strategy's design and content can be measured at the time of implementation and through impact evaluation. Though it is still premature to make an exhaustive evaluation of the implementation of the PRSPs, we can at least outline the principal weaknesses or barriers they are encountering. These must be taken into account to assure their sustainability. We have included Honduras and Nicaragua in the analysis, though they have still not arrived at the completion point within the HIPC Initiative. The lack of that official status does not mean, however, that they are not moving ahead with the implementation of PRS-related programs and policies. Therefore, we make the following observations in reference to all three cases.

- The limited connection between the processes of consultation, elaboration and implementation has weakened civil society's sense of ownership over the strategy. This means that the PRS is owned more by authorities—to a greater or lesser degree depending on the country—and that national ownership is weak. In Bolivia and Honduras, the idea of strategy ownership has been strongly questioned.
- Clearly it is not easy to establish a link between these various stages of the strategy. The multidimensional nature of the strategy can be a strong point, but in practice it is more delicate because various interest groups are involved at one time, and the definition of priorities becomes more difficult especially when it comes to reforms that have a national impact. Participants can tire of taking part in these kinds of processes. This can be seen especially in Bolivia where there are a number of different arenas of discussion, and their various demands are not always consolidated. This has led to the current leaders proposing an entirely new PRSP.
- The short time given for the execution of structural reforms provokes a vicious cycle of lack of opportunity to implement the measures and resulting restrictions on foreign financing. Add to this some of the optimistic goals for economic growth, and poverty reduction programs lose their viability. The *Joint Staff Assessment Reports* of the IMF and the World Bank recognize that growth targets are much higher than those actually attained in recent years. Nevertheless, they still consider them viable as long as the strategy is fully implemented.
- In terms of the institutional capacity needed to implement the strategy, all three cases demonstrate repeatedly that responsibilities have been created faster than the

institutional capacity to deal with those responsibilities. Timelines defined for the training processes, for example, do not always coincide with the timelines established for the implementation of laws and the execution of reforms.

- Donors are providing support for increasing institutional capacity, in Bolivia for example. This support is fragmented, however. In some areas donors are criticized for making it difficult to identify appropriate incentives for improving the efficiency of the public sector. This happens, for example, when donors pay public sector consultants distorted remunerations.
- The level of *administrative decentralization and social participation* in program and budget management differs quite a bit among the three countries, and the process is much further along in Bolivia than in Honduras and Nicaragua. In Bolivia the process had begun earlier through the Law of Popular Participation, among other things, that empowered municipalities and grassroots social organizations. Nicaragua and Honduras do not have a legal framework for social participation. In the case of Bolivia, responsibility for EBRP implementation lies primarily in the local level. As previously mentioned, there are significant weaknesses in the implementation capacity of the municipalities, and in some cases there is an underutilization of resources for this reason. (See ISS 2003a, Bolivia Report). Two other dilemmas are becoming clear in the decentralized implementation process in Bolivia: (a) a bias towards investment in small-scale public works projects (health and education, but also for other local priorities like building community centers.); and (b) a lack of local capacity to develop and carry out programs to promote production and generate jobs and income. See Table 3.9 and Box No. 3 for a summary of the decentralization processes in the three countries.

Processes for strengthening institutions are not always clearly defined and over time may end up exhausting political and social conditions and spaces for dialogue. This is the case in Bolivia, where key issues are still pending discussion. In addition, when the Bolivian PRSP was written, a certain socio-economic commotion had already emerged, but this was not taken into account when timelines were set for PRSP implementation.

As a result, *ownership, participation and partnership* are disintegrating to varying degrees in the implementation processes. Of the three countries, Nicaragua has made the most progress in implementing the strategy and has higher levels of participation. This could be because the Nicaraguan PRS incorporated existing programs and projects and thus allowed for greater continuity. Bolivia, by law, should hold a new dialogue at the end of 2003, but at this point the social and political situation will determine the relevant timelines. In Honduras, the PRSP is paralyzed and the three characteristics mentioned above (ownership, participation and partnership) are fading within government and civil society.

In addition, it is not clear how much time is needed to execute certain policies to effectively reduce poverty, or even if these very policies may worsen the poverty situation. This is why the impact analyses (PSIA, Poverty and Social Impact Analysis) that study the effect of policies on social conditions and poverty are crucial. Though international organizations may be making progress in this sense, it is not yet possible to determine the impact of macroeconomic alternatives or the trade-offs that may be inherent in adopting certain policies. For example, there is no defined policy of external debt management consistent with reaching the MDGs.

The problems that confront a strategy of PRSP dimensions are not trivial and, at this point in time, they have become a significant impediment to the continuity of the PRS process. Time continues to go by and “pro-poor” proposals are increasingly being questioned both internally and internationally.

Box No. 3
Some Lessons Learned from the PRS Decentralization Processes

Administrative and sectoral decentralization has taken root more deeply in Bolivia than in the two Central American countries, especially in terms of the decentralization of expenditures. In Bolivia decentralized expenditures are 2 and 3 times greater than in Honduras and Nicaragua respectively. This greater participation in expenditures has been financed primarily by a greater flow of resources from the central government. Twenty percent of tax income is transferred to municipalities in Bolivia while in Nicaragua it is less than one percent. Decentralization in Nicaragua is mostly limited to sectoral deconcentration of the primary government ministries. There are some local initiatives for obtaining a greater role in the implementation process, but they have yet to yield results. Decentralization in Honduras is at an intermediary level. Municipalities in all three countries are greatly unequal, depending on their geographic area, their size, and whether they are rural or urban. In Bolivia, resource transfers to municipalities are helping to reduce the historic inequalities among urban and rural municipalities. The EBRP has reinforced this trend.

Decentralization in Bolivia was accompanied by the creation of local government institutions. 1994 legislation recognized and empowered grassroots social organizations (OTBs) to participate in local planning and to exercise social control over the local accountability (Vigilance Committees, CdV). While social participation practices do exist in Honduras and Nicaragua through the Municipal Development Councils (CDMs) and Town Meetings (*Cabildos Abiertos*), they do not occur within any particular legal framework as they do in Bolivia. Much depends on what is happening in the particular political junctures of the moment. The international donor community is, selectively at times, working to stimulate decentralization and local government in all of the countries. In Bolivia, new political spaces have been created, and the process is more centrally controlled in Nicaragua and Honduras.

The relatively advanced level of decentralization and local governance in Bolivia made it possible for local **agents** to be completely in charge of the EBRP implementation, something that would not have been easily replicable in Honduras or Nicaragua. In Bolivia, this decision was made at a time when municipal governments were considered to be one of the most reliable public actors. The decision was based on (a) the perspective that “we are all poor;” (b) the **belief** that local governments are the best vehicle for identifying and acting on the demands of the poor; and (c) a geographic redistribution of HIPC resources according to poverty levels. These premises were not adopted in either Honduras or Nicaragua. In those two countries, decentralization is not a central guideline for implementation, and sectoral deconcentration is emphasized instead. Local **governance** exists but has not been formally recognized. Some preliminary **local** projects **have been** being identified for this, but because of lack of local sovereignty, there is no guarantee that the centralized managers of the implementation will respect local priorities.

It is important to point out that there is a significant gap between the responsibilities assigned to municipalities by law and what actually happens in practice. This gap is even more apparent in poor municipalities. In terms of social services, it’s worth emphasizing that municipalities often have some role(s) in providing services (building schools or health centres, providing money for school breakfasts or certain health costs etc.), but they are rarely solely responsible for one or more *products* (for example, primary health care). This implies that results will always depend on the level of vertical coordination that takes place with other responsible, and often much more significant, bodies. Inter-institutional agreements are a necessary condition but require national followup.

Municipalities of all three countries have few responsibilities, tools or capacities for local economic development or for reducing income and employment poverty. Newly created local institutions of governance are more capable of handling “general public goods” that are “collective goods of particular economic interest.” Furthermore, some instruments for economic promotion are hard to decentralize to a municipal level. Rather, they require mid-level mechanisms (by sector or region).

Including local governance and participatory democracy in a strategy does **not** lessen the need to deepen local representative democracy to recover a greater direction for local poverty reduction strategies and to avoid the dispersion and fragmentation of resources.

Source: ISS (2003b) **Thematic** Report on Decentralization and Participation.

Table 3.9 Decentralization and PRS Implementation

	Bolivia	Honduras	Nicaragua
Last Round of Major Decentralization Reforms	1994 Popular Participation Law. Later legislation creates a two-level system of government (Central govt. and 314 municipalities) and three levels of administration. Consolidated with 1999 Law for Municipalities.	1990 Municipal Law. More demands emerge for greater local autonomy but reform process hits resistance from line ministries and from fear of local corruption. New impulse given with PRODEL in 2002.	Municipal regime created in late 1980s; Sectoral deconcentration process begins in 1990s. Inconsistencies in municipal legislation and disagreements of direction of reform.
Degree of Administrative Decentralization before PRS.	High rate of decentralization of expenditures. Low level of decentralization of fiscal income. Local entities have high dependence on transfers from central government.	Low levels of decentralization of expenditures and of fiscal income. Little dependence on transfers from central government	Low degree of decentralization of expenditures and of fiscal income. Very little dependence on transfers from central government.
Fiscal Decentralization - Decentralization of income. - Decentralization of expenditures - Transfers as % of national tax income - Transfers from central govt. as % of municipal income - Horizontal imbalances (Figures from FY 2000)	6% 18% 20% 58% High imbalances, but heavily redistributive transfers (CPT).	8% 4% 2% 22% High	8% 5% 0,8% 9% High
Local Governance for Responding to the Demand	- The law recognizes and empowers civil organizations in participatory planning (OTB) - Social control over accountability created. (Vigilance Committees).	- Mechanisms exist for participation in planning (Town Meetings and CDMs) but there is no law that regulates or empowers OSCs. The quality of the mechanisms is questioned. - No social control over accountability mechanisms.	- Mechanisms exist for participation in planning (Town Meetings and CDMs) but there is no law that regulates or empowers OSCs. The quality of the mechanisms is questioned. - No social control over accountability.
Decentralization of PRS Implementation	Municipality is primary manager of implementation including the total amount of resources transferred; resource transfers to municipalities according to level of poverty (PNC) and with soft and <i>ex post</i> conditionalities. Reduced capacity for execution of HIPC resources.	Implementation has not advanced sufficiently.	Implementation since 2003 in partially deconcentrated form by sectors through primary ministries (education, health, agriculture and infrastructure).
Local governance of the PRS Implementation	Participation according to pre-existing mechanisms (PDM y POA); LPP/CPT practices are reproduced. Orientation of demand to "small works projects" and dispersion by neighborhood. Lack of representation of the poorest groups	Implementation has not advanced sufficiently. Potential exists for a broad variety of local OSCs.	Only indirectly through projects proposed within the PIM/SNIP. Implementation does not necessarily respect the sovereignty of local priorities.
Do decentralization and local governance contribute to the effectiveness of PRS implementation?	'We are all poor' and lack of social and sector-wide targeting. Municipalities not trained to handle strategies to generate income and jobs, though mechanisms have been established for accountability.	n.a.	n.a.
Does the PRS contribute to decentralization?	No. More resources but 'business as usual.'	n.a.	n.a.

Source: ISS (2003d), *Report on Decentralization and Social Participation*

3.8 Monitoring, Evaluation and Transparency

There is still much to be done in all three countries to develop systems for monitoring, evaluating and rationalizing information flows and to define which bodies will be responsible for each process. In the last few decades, substantial improvements have occurred in terms of information sources for measuring poverty and other impact indicators in Latin America.²⁶ There is still much to do in this area, however, as we pointed out in Section 2. The comparative analysis of impacts among countries based on secondary sources requires rigor in the management of data, since there tend to be enormous discrepancies among the available sources. As mentioned previously, the estimated incidence of extreme poverty in Nicaragua can vary from 45% to 82% of the total population depending on the source and from 57% to 24% for Honduras (See footnote 9). Appendix A.2 includes some additional examples. In spite of the efforts of various international organizations (UNDP, World Bank, IDB), the statistical capacity of these countries and the transparency of human development indicators still have to be improved for there to be any systematic follow-up to the Millennium Development Goals.

Much less progress has been made in results-oriented budgeting systems that permit effective follow-up and monitoring of “pro-poor” programs and projects, and all of the various problems mentioned in the section on budgeting have been encountered. Nevertheless, all three countries have initiatives for improving the situation through the proposals included in the PRSs. These initiatives also include the exploration of possible forms of social accountability and participation of the poor in monitoring at the local level.

In Bolivia, the government supports such initiatives in a way that is consistent with the fiscal decentralization process. The weakest point in the three countries is the lack of systems to monitor the management of activities and programs. There is no adequate system, for example, to monitor the execution of the budget. Such weaknesses exist at the level of the central government as well as in the local entities. Part of the reason it is difficult to ensure adequate monitoring is that priorities are not clearly identified for programs, projects and budget allocations. Nor is there any criteria for cost-effectiveness that can identify how PRS goals will be met within the given budgets. In spite of these limitations, governments must present annual progress reports to the World Bank and the IMF on the implementation of the strategy.

- The UDAPE produces progress reports periodically in Bolivia, and UNAT produces a similar report for Honduras. Valuable information is summarized in both. Nicaragua recently approved the following, although they have not yet produced results: the Support Project for Monitoring and Evaluation, PASE; the Project to Support and Implement the ERCERP, PAI;²⁷ the system of participatory monitoring, and the National System to Monitor Poverty Indicators (SINASIP), which is currently being revised.

²⁶ The quality of household surveys in the region has improved, allowing better measurement of living conditions. The MECOVI program (Regional Program for Improving the Survey and the Measurement of Living Conditions), co-sponsored by the IDB, World Bank and ECLAC, and in some cases (including Bolivia, Nicaragua and Honduras) the UNDP, contributed to the improvement.

²⁷ The PAI began as a pilot project in 11 municipalities, oriented toward the formulation of Integrated Work Plans, PTIs, at the municipal level with the participation of the Municipal Development Committees, civil society and beneficiaries.

- In spite of two years experience with their PRS, the countries still do not have a structure for systematizing information. In Honduras the Monitoring System for PRS Indicators (SIERP) is still coordinating efforts at the ministerial level to institutionalize the distribution of roles among the entities that elaborate information for the PRS. There is also the National Management Evaluation System (SINEG) that will be in charge of evaluating, measuring the impact, and validating information on poverty. Bolivia still does not have consensus among its donors on their proposals for monitoring and for the necessary financing. Nicaragua does not yet have a structure for systematizing information. Though the SINASIP design was finished in 2002, the system still needs some simplification before it can be implemented. The Supplementary Social Fund has been charged with monitoring and evaluating HIPC resources.
- In Bolivia, Vigilance Committees,²⁸ which exercise social accountability at a municipal level and in municipal associations, have existed since before the creation of the EBRP. These committees are to supervise and evaluate the results and impacts of public policies, access to information, and allocation of resources, as well as the mechanism of social accountability that designates local trustees or associations to become familiar with information and activities about the use of funds and the approval of projects. Donors have committed to supporting the development of indicators to monitor the results of the strategy, though there are no concrete results of this yet.

3.9 Role of Donors and the Coordination of Foreign Aid

Greater coordination among the donor countries, multilateral agencies and beneficiary governments is considered one of the key conditions for facilitating a successful PRS. The international donor community can support and facilitate PRS effectiveness to the extent that it helps to:

- a) broaden the debate and the national dialogue on policies for sustainable development and poverty reduction;
- b) direct the attention of donors and governments toward improving information and analysis of poverty, including the development of appropriate indicators for measuring progress;
- c) improve methods for budgeting, accounting and monitoring the government in general, instead of each donor insisting on its own monitoring and accounting methods for its particular projects.

To evaluate the role of the international donor community in the PRSP process of the three countries, we focused on five questions:

- 1) Is the PRS process effectively improving coordination among donors?
- 2) Has the PRS led to a greater sense of government ownership over the aid activities of the donors?
- 3) Has the PRS led to a need to change the modality of aid? For example, would it be better to send more aid in the form of budget support instead of project support?
- 4) What role should the donor community have in strengthening public administration and civil society?
- 5) What implications do the emerging modalities of aid and the level of PRS execution have for Swedish donor organizations?

²⁸ Vigilance Committees were recognized by the Law for Popular Participation No. 1551.

Of these five questions, the last three are normative; that is to say, they lead to recommendations. The last question arises from the fact that this evaluation is being carried out at the request of Sida, the Swedish International Development Agency. The conclusions, however, could be equally useful for other donors. It should be mentioned that the donor sections of the various country reports contain a broader analysis and assess the role of donors in facilitating and influencing the design, participation, execution and monitoring processes of the strategies. The country reports also analyze the role of the governments of Bolivia, Honduras and Nicaragua in promoting donor coordination. Additionally, in order to respond to the third question, we begin with an analysis of the current situation regarding the modalities of aid.

The following section briefly summarizes the findings in the three countries on: PRS influence on donor coordination; the modalities of aid; the degree of national ownership of the PRSs; and the activities of the donors. Some preliminary comments are then derived with respect to points (a), (b) and (c) from the previous page. Finally, we give some recommendations in answer to questions (3), (4) and (5) above.

Improved Donor Coordination?

Table 3.10 summarizes the conclusions on the role of international donors in the three countries. Rows 1^a, 2b and 3b correspond to questions (1), (2) and (3) above.

- In Bolivia and Honduras, the PRS elaboration process stimulated a greater coordination among the donor community, and donor representatives intensified their coordination meetings because of the process. In Nicaragua, donor meetings were already taking place.
- It hasn't been possible to ascertain whether coordination has increased in terms of project execution within the PRS framework or in terms of monitoring the strategies. This may be due in part to the fact that governments of the three countries had not progressed very far by December 2003 in the execution of projects developed within the PRS framework.²⁹
- At the same time, the limited level of project execution can be related to a lower sense of national ownership of the PRSs (See Section 3.3 and Row 2a of Table 3.10), changes occurring in the governments of the three countries, and a weak capacity for implementation. In addition, before the respective elections in Bolivia, Honduras and Nicaragua in 2001-2002, IMF programs were off-track. This provoked (i) a reduction in resource flows for PRS execution and (ii) the turning of government attention toward the negotiation of a new PGRI.
- Furthermore, as we have indicated in Section 3.3, the international community (the IMF and World Bank in particular) had a heavy influence on PRSP elaboration in all three countries. Such influence has been visible for the stakeholders in all three countries and has raised serious doubts about whether the "national ownership" objective is compatible with the conditions placed on PRSP content by international organizations.
- The previous government in Bolivia was taking initiatives to achieve a better coordination among international donors, while the new governments of

²⁹ In Nicaragua improvement in coordination between donors and government is due more to debt relief than to the PRS framework.

Honduras and Nicaragua have begun to do that work recently (see Line1b). It seems, however, that the PRS in itself is not the main force behind these initiatives. Rather, the initiatives seem to be directed at capturing sector-wide support, or SWApS based on sector-wide programs. The relationship between the PRS and sector-wide programs is not very clear in this context. In other words, the PRS doesn't appear to be the necessary condition for obtaining sector-wide support (SWAp), though it could be easily tied to the PRS.

- Up until now, the PRS has not led to a change in aid policies in the direction of general budget support, sector-wide support, or SWApS (See Line 3a of Table 3.10). Some donors cannot give budget support or sector-wide support³⁰ because of the international aid policies of their governments that require that accounts be separate from the transferred resources. The presence of PRSs has not changed this policy. While some donors are allowed to give general budget support and while multilateral organizations may authorize policy-based lending, these are still conditioned on a macroeconomic program previously negotiated with the IMF. The possibility of obtaining sector-wide support or SWApS depends on the quality of the sector-wide plans prepared by the beneficiary governments and on whether the donors trust that the government is willing and able to implement these programs.

Preliminary Balance: A Positive Role for Donors?

What can we conclude from the conditions discussed in the beginning of this section?

National Dialogue

- The PRS has generated more debate and more attention on how to reduce poverty in the three countries, both at the national level and between governments and the international community. The donor community has helped to facilitate the consultation process.
- Strong sentiments exist in all three countries about the tension between international conditionality and respect for the results of the national debate. The PRSs must be approved by the IMF and the World Bank, and this projects the idea that the multilateral financial organizations and international donors have a stronger influence over the content of the strategies than the national actors. The issues discussed in this study also point in that direction. The international community has certainly had a notable influence on the content of the strategies and has insisted on certain monitoring mechanisms. In a similar way, the IMF and World Bank have influenced the writing of the progress reports. Such influence in the process is added to the "traditional" HIPC conditionality of macroeconomic policy and institutional reforms. This impression of heavy donor influence is reinforced by the fact that macroeconomic policy and many structural reforms (agrarian reform, economic liberalization) were not included in the PRS dialogue agenda. It should be said that this influence of the international community is not ill-intentioned or negative. It has to do with a well-intentioned desire (or should we say, *impatience*?) to reach the PRSP goals and objectives. The dilemma arises with the effectiveness of the national dialogues. Many of the national stakeholders feel that the dominant presence of international organizations seriously limits the PRSs' own principles—principles of generating national ownership of the strategy and securing broad participation in the PRS design and monitoring processes. It is

³⁰ That is, the formation of a common resource fund.

possible that the international community's great desire to ensure "results" has created a trade-off between the conditions necessary for carrying out a national dialogue and obtaining the desired sense of national ownership.

- In spite of the value added by the PRSP process to the national dialogue on poverty (see previous sections), it is undeniable that the governments of Bolivia, Honduras and Nicaragua perceive the PRSPs primarily as instruments necessary for obtaining debt relief, reaching agreements with the IMF, obtaining policy-based loans from the multilateral banks and budget support from the bilateral donors.

Better Budgeting Methods and Accountability?

- As we have observed above, thus far the PRSPs have not led to a visible change in the structure of foreign aid toward more program support over project support. In the area of budgeting mechanisms (results-oriented budgeting), there may have been some modest progress. The main advances have to do with the use of "HIPC resources." In Honduras and Nicaragua separate funds, real or virtual, have been created for the management of these resources. They are monitored by representatives of government ministries, donors and NGOs. Nevertheless, since currency is "fungible," it may be that the government is spending HIPC resources for purposes consistent with the PRSPs, and that now it has these resources, it is also expending them on activities outside the priorities of international donors or NGOs. The creation of special funds for the use of HIPC resources does not in itself resolve the problem of "fungibility." This aspect needs more research. To be able to do so, however, more progress would need to be made in the development of results-oriented budgeting both in the book-keeping and in the systematization of information that would allow, among other things, the effective evaluation of the destination of resources for programs and projects for the poor and the benefits of these programs and projects for poverty reduction. (See Section 3.7.) In Bolivia, the situation is a little different because all of the HIPC resources are transferred to the municipalities, and there is no central HIPC resource fund being monitored.

In addition, we should also evaluate whether it might be helpful for international organizations like the IMF and World Bank to be accountable to the countries that have or have not received support. These organizations have explicitly approved the countries' PRS projections and the time frame for implementing reforms. And while responsibility for execution lies with the national actors, it is known a priori that the commitments are optimistic and that countries are consistently unable to stay on target with what is planned. This leads to postponing the fight against poverty and deepening the discontent among the population.

Table 3.10 Summary of Donor Role in PRS

	Bolivia	Honduras	Nicaragua
1a. Is the PRS process supporting donor coordination?	Has played a role during <i>elaboration</i> of strategy. No significant role in <i>execution</i> or <i>monitoring</i> of PRS.	Has played active role during strategy <i>elaboration</i> (G-15 Donor Group). Modest coordination in <i>execution</i> or <i>monitoring</i> of	Coordination was generalized but in part based on discontent w/ previous government. Donors more willing to cooperate with

	Bolivia	Honduras	Nicaragua
		PRS.	current government and dialogue has improved.
1b. Does the government (previous/current) take initiatives to coordinate donors?	Yes / No	No / Yes. Donors have been asked to frame their aid within PRS objectives.	No / Yes, Independent of the PRS process.
2a. How much national ownership is there of the PRS and how does this relate to the conditions of financial aid?	Little ownership. Conditionality is extended to other areas in the PRSP	Little ownership. Conditionality is extended to other areas in the PRSP	Under PRS, Nicaragua hopes conditionality will be more selective, though to date there is no legitimate internal ownership
2b. Has the PRS generated a greater sense of government ownership over aid activities?	No	Progress, but does not amount to ownership by the government.	Yes, though has little relationship to PRS and more to debt relief.
3a. Has the PRS led to a change in aid modalities, toward more budget support?	Traditional patterns of assistance remain.	Traditional patterns of assistance remain.	Traditional patterns of assistance remain.
3b. Has the PRS led to a <i>need</i> to change aid modalities toward more budget support?	Not to date	Not to date	Not to date
4a. What role should donors play to strengthen budget management?	Instead of participating in systems to monitor separate funds for HIPC resources, promote monitoring of <i>all</i> government expenditures, preferably involving legislative branch, NGOs and independent experts in the process. Make PRS resource flow more permanent in order to make policies more sustainable.		
4b. What role should donors play to strengthen civil society?	Encourage broadening national debate on the PRSPs to include the macroeconomic framework and other topics of interest to civil society. Promote the participation of parliament in the debates on poverty issues and in the ongoing monitoring of the budget execution.		

4. Some Lessons Learned from the PRS Experience in Bolivia, Honduras and Nicaragua

It is still too early to evaluate the capacity of the PRSPs to truly consolidate more participatory development processes and effective poverty reduction policies. The design and implementation of the PRSPs in the three Latin American countries took place in the context of a deteriorating economic situation, changes in government, and a great deal of political tension, especially in the Bolivian case.

In the introduction we emphasized that it is difficult to make a comparative analysis of the experiences since it is possible that the ambitions and expectations of the strategies were defined far above the capacities of the countries within the changing political and economic context. In the case of Honduras, PRSP implementation has been delayed, among other reasons, because of the inability to meet the HIPC requirements and because of the deferment of those resources. Nevertheless, all three countries have held broad-based and participatory consultation processes and have introduced certain changes in the management of poverty reduction policies. Concentrating on these dimensions, we respond to the two central questions asked at the beginning of the document: (1) To what extent have the PRSP processes generated significant steps toward the reduction of poverty within a framework of a nationally owned strategy?

and (2) To what extent have the PRSPs added value to previous and existing processes?

Value Added

Perhaps the principle value added is the conformation of a broad-based national dialogue for discussing poverty reduction. In addition, countries have been able to strengthen decentralization processes and make concrete strides toward more transparent, results-oriented budgeting. It is not easy to establish the “counterfactual” of whether these processes might have taken place without the PRSPs, since in varying degrees, the PRSPs were adapted to processes that were already in motion. (For example, Bolivia’s Law for Participation and National Dialogue and Honduras and Nicaragua’s already established mechanisms for managing reconstruction resources after Hurricane Mitch.) Nevertheless, we believe that the PRSPs have supported participatory processes, by giving them a broader framework for public debate, since, at least in theory it includes macroeconomic policy together with local forms of implementation. The dialogue between the governments and the donor community has also taken a positive course.

Nevertheless, we must also say that what has been accomplished within the PRSP framework is still very far from meeting the central objectives or the basic principles of the process. This is not only because the economic situation has deteriorated or because there have been changes in political leadership, but also because of consultation process failings, design problems, institutional weaknesses and the kind of influence donors have over the process of defining the PRSPs.

Conclusions and Recommendations on Consultation Process and PRS Design

In the country reports more detailed recommendations are presented for each of the three cases. There are five important common areas, however, that we would like to highlight for priority attention in order to improve the PRSP process.

- *There is very little sense of national ownership of the PRSPs. To a large extent the PRSPs are seen as documents needed to meet the requirements for obtaining external debt relief.* This sentiment can be observed in all three countries to varying degrees. In our judgment, two factors have had the most influence on this situation. First, the dichotomy between the consultation process and the elaboration of the strategy. That is to say, the lack of feedback mechanisms between the two processes has led to a sense of frustration among certain civil society actors as well as a lack of discussion on priorities. The time pressure to meet the HIPC requirements has affected the results, but this also reflects an underestimating (by governments and donors) of the time needed to carry out the participatory processes that are so crucial for national ownership. Second, the fact that economic strategy, and especially macroeconomic policy, was not on the table for consultation has caused the perception that the PRS is another large condition added to the other conditions of the IMF and the HIPC initiative. It is difficult, therefore, to imagine how to obtain a greater sense of national ownership over the strategy: (a) without having more iterative processes between the consultations (“What do you want?”) and the definition of the strategy (“Can you live with the established priorities?”) and (b) without including macroeconomic policy and economic reforms as an integral part of the discussion

and definition of the strategy, or at least avoiding that because of a lack of dialogue macroeconomic policies get to be perceived (rightly or wrongly) being in conflict with and overriding the anti-poverty programs.

- *The PRSPs, especially the first versions, cannot easily be characterized as strategies.* The PRSPs define clear strategic guidelines, but the proposed actions do not precisely indicate how they are expected to meet the established goals, and no clear priorities are set. Furthermore, in relation to what was said earlier, it is not clear whether the PRSPs truly take in all of the economic and social policies, or if they are instead guidelines for how to allocate the HIPC resources. These deficiencies imply, for example, that when macroeconomic restrictions increase—as they currently are in all three countries—the PRS does not give clear answers on (1) the implications for the scope of the poverty reduction goals, and (2) how and where to make adjustments for the economic reality. These aspects should be given urgent consideration in the ongoing revisions necessary for the PRS. At the same time, it should not be surprising that with the lack of clarity on how comprehensive the PRSPs should be contradictions might arise with other government plans and reforms. This is what happened in Bolivia with the Plan Bolivia of the Sanchez government and in Honduras with the divorce between the PRS and macroeconomic policy. In Nicaragua, it is still unclear how the new Development Plan will relate to the ERCERP.
- *The PRSPs of the three countries are still not framed in a medium-term budgeting process (MTEF) and they have made little progress toward a results-oriented budgeting process that would permit actions to be linked to budgets and expected results.* The weaknesses in the diagnoses of the causes of poverty mentioned in Section 3.4 are also reflected in the fact that there is little transparency about whether the allocated budgets are sufficient to reach the goals, and much less about whether budget allocations across programs are cost-effective or not. This weakness makes it very unclear whether the strategies are truly viable.
- *Much remains to be done to establish monitoring and evaluation systems.* The three countries have taken initiatives to improve their information and monitoring systems. Nevertheless, weaknesses persist in the quality of information and in the large discrepancies between various sources' estimates of key indicators. This makes it difficult to monitor progress toward the Millennium Development Goals or to carry out impact assessments. Monitoring the effectiveness of budget implementation becomes difficult, among other reasons, because of the lack of clear analysis on the “inputs” (programs and related budgets) and “results” (goals, impacts). Eliminating that “missing middle” between actions and expected results should be priority if PRSP principles are to be taken seriously.
- *Administrative decentralization is not a substitute for effective implementation.* Bolivia, where the EBRP is being implemented primarily at the local level, teaches us certain lessons. In many of Bolivia's municipalities, resources are being underutilized. This is a danger for municipalities in all countries if implementation capacity is not improved. Other trade-offs are emerging in Bolivia's decentralized implementation process. For example, at the municipal level investment is biased toward small public works projects (beyond education, health or water), and there is insufficient local capacity for the development and implementation of programs to promote production or generate income and employment. Better articulation of the decentralization process between the various administrative levels (not only between the central government and the municipalities, but also at intermediary levels) is an issue that requires a great deal more attention.

- *Because of the unique characteristics of each country, it is not possible to define an optimum PRSP model.* It is possible, however, to identify some lessons learned from the consultation processes in each of the three countries and to think about whether the lessons apply in other contexts.
 - a) Civil society, governments and donors all have limited experience in broad-based participatory strategies, which raises the question of whether there is a need to make such a wide invitation to various stakeholder groups so early on. It seems that instead of generating support, it has caused frustration among the participants and an erosion of the process itself. Prioritizing sectors and carrying out consultation and implementation in stages seem to be the essential criteria for making the process sustainable over time and keeping the PRSP from being turned into one long wish list. Nicaragua, Honduras and Bolivia have advanced in the process, with lesser to greater levels of participation respectively, and with greater relative viability in the case of Nicaragua. Participation and influence of the stakeholder should be allowed to grow over time as the culture of dialogue is being institutionalized.
 - b) The governments' participation—through multi-disciplinary teams in which representatives of economic and social fronts intervene in a coordinated way to evaluate the priority and financial viability of the “pro-poor” programs and projects—seems to be an essential requirement. This is especially true because “pro-poor” organizations and representatives mostly are unfamiliar with the macroeconomic situation or budget management. This lack of familiarity weakens the essence of the dialogue and ownership. In Bolivia, the methodology of the three dialogue agendas ended up dispersing efforts and disarticulating the necessary link between the economic and the social aspects.
 - c) Likewise, the absence of the government in certain stages of the process is not helpful. Instead of leading to greater independence for other actors, the absence of a decisive protagonist causes less fluidity and commitment. Government presence may not be necessary in all stages of the dialogue; neither does its absence ensure independence and positive results. Such is the case with Bolivia, in which the Technical Secretariat for Dialogue did not ask for government presence because of the desire to give the dialogue process greater independence. This ended up diminishing its influence of the process, however. In Nicaragua, CONPES, started with the presence of some government ministers, which permitted a direct dialogue between government and members of civil society. Currently, the dialogue has been extended to include more civil society representatives but the participation of ministers and high-level officials has been lost. This has undermined the role of CONPES.
 - d) The so-called sensitive issues (property rights, fiscal policy, economic reforms, agrarian reform and others) should be on the table from the beginning in a poverty reduction strategy (both as part of a national dialogue and as part of dialogue with donors) in order to define the compensatory social measures that need to be adopted to neutralize the political cost of certain actions.
 - d) Traditional representation structures should be included along with local administrative units in the early stages of the poverty diagnosis. There is evidence, for example, that poor people in Bolivia have not necessarily felt legitimately represented by the municipalities.³¹
 - e) When governments intervene in PRSPs to redefine strategies, clear rules of the game should be established such that the PRSP principles of ownership,

³¹ See Christian Aid (2002).

partnership, participation, focus on results, and long-term vision will be respected in the process of reformulation.

- f) The viability of the process was weakened from the very beginning, because macroeconomic assumptions were too optimistic and no alternative scenarios were analyzed. Also estimates of financial requirements for the strategy are all linked to a scenario of sustained economic growth. Therefore, it is fundamental to know both the active scenario (if all of the policies and reforms are adopted) and the passive scenario ('business as usual'), such that governments and donors can obtain better insight in the financing needs of the PRSP. In other words, one may wonder whether in practice the PRSP's objective is to reduce poverty by certain deadlines or rather to adopt adjustment policies by certain deadlines.

Recommendations for International Donors

- *The PRS framework demands from the international donor community greater efforts at effective coordination beyond the sharing of information.* It requires a serious debate in the international community—including Sida—about whether to effectively shift aid modalities from project support to sector and program support. If there is no will to make such a change, one may wonder how much donor actually support the programmatic agreement reached around the PRSP after a broad-based participatory process.
- *The international community should be concerned about the fact that the PRS process adds conditionality and that it has contributed to a widespread perception in the three countries that the PRSs are being imposed from the outside.*³² As we have mentioned, part of this perception comes from the fact that little or nothing of the macroeconomic framework was discussed in the PRS dialogues. The effects of economic reforms (like trade liberalization) on poverty were not discussed either, nor was there any dialogue about the effect of omitting other reforms, like agrarian reform, from the PRS process. This has all contributed the lack of a sense of national ownership over the PRS. The international community should, therefore, ensure that its dialogue with governments be extended to civil society and that the macroeconomic framework and structural reforms be included in the discussion in terms of their connection to and consistency with the PRS. It would be also appear to be advisable for the international community to distance itself a little more from national processes and give more "benefit of the doubt" to national actors to determine the results of the process. The presence of international donors is crucial in the implementation of the strategy, not only for supporting the design of accountability systems but also for providing more ongoing financial support, as long as the resources are being efficiently used.
- *It is worth asking in this context, then, if the PRS is simply a way for the IFIs to put more conditions on access to their funds.* In the most pessimistic scenario, the PRS itself might become merely an instrument to substitute for the old analysis of the traditional credit facilities of the World Bank in the same way that the PRGF would substitute for the Enhanced Structural Adjustment Facilities of the IMF. This substitution would occur with *additional conditionality and cross-conditionality*. Unlike the ESAF scenario, a PRGF can be held back if it does not present a progress report

³² We don't want to imply that the additional conditionality referred to here is necessarily negative. Insistence on institutional reform, good budgeting and monitoring systems is consistent with the good practices recommended by the PRSP process. It is the sum of the conditions and the insufficiency of incorporating several of these into the national dialogues that is creating the dilemmas.

accepted by the IMF and the WB and/or a revised PRSP. Bolivia, for example, had not met that condition and had to resort to a stand-by loan normally used to finance temporary imbalances in the balance of payments. Bilateral donors should critically analyze the kind of financing that should accompany a country committed to the PRSP process, as well as the cross-conditionality and *ex-ante* conditionality present in the financing modalities. These conditions could come into conflict with the PRSP's own objectives, especially that of national ownership.

- Therefore, donors should forge an alliance with the objective of going beyond the evaluation of macroeconomic achievements as monitored by the IMF and extend their assessment to evaluate policies for their effectiveness in reducing poverty.
- *If there is a recognition that the PRS can be an instrument for changing the way international aid is managed, and if there really is a will to from project aid to sectorwide and program aid—as the PRS principles would suggest—then, it would be a good idea to begin a discussion about the next steps needed, their sequence, and how to gradually move toward those goals.* Donors could stimulate this discussion around concrete needs, such as their support for projects already prioritized by the government; the technical support needed for strengthening institutional capacity for results-oriented budgeting and short and medium-term monitoring for the execution of budgets; and the relative merits of transferring foreign aid resources to sectors, rather than to specific projects. The discussion should also include debate on how civil society can play a role in the monitoring process and in the use of HIPC resources without substituting the legitimate functions of the government and the parliaments. There are many positive experiences of this kind in poverty-reduction processes, Tanzania being one example.³³
- Donors could increase support for improving the quality of information available for analyzing poverty. Some progress has been made in all three countries in this regard (see Section 3.8). Yet, improving information and monitoring systems should not only be directed at being able to monitor results and impacts, but also at strengthening implementation capacity—assuring that *management occurs* and that policies and strategies are carried out effectively. This recommendation applies to each of the three countries as well.

³³ Tanzania has gone through a similar process in the last few years. There, representatives of government, parliaments, NGOs, and independent experts and donors are discussing accounting systems. They are also commissioning and supervising other studies on budget execution, such as the “Public Expenditures Review” and the “Expenditure Tracking Studies.”

Is it good enough?

Are we on the right track? Doubtless the PRSPs have helped to guide and strengthen new learning on methods for consulting and for defining strategies to reduce poverty. At the same time, we must recognize that we are far from meeting the objectives of many elements of the agenda. The initial agenda was, perhaps, too ambitious for the current capacity of governments and government institutions. In addition, the process itself has some internal contradictions, especially the fact that the *ex ante* conditionality of donors is increasing when a major objective is to achieve national ownership over the strategy. We hope that the lessons learned from this study will help to stimulate discussion on how the process can be improved. The fight against poverty is an urgent priority, but the road is long and difficult. There are no pre-defined prescriptions for eradicating poverty. We must be guided by the fact that we are in a long-term battle, and we must learn from errors and shortcomings in order to continuously revise strategies and engage in ongoing reflection about how to improve the process.

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Appendix A.1 Comparison with other PRSP Evaluations

Comparison with other PRSP Evaluations

The ISS study differs methodologically from other evaluations in the following ways.

1) It is a regional evaluation. 2) It enjoys technical independence in its analysis, since ISS has not been part of any of the PRSP design and implementation processes. 3) The analysis contained in the country reports is more exhaustive than that of other studies which have focused on specific parts of the process. 4) Interviews to gather direct testimonies about how the PRSPs were carried out in various regions, and not only in the capital cities. This has permitted evaluation of cross-cutting issues like gender and decentralization in various locations.

The following are some of the general conclusions presented in other studies.

IMF and World Bank (2001-2002), Poverty Reduction Strategy Paper, Annual Progress Report, Joint Staff Assessment: Bolivia, Honduras and Nicaragua

These reports elaborated by the IMF and the World Bank are part of the requirements for accessing HIPC resources and maintaining the support of these institutions. The evaluations focus especially on macroeconomic aspects.

Nicaragua (Nov. 2002)

- Sources of intensive economic growth in the use of labor have not been clearly defined.
- The PRSP has improved participation and involved local entities.
- More efforts are needed to build systematic participation at the local level to implement the PRSP.
- The impact assessments for PRSP poverty reduction policies should be improved, as well as the indicators for monitoring and evaluation.
- Strengthen public investment systems and the MTEF.
- Risks that are to be evaluated in the PRSPs are political economic and institutional.
- The macroeconomic scenario presented is coherent and credible, subject to meeting growth goals and enacting legal reforms.
- Established PRSP goals should be revised according to the new macroeconomic scenario.

Bolivia (May 2001)

- PRSP is considered a good framework for fighting poverty.
- A succinct analysis of causes of poverty, and an excellent analysis on the impact of past policies on poverty.
- Goals are optimistic but reachable
- Links between policies and goals should be strengthened.
- The development of indicators and plans for monitoring and evaluation continues to be a challenge.
- The formula for passing additional resources to the municipalities may be positive for identifying the poorest sectors.
- Fiscal management for effective implementation of the PRSP is weak.
- The following factors are recognized that may endanger the implementation of the PRSP:
1) Social instability, although the institutionalization of the national dialogue is seen as positive for reducing social tensions; 2) Corruption and the lack of good governance could compromise the strategy; 3) Lack of trust in the government poses a limitation, in spite of the efforts made by the dialogue; 4) Despite the financial support from international organizations for the decentralization process, there could be a greater institutional capacity building of municipalities.

Honduras (September 2001)

- Government effort is deemed positive in the development of a participatory consultation process, though results are considered mixed according to civil society.
- The consultation process was established earlier in structures set up for reconstruction after Hurricane Mitch.
- The regional consultation process was broad-based.
- The PRSP has led to parallel processes.
- The analyses of causes of poverty, of urban/rural inequality, and of social and demographic aspects of poverty are good.
- A comprehensive analysis of income-based causes of poverty is presented.
- Presents a coherent analysis of the relationship between growth, savings, investment, labor productivity and competitiveness and the impact of inequity on poverty
- Identifies weak governance and natural disasters as threats to poverty reduction.

UNDP, Evaluation of UNDP's Role in the PRSP Process, 2003 (Point of view of donor involved in process and based on a non-regional study)

The UNDP's evaluation of the PRSP involves 26 countries that are participating in the strategy, including Bolivia which has a country report.

The UNDP concludes that Bolivia has a history of popular mobilization, an active system of institutionalized representation, and a vibrant civil society that includes chambers of commerce, labor unions and workers movements. The UNDP mentions that it participated actively in Bolivia's dialogue in the training of dialogue representatives, though it points out that results were not positive given the weak link between the participation process and the elaboration of the actual PRSP. The MDGs do not play an important role in the formulation of economic policy in Bolivia. The change in government had implications for national ownership since the current administration considers the PRSP the property of its predecessor. Bolivia has formal institutions of representation, and the parliament has played an important role in passing laws. The monitoring systems are still not implemented in Bolivia due to the fact that strategies have only recently been adopted. Finally, the UNDP values positively the multidimensional analysis of poverty, which was elaborated with the support of this organization through its Human Development Report.

Overseas Development Institute (2003), Experience with Poverty Reduction Strategies in Latin America and the Caribbean (Regional Report on the PRSP experiences in Latin America, based on interviews and perceptions of the Department of International Development, DFID)

- The role of the PRSP as compared to other national strategies is not necessarily clear.
- Monitoring the participation of local governments is of fundamental importance, particularly in Bolivia where the implementation capacity of municipalities is of concern. Political processes have had a significant influence on the PRSPs, but they have survived changes in government.
- In Bolivia, the National Dialogue has brought some significant policy changes.
- The measurement of the impact of poverty reduction strategies needs to be reinforced, among other things, with Poverty and Social Impact Analysis (PSIA).
- Bolivia is an example that parts of the process can be institutionalized through law. Participation is also beginning to be institutionalized in Honduras and Nicaragua.
- Coordination among donors is growing, with Bolivia as the best example of coordination, though they can still use more strengthening in this area.
- Concerns exists as to whether the goals are reachable and over the viability of the strategy. There are no MTEF systems for budget prioritization in the various countries.

Bilateral Cooperation (2002) Evaluation Report on progress and prospects of the Bolivian Strategy for Poverty Reduction.(EBRP).

Negative perception of the municipalities as main actors of the design of the PRS and its implementation. The PRSP is not contributing to the fight against corruption. The prioritization of productivity improvements as part of the strategy to reduce poverty is seen as positive.

It is suggested that other variables for adjusting growth projections be included, such as less access to external borrowing and adverse shocks to export earnings.

GTZ, 2001: The role of participation in the PRSP from the point of view of the German technical assistance agency, based on a literature review on participation and the PRSP consultation processes

- The strategy should be inserted in a political, social and cultural context.
- Civil society participation should be seen as strategic and should be extended beyond the consultation process, establishing, for example, transparent rules for dialogue and ongoing consultation processes.
- Donors should have better defined roles. For example, they should counterbalance the monopoly of the Ministers of Finance.

Christian Aid Participating in Dialogue, The Bolivian Strategy for Poverty Reduction, 2002 (on participatory processes in Bolivia)

- Those interviewed believed that the PRSP is a government document influenced by international financial organizations.
- Christian Aid believes there should be a primary consulting relationship on the more direct and immediate needs of the population, like services of transportation and public street lighting. More responsibilities are delegated to the government, IFIs, NGOs and municipalities in their link with civil society and their increased understanding about the PRSPs. They should collaborate in improving the dissemination and communication plans for the PRSPs and there should be more emphasis on participatory processes.

Hamburg Institute of International Economics 2003 Poverty Reduction Strategy Papers (Bolivia)

- Analyzes past policies and performance of Bolivia to see if the PRSP takes these restrictions into account in its strategy to fight poverty.
- Does not perceive differences with previous poverty reduction proposals, but rather points out that the limiting factors exposed by past efforts have not been taken into account with sufficient rigor and that this is an institutional weakness.
- Fears that given the circumstances, debt relief is not translating into a greater sustainability of the debt.
- Proposes careful and selective use of credit lines, PRGF, PRSC and HIPC, since their inadequate use could lessen credibility in the PRSP.

TROCAIRE, PRSP Policy & Practice in Honduras and Nicaragua, 2002

- In Honduras the consultation process was deficient and even the macroeconomic discussion was limited to a reduced number of officials. Nevertheless, it highlights the contributions of FOSEDEH in the macroeconomic discussion on poverty.
- The funds made available in Honduras for training in the national and regional consultation processes are about a tenth of what was given to Bolivia. Nicaragua has some think tanks to do research. A weakness in the participatory process in Nicaragua is that the government selected the representatives in the participatory process. The ideal would have been for civil society to name its own representatives.
- The Parliaments have received less information than civil society in this process. Some donors, for their part, have excluded civil society from certain discussion platforms. There was no consensus among donors with respect to the financial support that should be given to the consultation process.

In summary, the following are seen as substantial elements of the PRSP:

- The lack of attention to including inequity in the PRSP debate.
- An over-dependence on the resources of social compensation funds instead of attacking the structural causes of poverty.

Social Forum of External Debt and Development of Honduras (FOSEDEH) 2001 Preparation of the PRSP in Honduras.

This is a study that makes general statements without presenting sources or documentation.

- IFIs and the government designed their own PRSP, in spite of the fact that President received the PRSP officially from civil society.
- The final version of the PRSP does not incorporate the proposals made by civil society.
- In its official document on the consultation, the government did not present a matrix in which the points of agreement, disagreement and deficiencies in the process were outlined.
- Honduras has not identified the main causes and consequences of poverty. As a result, the debt will continue to grow without dealing with the poverty problem.

Appendix A.2 PRSP Goals and Difficulties for Follow-up

PRSP Goals

Table A2.1 summarizes the main PRS goals in the three countries.

Table A2.1: Comparative Table of PRS Content in the Three Countries

Área	Honduras	Bolivia	Nicaragua ³⁴
Economic Growth	- Real GDP Growth of 5.6% - Per capita GDP growth to 3.5%	- Reach real GDP growth of between 5 and 5.5 during the 2001-2015 period - Investment and savings at 20% of GDP	
Population	Population growth reduced to 1.9%	Growth of Life Expectancy to 69 years.	
Poverty	- Reduce poverty by 24 percentage points from 63% to 39% - Reduce extreme poverty by 24 percentage points from 47% to 23%	- Reduce poverty from 63% to 41% - Reduce extreme poverty from 36% to 17%	Reduce extreme poverty by 17.5% by 2005 and by 50% by 2015
Educación	- Double the net enrolment for pre-school education for children under five. - Reach 95% net enrolment in primary and secondary education. - Reach 70% net enrolment in the third cycle of basic education. - Reach 50% of new entrants to labor force with completed secondary education.	Increase from 51% to 67% the percentage of the population with at least an 8th grade education.	- Increase net enrolment in primary school by 1.4 percentage points yearly to move from 75% in 1999 to 83.4% by 2005. - Reach 90% net enrolment in primary school by 2015. - Reduce illiteracy rates from 19% in 1998 to 16% in 2004 and 10% in 2015.
Infant Mortality	- Reduce by half the mortality rates for infants and children under five. - Reduce to 20% the malnutrition rate for children under five.	Reduce the infant mortality rate from 67 to 40 per 1000 live births.	- Reduce the infant mortality rate from 40 cases per 1,000 in 1998 to 32 cases per 1,000 in 2005. - Reduce mortality rates for children under five from 50 cases per 1000 in 1998 to 37 cases per 1,000 live births by 2005. - By 2015 reduce mortality rates for children under five to 2/3 of the 1994 level. - Reduce infant mortality from 19.9% in 1998 to 16% in 2005 and 7% in 2015.
Maternal Health	Reduce maternal mortality rate by half (goal: 73 cases per 100,000 live births)	Reduce maternal mortality rate from 390 to 200 cases per 100,000	- Reduce maternal mortality rate from 148 cases for every 100,000 live births in 1999 to 129 for every 100,000 live births. - Reduce maternal mortality rate by 3/4 in 2015, relative to 1994 baseline. - Reduce unsatisfied demand for family planning methods to 24.8% for women between the ages of 15 and 19 and to 18% for women between the ages of 20 and 24.
Living Conditions	Provide access to potable water and sanitary services for 95% of the population.		- Increase access to potable water from 66.5% of the population in 1999 to 75.4% by 2005 and to 100% by 2015. - Increase access to sanitary services from 84.1% of the population in 1998 to 88% in 2005 and 95% in 2015. - Increase access to potable water and sanitary services from 39% of the rural population in 1999 to 53.5% in 2005. - Increase access to sewerage from 33.6% of the rural population in 1999 to 44.1%
Social Expenditure	50% social expenditure over total expenditure.	- Expand social safety net programs. - Increase security of the poorest groups.	

³⁴ PRS goals in Nicaragua have a temporary time horizon of 2005 and are designed as an intermediate objective for reaching the Millennium Development Goals in 2015.

Área	Honduras	Bolivia	Nicaragua ³⁴
Gender Equality	Elevate human development index for women by 20% and put on part with men.	- Protect property rights - Promote gender equality through: - Opportunities: micro and small enterprise programs for women - Capacities: increase number of rural women who know how to read and write and have technical capacities. - Participation: percentage of women with identity card	
Sustainability	- Implement sustainable development strategy: - forest coverage: 56% - protected areas under management: 100% - water contamination in rural areas: 25% - air pollution: 200 gr./m3	- Structure and organize the water sector at the national level. - Generate income in areas with high poverty ratio through participation in environmental sustainability programs.	Implement National Strategy of Sustainable Development by 2005

- Honduras and Bolivia explicitly identify a sustained annual growth rate of around 5% as a goal of the Strategy. This is considered very ambitious, keeping in mind the growth and volatility ratios in these economies in the 1990s as we saw earlier. These economic growth levels are estimated in the strategy as being necessary for reaching the goal of reducing extreme poverty by 50% of the 1999 level. The estimates referred to in the PRSs are carried out by calculating what the GDP of each country would need to be for 50% of the population to get out of extreme poverty, and by establishing the annual growth rates necessary to attain that objective. The PRSs do not go into the mechanisms through which this ongoing economic growth will reduce poverty.
- In terms of the development objectives centered on education, the strategies of the three countries are focused on reaching higher levels of primary schooling first and then increasing the percentage of the population with higher studies.
- For PRS health goals, all three countries focus on reducing infant mortality and maternal mortality, as these are considered important obstacles to human development. Though everyone agrees that reductions in these mortality indexes should have final objectives similar to the Millennium Development Goals (2/3 and 3/4 respectively), Nicaragua offers short-term estimates and hopes to reduce infant mortality by 26% in 2005 compared with 1998 figures and maternal mortality rates by 13% as compared to 1999.
- Other goals of the Strategies for ending poverty are focused on access to water and sanitary services for the population, especially in rural areas. These goals are present in the Strategies for Nicaragua and Honduras.
- The increase in social expenditures in the form of more protection and security for the poorest groups and the adoption of programs designed to promote gender equality are common goals for reducing poverty in the Strategies of Honduras and Bolivia.
- Finally, the importance of environmental sustainability is clear in the Strategies, which provide for environmental protection programs and Sustainable Development Plans.

Difficulties in Monitoring Achievements toward Goals

As discussed in the text of this report, making comparisons between countries and monitoring the level of progress toward the MDGs over time is not an easy task because of the great discrepancies between the sources. This occurs both at the national level and even more at the international level. Here we give some examples for the cases of Honduras and Nicaragua. Obviously, much is due to the differences in definitions used and measurement methods. The sources of information, however, are not always clear in this respect. Discrepancies may be of the following kinds:

- The divergence between World Bank and ECLAC poverty indicators are due to the two institutions' varying definitions of poverty and estimations of poverty lines.

- Another example of divergence appears when National Accounts or Household Survey estimates are used.
- In the case of the UNDP Human Development Report for Central America and Panama, we see how the data that was gathered from the National Statistical Offices differ clearly from other sources like ECLAC and the World Bank.
- In terms of the percentage of the population living below the national extreme poverty line, the UNDP offers data for Honduras that is similar to that offered by ECLAC. For Nicaragua, however, the percentage quoted by the INEC report is clearly lower than those in the ECLAC and World Bank reports.
- The same thing happens for Nicaragua in the case of information on malnourished infants and for illiteracy and unemployment rates for young people between 15 and 24 years of age taken from National Surveys.

The general impression, after having seen a large number of estimates, is that data from national sources and public organizations offer a more optimistic vision of reality than the data from alternative sources.

		UNDP-CA Report	Other Estimates
% of Population Living Below National Extreme Poverty Line			
Honduras		53.0 (UNDP-Honduras)	56.8 (ECLAC)
Nicaragua		15.1 (INEC)	44.6 (ECLAC)
Literacy Rate			
Honduras		91.2 (PNUD-Honduras)	84.2 (UNESCO)
Nicaragua		86.0 (Encuesta de Medición del Nivel de Vida)	72 (WDI)
Employment Rates			
Honduras	Women	3 (Encuesta Permanente de Hogares de Propósitos Múltiples)	7.7 (ILO)
	Men	5.9 (Encuesta Permanente de Hogares de Propósitos Múltiples)	5.5 (ILO)
Nicaragua	Women	8.3 (Encuesta de Medición del Nivel de Vida)	38.2 (ILO)
	Men	6.6 (Encuesta de Medición del Nivel de Vida)	43.4 (ILO)

Appendix A.3 PRS Content for Bolivia, Honduras and Nicaragua

Table A3.1 Comparative Table for Strategic Guidelines for Poverty Reduction

Honduras		Bolivia		Nicaragua	
Strategic Guidelines		Strategic Guidelines	Cross-Cutting Themes	Strategic Guidelines	Cross-Cutting Themes
<i>Sustainable poverty reduction</i>	Accelerate equitable and sustainable economic growth	<i>Opportunities</i> Create employment by supporting micro-enterprises and rural sector	Gender Equality	<i>Broad-based economic growth</i>	
<i>Actions to benefit most vulnerable groups and areas</i>	Reduce rural poverty	<i>Capabilities</i> Increase productive capacity through investments in education, health and sanitation services.		<i>More and better investment in human capital</i>	Environmental vulnerability
<i>Favor civil society participation and decentralization</i>	Reduce urban poverty	<i>Security and Protection</i> Protect groups most vulnerable to economic crisis and/or natural disasters.	Development of indigenous communities	<i>Protection of vulnerable groups</i>	Social equity
<i>Strengthen governance and participatory democracy</i>	Investment in human capital	<i>Social Participation</i> Strengthen civil society participation in decision making and monitoring government actions	Protection and Conservation of Environment	<i>Governance and institutional development</i>	Decentralization
<i>Reduce environmental vulnerability</i>	Strengthen social safety net for specific groups.				
	Guarantee sustainability of strategy				

- The definition of strategic guidelines for each country is carried out in a similar way, by defining what the basic pillars of the strategy will be in the fight against poverty, later disaggregated for implementation in a series of programmatic areas, in the case of Honduras, or actions plans in the cases of Bolivia and Nicaragua.
- The three countries coincide in pointing out how one of the fundamental pillars for the reduction of poverty is the attainment of a sustainable growth that is especially destined to combat the causes of poverty. In essence, growth should be socially sustainable and create employment.
- Other strategic guidelines common to the three PRSs are: support to vulnerable groups and the protection of these groups from risk factors, whether economic, social or environmental; and favoring investments to develop the country's human capital through programs to improve health, education and sanitation conditions for individuals.
- Special attention is given in the PRSs of Bolivia and Honduras to social participation and to increasing the decision-making power of specific groups that represent civil society. An ever-present criticism in PRS evaluation documents is the fact that civil society groups have been taken into account for the PRS consultation and design processes but not for the implementation of the strategy.
- The process of decentralization is to be pushed, or continued to be pushed in the case of Bolivia, to allow municipalities to have more control over resources and to destine them to programs or projects they identify according to the needs of the population.
- Finally, the three PRSs coincide in highlighting environmental sustainability as a key piece in the poverty reduction strategies. There are two guidelines in this sense: 1) environmental action is seen as a means to improve the quality of life of the people in the PRS of Honduras, that sets as goals increasing protected areas in the country and reducing the contamination of aquifers and air pollution. In Bolivia's EBRP, the programs for environmental sustainability aim to be a source of income for the poorest groups, especially in rural areas through a sustainable exploitation of natural resources.

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



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