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Evaluation of Poverty Reduction Strategies in Latin America – 2004

Honduras: The Challenge of Pro-Poor Growth

Preface

The poverty reduction strategy responds to a legitimate concern for the problem of persistent and high poverty in many developing countries. The PRSPs intend to reduce poverty through a participatory, long-term, and result-oriented strategy that seeks to bring together both government and civil society in finding solutions to the country's poverty problems. The commitment of the donors is to support the strategy with resources and debt relief.

The Swedish International Development Agency, SIDA, has requested 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 to be submitted in 2003 provide an in-depth analysis of the PRSP process itself, assessing in particular the process 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 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 2004 concentrates on the potential of *local* economic development processes to achieve pro-poor growth.

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 2004 Honduras Report was prepared by José Cuesta with inputs from Geske Dijkstra, and Mirta Kennedy.

Rob Vos
December 2004

Evaluation of Poverty Reduction Strategies in Latin America – 2004

Executive Summary

”Honduras: The Challange of Pro-Poor Growth”

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Content

1. Progress with the PRSP process in 2004

1.1. The context 2004: an eventful year

During 2004, the Poverty Reduction Strategy (PRS) was implemented in a difficult and changing political, economic and social context. Two sub-periods mark the year: first there is initial optimism about the process during the first quarter of the year, followed by political and economic complications which only gradually and barely could be overcome during the remainder of the year. On balance, there is some progress to report, such as the launching of the PRS monitoring instrument and a new budgeting tracking mechanism. Further, the approval of the law governing the Poverty Reduction Fund has extended the participation of civil society organizations in the Consultative Group (CG). New tax and electoral legislation has been passed. Previous plans to concentrate the implementation of the PRS only on the 80 poorest rural municipalities have been given up and so has the regionalization of the strategy, and a broader perspective has been taken. Some very timid progress has been made towards improved donor coordination and sector-wide financing for the PRS. Despite this progress, the road ahead to achieve the expected poverty reduction goals is still very long and undoubtedly winding. Growth has slowed down and poverty reduction targets for 2004 at best will be achieved only partially. More importantly, one should seriously doubt whether the high expectations of the strategic shift in the PRS towards greater reliance on economic growth per se can be fulfilled in 2005. The ISS 2003 Report (ISS 2004[1]) already emphasized the overoptimistic expectations of the original PRSP and the gaps in the formulation of goals and policy actions. This year's report analyses the capacity of the proposed growth strategy of the revised PRS to reduce poverty, that is can we expect this to lead to more pro-poor growth? Prior to that analysis, this summary takes stock of the main events that have shaped the PRS process in 2004. As said, events can be split in two sub-periods:

(a) Late 2003 and the first quarter of 2004: A stage of optimism. The acceptance by Central American (except Costa Rica) and the US governments of a free trade agreement marks this initial period. This agreement poses an enormous challenge for Honduras in the form of

[1] Institute of Social Studies, ISS (2003) Aprendiendo sobre la Marcha: La Experiencia de Reducción de la Pobreza en Honduras. Estocolmo: Sida, www.iss.nl/prsp

making the best of very uncertain opportunities. For one thing, the agreement consolidates the preferential commercial conditions that the US tenders to these countries, including Honduras, through the Caribbean Basin Initiative and the Generalized System of Preference. However, the agreement must be viewed with some caution. On the one hand, the agreement ensures that 91% of Honduran agricultural exports will get access to US markets tariff-free. Also, the current special export processing regimes have been ratified for an indefinite period. On the other hand, there is no substantial progress in more favourable terms for rules of origin for textiles. Also, 50% of agricultural and 80% of industrial imports from the US will be subject to tariff exemptions to enter Honduran markets.

Another event that marks this period is the – apparent – settlement of the conflict around salary demands of the teacher unions. The agreement reached between the government and the unions at the end of 2003 allowed the government to honour past commitments (signed by the previous administration) without having to violate fiscal targets as agreed with the International Monetary Fund (IMF). In fact, the agreement on teacher salaries paved the way to obtain the Poverty Reduction and Growth Facility (PRGF) with the IMF early on 2004. As it turned out, with the approval of the Law for the Reorganisation of the Central Government Tax System (*Ley de Reordenamiento del Sistema Tributario del Gobierno Central)* the level of teacher salaries, the number of public employees and their established employment rights could all be protected. What changed, instead, was the way in which future salary adjustments will be arranged. The wage bill of education spending has now been made dependent on GDP growth and the rate of inflation. Both commitments should ensure that the cap on public salaries set in the PRGF would not be surpassed. As a result, both the signing of the Letter of Intent with the IMF and the satisfactory revision of the PRGF in September provided a valuable breathing space for the Maduro Administration. More importantly, they underscored the credibility and viability of the poverty reduction strategy.

*(b) Second quarter till the end of 2004: deterioration of social conditions with partial recovery***.** The rise in international oil prices and the re-introduction of import tariffs on oil derivatives have both contributed to the substantial increase of domestic fuel prices. In fact, Honduras has the most expensive fuel in the Central American region. This imported inflation has accelerated the rise in the general price level to the point of jeopardising the annual inflation target agreed in the PRGF. In addition, rising prices of basic food products (after official price freezes were lifted) and of basic services contributed to the build-up of social unrest around mid-year.

In June, the teacher unions resumed street protests to demand the fulfilment of the agreed past benefits. Government and teachers engaged in an exchange of proposals and counter-proposals with the unions systematically rejecting all government proposals. In an unprecedented move, President Maduro agreed to negotiate personally with the unions, but to no avail. Negotiations continued (without the President at the table) and by September 8, unions and government reached an agreement: teachers obtained a salary adjustment totalling 600 million lempira, just allowing the public sector wage bill to remain below the cap negotiated with the IMF under the PRGF agreement.

In spite of the increases in wages and inflationary pressures, in July and August the IMF publicly praised the efforts made by the Honduran government. The IMF recognized the government's commitment toward the implementation of the program, especially to the actions aimed at increasing tax revenues. The IMF acknowledged that higher-than-expected inflation levels were due to factors outside the government's control. Even though the Law on the Financial System has not been approved yet, the IMF has given green light to the payment of the next tranche of the PRGF for a total of US$15 million.

Finally, Honduras qualified in 2004 into the Millennium Challenge Account (MCA). Under this initiative, the US government will provide financial support to national government strategies leading to a joint reduction of poverty and increased economic growth. Governments of selected countries must compete for a fixed pool of funds. In the case of Honduras, the government requested some US$ 257 million or 37.5% of the total financing for its economic growth strategy. While still awaiting a final decision, the MCA generates paradoxically both expectations of successfully achieving the ambitious growth targets and uncertainty about the viability of the growth strategy in the absence of the additional external funding.

1.2. The implementation of the PRS in 2004

Although substantial progress has been made in setting up SIERP, the monitoring system of the PRS, the available information as yet does not permit any form of detailed monitoring on a project-by-project basis. Surprisingly enough, this limitation has not impeded the generation of a vast amount of reviews and reports on the implementation of the PRS. These reports so far emphasize the strengthening of the economic growth pillar to the point of talking of a 'strategy change'. According to these reports, this renewed emphasis on economic growth as the main pillar for poverty reduction would be evident from increased investments in transport infrastructure and irrigation, the development of the tourism industry, and trade integration. Remarkably, many of these proposals are not new in Honduras. What is new, however, is the argument that they are not only good for economic growth but also for poverty reduction. Looking at the implementation of the PRS in the 2004 three conclusions stand out:

(a) Growth and poverty reduction: a modest, but positive balance.[2] Information at SIERP available for this report only allows monitoring of the implementation of the PRS during the first semester of 2004. For that period, the implementation rate amounted to 44% of the planned annual level of execution (19% during the first quarter of the year). The delay in implementation therefore does not appear to be substantial. Also, the inability of the PRS to identify specific projects in the pillar of economic growth has been overcome by the existing government proposal to the MCA. What remains to be seen, however, is whether it will in fact all lead to sufficiently high economic growth rates to meet the ambitious poverty reduction goals. In the past, even with better-than-expected economic growth rates poverty reduction goals were not achieved. As for the remaining PRS areas, official quarterly reports highlight achievements in improving competitiveness

[2] The GoH (2004a) official report defines a 60% implementation rate or lower as modest.

of the small rural economy, referring in particular to growth of vegetable exports and the expansion of irrigated land. In the urban area, efforts focussed on enlarging and improving the access to basic services, social housing (through the *Programa de Vivienda Social* and *Programa de Vivienda Mínima Rural*), and drinking water. Progress in the area of human capital has been observed in the form of increased coverage and improvement in the quality of education through programs such as *Educación Primaria Formal, Educación Media Presencial* or *Programa Hondureño de Educación Comunitaria*. There has also been some progress related to the administration of common funds within the program of 'Education For All 2003–15'. In the health sector, progress is reported in hospital medical care, ambulatory attention, and epidemic control of diseases. Additionally, the National Council of Health is set up in this year. Progress is also observed in the implementation of numerous small-scale and some larger scale infrastructure projects targeted at vulnerable groups. Finally, the modernization of the public administration and the program of decentralization are believed to enhance the sustainability of the strategy.

(b) Also in 2004, the most noteworthy changes induced by the PRS are institutional. In addition to the already mentioned PRGF agreements and the country's qualification for the MCA, other important institutional achievements took place in 2004. Among them, the SIERP started to operate and it has a web page with all reports, documents, and statistics related with the theme of poverty reduction in Honduras. However, as already noted, available information is not as disaggregated as to allow for a proper monitoring of specific projects. Another important institutional change is the reform of the Poverty Reduction Fund law. The management of this fund is no longer at the Central Bank, but at the Ministry of Finance. In addition, not only all HIPC funds but also all aid flows and resources for external debt-service relief granted to Honduras are now credited to this fund. All national and external resources aimed at supporting the PRS become part of the Fund. The law enacts further an increase in the number of civil society representatives (from 5 to 12) allowed to participate in the sector-level tables of the Consultative Group.

Another important change at the institutional level relates to budget management and multi-annual budgeting. The new budgetary treatment of PRS projects and programs implies that there is an automatic link between PRS priorities and the national government budget through an explicit breakdown of PRS-related expenditures. In practice, it may still turn out to be difficult to determine which expenditure precisely falls within the PRS and which does not. Although the Ministry of Finance has provided an itemized classification of expenditures to be computed as PRS expenditures, the criteria for such a classification are not provided As a result, despite the labelling of PRS expenditures in the budget it is hard to speak of a move towards result-oriented budgeting. The PRSP does not make sufficient connection between the causes of poverty, the proposed actions and expenditures to fight poverty, and how these are to lead to the attainment of poverty reduction goals. In other words, the new budgeting mechanism may increase transparency, but not necessarily efficiency in government spending.

(c) National dialogue: little progress. In effect, progress in the consolidation of dialogue and cooperation among national agents has been disappointing. There has been little follow-up in 2004 to the Great National Dialogue initiative sponsored by the government during the second semester of 2003. Civil society representatives jointly prepared a report to be presented at the Consultative Group of the PRS outlining measures to improve the implementation of the PRS. This report was the result of wide consultations and regional workshops, but the only commitment coming from that initiative was to discuss it at the CG. Unsurprisingly therefore, the groups of the civil society critical of the PRSP process maintain that their proposals continue to be not listened to. These groups argue that the government's strategy to concentrate efforts around selected sectors of activity begs the question of a more integral and structural approach to the poverty problem, as well as that it will make it more difficult to generate a wide consensus about broad-based development. In this setting, the donor community emerges as the stakeholder with the largest ownership of the PRS, larger than any national agent. Nonetheless, the PRSP has maintained its position as a central point of reference in national policy dialogue. Despite their disagreements, the national stakeholders do remain committed to the implementation of the PRS. In other words, the PRS in Honduras demonstrates that even without having generated a true sense of national ownership and without much visible progress in terms of implementation during its first three years of life, the PRS has been effective in establishing partnerships and commitments towards a specific set of policies which have proven to be sustainable over time.

2. Pro-poor growth in Honduras

2.1. The debate on pro-poor growth

A range of different definitions of 'pro-poor growth' exist. The more academic debate seems to evolve around two types of concepts. One states that there is pro-poor growth if growth comes with distributive changes that favour the poor. Thus, the reduction in poverty comes accompanied by an improvement of the distribution of incomes. A second definition of pro-poor growth refers to the absolute conditions facing the poor. Economic growth is considered pro-poor when the poor benefit in absolute terms, regardless of the rest of the income distribution. Even when we know *what* it is, another matter is *how* to achieve pro-poor growth. On this matter there is even less agreement. Even with this lack of clarity in the literature, the Honduran government has commissioned a set of *ex-ante* evaluation studies of the distributive effects of major envisaged policies such as tax reform, the privatisation of the electricity sector, trade integration, and social spending.

2.2. Is there a true shift in the PRS towards a pro-poor growth strategy?

Both the 'revised PRS' and the MCA Proposal report acknowledge explicitly that the structural adjustment and macroeconomic policies in Honduras of the 1990s were unable to promote fast and sustainable economic growth yielding sufficient poverty reduction. Despite the lack of conceptual clarity around the theme of pro-poor growth, the government has made a clear choice in the revised PRS document to strengthening of the growth pillar. On paper, this implies putting more emphasis on the market mechanism and on investments in sectors with the highest growth potential. In practice, however, the resulting strategy contains nothing much new. Rather, it consists of a set of policies already tried in the past. This holds in particular for the planned investments in communication infrastructure and the steps towards further trade integration. The initiatives towards the development of the tourism industry are relatively new though. However, the more striking difference with past proposals is that now the interventions are being presented as having a strong pro-poor impact. The PRSP does not provide much convincing and rigorous evidence to this effect though. The favourable impact on poverty reduction is to come from the expected efficiency gains from new public investment and trade integration and the subsequent effects on employment and wages. However, it is not made specific how and in what degree such effects may realistically be expected to come about.

A central place is given to investments in economic infrastructure such as highways, telecommunications and electricity supply as the main channel to generate a pro-poor growth patterns. These investments seek to improve the coverage and quality of the related services. Investments in productive infrastructure, and more specifically those in irrigation systems, are also considered key to promote growth in rural areas, including income gains for the poor. Also in the tourism sector, several projects have been identified to forge a more inclusive rural development path. These projects aim at attracting investment and entrepreneurial activity that will generate off-farm incomes and employment in areas with tourism potential. Also, deeper regional integration stemming from CAFTA is expected to spur competitiveness of the agriculture and, more generally, productivity growth throughout the rural sector. Such a productivity rise will only take place, however, if low-productivity resources used in subsistence activities are transferred to high-productivity and export-oriented commodities such as African palm, melons, shrimps, and horticulture. The PRSP progress reports, the MCA proposal report and the CAFTA agreement all remain unclear precisely about the effect the proposed policies will have on traditional agriculture and other sectors with low competitiveness and whether the new job creation in one part of the economy will be sufficient to compensate for losses elsewhere.

Other components of the PRS imply little actual policy change. The macroeconomic framework implies a continuation of past policies. Investments in urban infrastructure resemble existing programmes, such as those in support of the development of small and medium enterprises (PYMES) and basic infrastructure for slum areas. Under the PRS existing support programmes for hillside farmers are enhanced through several mechanisms: the creation of the National Program of Sustainable Development; the expansion of rural financing through a revitalised Non-Traditional System of Rural Financing, the restructuring of BANADESA, and the creation of the Inter-Agency Land Commission. This last initiative pursues the development of market instruments in order to facilitate the access to land to some 250,000 landless families. Also, the cash transfer program for poor families (PRAF), the school meals program in rural areas, and larger scale support program for the 80 poorest rural municipalities are a continuation of existing interventions targeted at the rural poor.

2.3. What is meant by pro-poor growth in Honduras?

Several national and international stakeholders were asked explicitly what they understood by pro-poor growth. Two conclusions are drawn from their answers. First, none of the interviewees reported to be familiar with the current pro-poor growth debate neither that conducted among academics nor that promoted through the international financial institutions. Second (and unsurprisingly), different agents had different notions of how to achieve pro-poor growth. Among such notions, one stakeholder declared that the concept of pro-poor growth is nothing but a new bottle for an old wine, that is, a new name for the classic phenomenon of macroeconomic stability as a guarantee for sustainable growth. For a larger number of stakeholders (some government officials and some bilateral donors), however, pro-poor growth is having a strong economic growth pillar within the poverty reduction strategy. According to this view, pro-poor growth is a PRS-related concept that shifts the emphasis from poverty reduction through social spending to income and wealth generation. In practice, those stakeholders linked the new emphasis on growth with MCA proposals.

For yet other government officials and most of the international community stakeholders interviewed, pro-poor growth is a concept extending the original boundaries of the PRS to include a more explicit use of market mechanisms in the fight against poverty. Thus, pro-poor growth means to maximize the efficiency and thus economic growth by exploiting new activities with growth potential. Growth is seen as the key mechanism to reduce poverty, but which needs to be accompanied by compensatory social policies to alleviate those that are losers in the short-term adjustment process and to invest adequately in human capital to sustain the growth process and poverty reduction in the longer run. This predominant view of pro-poor growth in the country revives classic development theory which emphasized the importance of large investments in infrastructure to spur an economic take-off.

Finally, a more limited group of actors from civil society identifies pro-poor growth with a growth pattern that 'intensively' uses the resource available to the poor. Growth is pro-poor when it disproportionately increases employment for the poor, without affecting their remunerations negatively. Although such positions are neither uniform nor necessarily very articulate, an interesting proposal refers to the development of capitalist rural enterprises with farmers acting as shareholders. Another initiative worth noting is the development of small and medium firms in sectors of new economic potential for the country, such as tourism, *maquila* industry, or agro-forestry. One such policy proposal involves the establishment of innovation centres which should support small firms with advice on product development, finding new activities and markets and exploring tastes and demand among consumers. This support should enhance the competitiveness of such firms in order to increase their share in domestic and international markets.

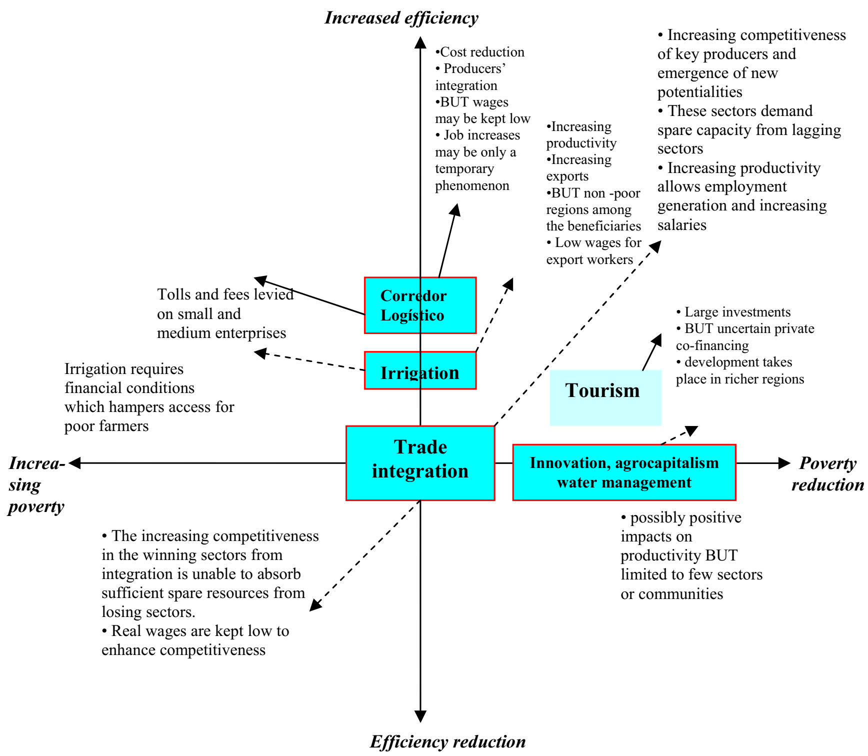
2.4. Taxonomy of Pro-poor Growth in Honduras: A Prospective Evaluation

Following the taxonomy methodology developed by the 2004 ISS Regional Report (see www.iss.nl), prospective impacts arising from pro-poor growth proposals may be divided into growth and distributive effects. This analysis is necessarily tentative, subjective and prospective as long as most of the above mentioned proposals are only in a design phase or in initial stages of implementation. Taking all these proposals together, there could emerge a large pro-poor growth potential when implemented. However, there is also a large degree of uncertainty associated with the exact form in which they will be implemented. The following graph shows that indeed a great deal of the envisaged impacts concentrate on the northeast quadrant, this is, where economic growth goes hand in hand with poverty reduction. On the other hand, there are some impacts that may also fall in the quadrants of no growth and poverty reduction, growth with increasing poverty, and recession with increasing poverty. As a result, the combined sum of all these effects is hard to predict. Interestingly, one can foresee that the magnitude of these identified impacts varies considerably from an expected strong growth with reduction of poverty (coming from expected efficiency gains from the '*corredor logístico*') to strong negative effects on economic growth and poverty (resulting from unemployed resources not absorbed by sectors that gain from CAFTA). Although the final outcome of these effects is difficult to predict, the important message is that not *any* single policy will yield pro-poor growth. It is the exact form in which proposals are implemented that will determine whether or not the expected returns are observed.

2.5. Risks arising from pro-poor growth strategies

The analysed growth proposals share similar features in terms of their implementation stage, their distributive incidence and their financial sustainability. There have been no serious attempts to discuss the prospective effects of such policies among different socio-economic groups (only in the case of the tax reform and the privatisation of the electricity sector such studies exist). Most policies therefore are *assumed* to be pro-poor, but lack analytical support for that. Even if policies turn out successful, they may not be necessarily nation-wide or inter-industry, but some (such as several initiatives in the tourism sector) more likely will be limited instead to a handful of communities. As a result, it is advisable to single out those proposals that will make the largest beneficial impacts on the poor, either through direct or indirect effects on employment, salaries and access to basic services. It is important also to reflect on whether or not the proposed initiatives will reduce the vulnerability of the Honduran economy to external shocks or simply achieve short-term, but unstable economic growth. In addition, it is unclear whether and how interest groups left out from the gains of the growth process should be compensated. Finally, it also remains unclear how improved infrastructure, innovation and modernised management can reduce the dependence of the country to unpredictable international price swings; equally unpredictable natural disasters; or structural limitations such as the prevalence of a large unqualified population in Honduras.

Graph: Taxonomy of Pro-poor Growth Proposals in Honduras



Considering the need of *ex-ante* analyses, this report recommends a ranking of proposals in accordance to their expected impacts. This merit ranking is already being carried out in Honduras when prioritising projects within the PRS. This system could be enhanced to cover the taxonomy of pro-poor growth policies. As an initial suggestion one could consider the following criteria to classify policies or programmes as pro-poor: (1) a policy has positive effects on employment; it would receive an additional score if employment is sustained, disproportionate demands resources among the poor, the unqualified, and specific vulnerable groups (rural areas, women, indigenous groups); (2) real wages do not decrease; (3) productivity increases for activities involving poor producers; (4) a policy articulates initiatives that spread beyond a community or a sector; (5) the programme financing is secured and sustainable; (6) a policy includes contingency plans or compensations for groups affected by the policy (losers). Of course, this list is limited and can be enlarged to include other factors key to achieve a sustainable pro-poor growth, such as the environmental impact of the proposal; the generated institutional and legislative demands and their viability; or its transparency, accountability and clarity in budgeting.

3. Coordination among Donors

It is generally accepted by stakeholders that the PRS process in 2004 has not led to more or better coordination and harmonization among donors. The commitment of donors to improve coordination is nonetheless strong and so is their commitment to a long-lived and sustained PRS in the country. For this, the agencies for international cooperation believe their tutoring and presence in the process is necessary in order to confront specific challenges – such as the continuity of the PRS process during and after the 2005 presidential elections. However, donors have not decided on improved mechanisms for providing aid, particularly program aid. While the government is committed to seek greater transparency in its budget management, but better auditing practices and more result-oriented budgeting will take time before they establish themselves properly. The key question at this juncture is to what extent the donor community would be willing to allow the Honduran government to learn from its mistakes or wait until all the necessary conditions of transparency and accountability are in place. Currently, the latter position dominates. As a result, unlike in Nicaragua for instance, little progress has been made towards programmatic, sector-wide financing, with the donor support for the Education For All initiative being the only exception.

There has also been only limited progress in terms of providing general budget support for the PRS. Following the signing of the PRGF with the IMF in February of 2004, some donors – mainly the multilaterals – have allowed use of their loans and donations for budget financing. However, this budgetary support has not granted more freedom to the Honduran government in the management of such funds. In practice, each donor (World Bank, Inter-American Development Bank and the European Union) imposes a large number of conditions and/or indicator targets to comply with, which ultimately act as a *de facto* prioritisation of PRS actions. In any case, the badly needed coordination in budget support, goal setting and conditionality is still very far from becoming a reality. This does not only affect the efficiency of international financing but also affects negatively national ownership of aid.

4. Final considerations

Although 2004 has been an 'eventful' year for the PRSP process in Honduras, the challenges that need to be faced in 2005 for a proper continuation of the process are huge. Among upcoming challenges which stand out are the need to truly make a move towards redistributive policies and more equitable economic growth within the PRS; the need to mobilise enormous amounts of (public and private) resources to finance the envisaged increases in investment; ensure the status and initiate the implementation of the PRS during an electoral year; and dealing with the consequences of CAFTA following the likely ratification of the regional free trade agreement by the national parliaments across Central America. Substantial progress also needs to be made in the areas of monitoring and budgeting. Civil society must 'graduate' from its current simple spectator role to another more participatory one. Also, the international community should stop talking rhetorically of more coordination, but take more resolute steps towards it. Also, Honduras must work on the assessment of the distributive and economic consequences of the poverty reduction project portfolio.

Deliberately, the present report is inconclusive about on the distributive impact of specific policies of the PRSP and it also does not speculate about the potential contribution towards meeting the Millennium Development Goals. The policies lack specificity on how these will be implemented. Instead, this report has argued that there is a series of desirable features that should be included in the design and implementation of a growth policy to ensure a pro-poor impact. These conditions refer to productivity, the type of employment to be generated, protection of real wage levels, the concatenation with other geographical areas and sectors, and, finally, the availability of sustainable domestic and foreign financing.

As a result, it is recommended that an in-depth and detailed policy dialogue is initiated which addresses two specific questions of interest for the PRS process. First, what is the exact implementation strategy towards achieving the desired rates of growth and poverty reduction? Second, will the financial support which donors can provide be sufficient to finance a sustainable pro-poor growth pattern? Regarding the former, the report recommends a rating system using fairly uncontroversial criteria to classify and judge pro-poor growth policies. Such a rating system has already been implemented to prioritise projects for the PRS and applying it more broadly would provide more robustness to the adoption of projects, programs and policies to reduce poverty. Regarding the question of donor funding, one should not ask whether a country is or not ready for sector financing, but rather what are the conditions for a government to benefit from more resources and responsibilities in the fight against poverty. A possible solution (already being implemented in Honduras) would be the use of conditionality to increase the transparency, monitoring, and formulation of commitments. Of course, in practice, this solution will considerably affect national ownership. Solutions 'at the margin' (that is, either substantial reductions or increases in conditionality) may well not increase the government own ability to implement its policies. Conditionality on budget management may be well justified, but should not become overwhelming. A serious discussion of this type has not been taking place in the country yet. The experience from initiatives such Education for All or the Global Fund for VIH/SIDA could contribute interesting elements for the discussion, showing that it is possible to attain some progress even when conditions are not optimal. Working out these issues is a priority to ensure the future feasibility of the PRS process.

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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