The Poverty Reduction Strategies

A survey of the literature

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Introduction

As of 1999, the need to alleviate poverty is seen as the central task of economic policy. Poverty reduction is stressed time and again in relation with international debt rescheduling schemes as well as in calling for increased flows of foreign aid. It is not the first time that the issue of poverty comes to the fore: already in 1973, Robert McNamara, who five years earlier had left the job as defence minister of the USA to become president of the World Bank, announced that the main task of the World Bank was to eradicated absolute poverty before the year 2000.[2] But the unequal development of an increasingly integrated world continued, symbolized by the North reclaiming 10 USD in exchange for each dollar that it channels to the South in foreign aid.[3]

Finally, in 1999, the World Bank rediscovers that the fight against poverty remains a central concern, and the formulation of Poverty Reduction Strategies is made a condition for obtaining debt rescheduling in the Heavily Indebted Poor Countries Initiative, HIPC, which the World Bank and the IMF had been carrying out in 42 poor countries since 1996, the majority of which are located in Africa. Since then, a Poverty Reduction Strategy Paper, approved by the boards of the IMF and the World Bank, opens the doors to debt rescheduling as well as to increased flows of bilateral and multilateral aid.[4] Today, PRSPs are being elaborated in close to 60 countries in Africa, Asia and Latin America as well as in East and Central Asia and other transition economies.[5]

Although they began as a HIPC requirement, a PRSP is today synonymous with the overall development strategy that the World Bank and the IMF are propagating globally. In this sense, PRSPs are following in the footsteps of the much criticized Structural Adjustment Programmes, SAPs, which now, after 20 years, are said to have been substituted by the much improved PRSPs.

The historical background: the failure of SAPs and conditionality

The background to the PRSP is that the SAPs of the World Bank and the IMF, which began in the 1980's, had failed, and this on a number of counts:

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[2] McNamara's goal for the World Bank, announced in a speech in Nairobi, was twice as radical as today's millennium goal, which only requires a reduction of poverty by half until the year 2015.

[3] This comparison comes from the UNDP and is frequently quoted by Civil Society Organisations, CSOs, as proof of an unjust world: the North is receiving ten times more than it gives out. However, these figures are based on comparing aid payments to the South – approximately 50 billion USD annually – with the "flows" in the opposite direction: interest and amortization payments, profit remittances from transnational firms, deteriorating terms of trade, and an estimate of the value of the "brain drain" going from the South to the North. In other words, the figures are not commensurate as they add up real financial flows with estimated non-financial figures.

[4] PRSP stands for the document approved by the World Bank and the IMF. By writing PRS – without the last "P" – one indicates a wish to apply a broader perspective, where poverty reduction is the purpose but without linking the policies to debt rescheduling or new loans. In this survey, the acronym PRSP stands for both meanings. I will also let the acronym IFI, International Financial Institution, stand for the World Bank and the IMF although there exist other international financial institutions, e.g. the regional development banks of Africa, Asia and Latin America.

[5] According to the latest figures on the IMF webpage, Factsheat – PRSP (2005-05-04). In their annual review of the PRSPs, the World Bank and the IMF state that in the middle of 2004, 42 countries were carrying out PRSPs, while another 34 countries were expected to formulate their PRSP in the near future. See IMF/World Bank (2004).

- Poverty has shown resistance to the policies of the SAPs. In fact, poverty increased in Africa, the Middle East and North Africa and in the transition economies of Europe and Central Asia; in Latin America poverty remained constant. It was only in East and South Asia that the share of the population living below the poverty line decreased.[6] The irony of this result is that SAPs were most rigorously implemented in precisely those countries where poverty has remained, while East and South Asian countries typically escaped from the burden of SAPs.
- As time went by and the dismal results of the SAPs became evident, the World Bank and the IMF tried to improve the results of their policies by increasing the number of conditions established as a precondition for new loans and debt rescheduling. In this spirit, the number of structural demands imposed by the IMF, grew from 2 in 1987 to 17 in 1997. Simultaneously, an ever smaller share of the IMF's programmes could be realized as planned: by the time of the PRSPs in 1999, only 16 percent of IMF programmes were carried out as planned. Thus, there seems to have been no correspondence between conditionality and results.[7]
- The World Bank also stipulates a great number of conditions for its lending, on average 36 requirements for each SAP 1998-2000. In spite of this plethora of conditions, World Bank staff maintain that only one third of these demands are "very relevant", which means that two thirds of the conditionalities of the World Bank may be irrelevant, or at least less relevant, if we are to believe the staff whose task it is to make sure that the conditions are met.[8]
- That the conditionality imposed by the World Bank and the IMF might not lead to development is a point of view that is also shared by the World Bank's Operations Evaluation Department, OED: in an evaluation of the World Bank's "support for policy reform" – a nice phrase for structural policy conditionality –

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[6] World Bank (2004a), p 2. The poverty line is drawn as customary at one dollar a day and poverty is measured as the share of the population living below this line. Measured in absolute numbers, however, the reductions in the number of people living below the poverty line in China and India are of such magnitude that they have a decisive impact on the global picture: the number, as well as the share, of people living in poverty has decreased for the South taken as a whole.

[7] Buira (2003) and IMF (2002). IMF judges the merits of its programmes by the extent to which they are carried out as planned and the corresponding loans can be paid out.
IMF-conditionality consists of *quantitative performance criteria* (e.g. the size of the currency reserve, the increase of the money supply, budget outcome, borrowing needs) and *structural performance criteria* (e.g. privatisation, deregulation of financial markets, reform of social security). Both kinds of conditionality have been criticized, the quantitative for requiring a restrictive and belt-tightening policy, even in situations of economic down-turn and crisis when a more expansive policy would be needed; and the qualitative conditionalities because they are seen as always demanding a neo-liberal road – deregulation, privatisation – even when a more pro-active regulation ought to be preferred. According to Killick (2002), the IMF has in later years begun to streamline its use of conditionality, focussing on the macro-economic area and the quantitative performance criteria. But, says Killick, the conditionality that is now ditched by the IMF may very well be picked up by the World Bank, which, from the point of view of the affected countries, means that conditionality is not being reduced.
This is also the conclusion of an evaluation published by the IMF: it cannot be ascertained whether conditionality as a whole is decreasing in spite of the fact that the IMF has reduced its number of conditionalities since the World Bank may be increasing its conditionality. (IMF 2004, p 4).
Furthermore, a reduced number of conditions does not necessarily mean a change for the better: a rather limited conditionality may lead to equally disastrous results, which simply means that an improvement in the efficiency of conditionality has taken place. In other words, the political goals are being secured with fewer and perhaps more essential conditions

[8] Killick (2002).

the OED writes that a great deal of uncertainty persists in relation to which policies in fact do lead to economic growth. It is true, according to the OED, that countries that balance their budgets (i.e. do not let expenses go wild), keep the value of their currency at a reasonable level (i.e. do not let the official rate stray too much from the black market rate), and keep their economies reasonably open (i.e. do not close its borders to all competition) will probably achieve a higher rate of growth, compared to countries that do not follow such reasonable advice. According to the OED, however, not even these simple rules of thumb are valid for all countries at all times.[9] Consequently, restraint is to be recommended when it comes to imposing a certain policy on countries as a condition for debt rescheduling, there is simply no foundation for claiming that "there is no alternative".[10]

- Another conclusion that follows from this OED evaluation is that the current state of understanding as to which policies work and which do not, does not encourage the kind of detailed conditionalities and political interventions from the international financial institutions which were so frequent during the hey-days of structural adjustment, and which, as we saw (in footnote 7 above), may still persist with the PRSPs.
- The failure of structural adjustment is also made evident by the fact that not even the programmes that were carried out were successful in the poor countries when measured by their results in terms of growth and development. The conditionalities imposed by the IFIs on the least developed countries, LDCs, according to UNCTAD (2002), led to nothing less than a catastrophe: the LDCs which carried out SAPs, experienced after six years a fall in GDP per capita as well as an increase in poverty (measured by the share of the population living on less than one USD a day). Such results, of course, do not say anything about what the situation would have been like in these countries in the absence of structural adjustment, but they unequivocally show that SAPs, and the conditionalities imposed, have not been able to resolve actual economic and social difficulties.

This multifold failure of the SAPs and their conditionalities did not come as a surprise, the neoliberal economic policies backed by the World Bank and the IMF since the early 1980's were severely criticized already at the outset. UNICEF summarized the critique in 1987 in the influential study "Adjustment with a human face", which recommended socially acceptable policies instead of the "inhuman" conditions imposed. According to the UNICEF, what was lacking in the SAPs was above all protection of vulnerable groups and the channelling of sufficient resources to the social sectors (health, education, sanitation). As we will see, this critique has partly been answered by the PRSPs.

To begin with, however, the IFIs met the critique of SAPs by financing poverty programmes intended to ease ("mitigate" was the term favoured by the IFIs) the negative social effects of structural adjustment, with the most well-known

[9] World Bank (2004), p 19.

[10] Margaret Thatcher is credited to have coined the acronym TINA – There Is No Alternative – with regard to neo-liberal economic policies. "One size fits all", another way of saying the same thing, has been proven to be equally untrue, a fact which now is recognized even by the IMF and the World Bank – although the IFIs in the 1980s and 1990s enforced exactly such a uniform neo-liberal policy package on most of its borrowers.

programmes in Bolivia, Uganda and Ghana.[11] However, such cosmetic changes of the SAPs could neither save the reputation of the programmes, nor of the conditionalities applied.

What the World Bank and the IMF claim for the PRSPs

The poverty reduction strategy that the World Bank and the IMF has required from the HIPC countries since 1999 is normally described not by its contents but by the process by which the PRSP is elaborated. What is new about the PRSPs is not in the first instance what policy components it consists of – as we soon will see, the PRSPs in fact do replicate many of the standard components of the SAPs – but rather the principles which are said to rule how the PRSPs come about (see Box 1).

Box 1. The Five principles of the PRSP

Country-driven	The initiative to formulate a PRSP should originate with the countries themselves; a broad participation by CSOs and the private sector in the elaboration of the strategy is essential.
Results-oriented	The PRSP should focus on the effects of the policies rather than on the policies as such.
Comprehensive	Poverty is multi-dimensional and cannot be reduced by increasing economic growth alone.
Partnership-oriented	Includes the various partners of development, from bilateral donors and multilateral institutions, via national governments and parliaments, to domestic and international CSOs.
Long-term	It is not possible to reduce poverty in the short-run, which implies that the PRSP must be consistent over time.

Source: IMF/World Bank (2003)

One way to interpret the five principles of the PRSPs, is to read Box 1 as a response to the critique which was directed against the SAPs:

- The SAPs were run by the creditors, more specifically by the World Bank and the IMF, and not by the countries that were affected by them;
- The SAPs did not take the varying and differing circumstances in the respective countries into consideration, nor did they pay much attention to what the debtor countries themselves thought was in their own self-interest;
- The SAPs only cared about economic growth and did not worry too much about how poverty should be eradicated;

[11] These programmes stated clearly that their objective was to lessen the negative impact of the SAPs, not to change the main orientation of the policies: Emergency Social Fund in Bolivia, Programme to Alleviate Poverty and Social Costs of Adjustment (PAPSCA) in Uganda, and Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) in Ghana.

- The SAPs were short-term and expected results within three years, the standard duration of a SAP.

Simplifying just a little, one may say that the PRSPs claim to be everything, which the SAPs were not. Most important in this context is that the PRSPs are to be “country-driven”, i.e. that it is the countries concerned which are to lead the process and formulate the strategy. In addition, the PRSPs require wide-based participation from local stakeholders as well as from the donors (the latter form of participation in the PRSP process is called “alignment”).

With the PRSPs as the main development concept and, simultaneously, the essential conditionality for debt restructuring, the World Bank and the IMF offer two new loans to finance the PRSP: the World Bank’s Poverty Reduction Support Credit, PRSC, and the IMF’s Poverty Reduction and Growth Facility, PRGF. Decisions as to these loans are taken by the boards of the two institutions, respectively, which means that in reality the PRSPs are approved by the World Bank and the IMF.[12] This fact alone leads us to think that the key principle in the PRSP set-up – country-driven – may not be an appropriate term for what in fact takes place.

How do the IFIs view their own creation?
There are two kinds of evaluations produced by the World Bank and the IMF: the annual reports produced by the staff of the two institutions describing the PRSPs in the various countries involved, and the more infrequent, but also more profound, evaluations published by the semi-independent evaluation units of the IFIs.

These evaluations differ in a telling way: the reports produced by the IFI-staff stress improvement and advancement, the PRSP is a form of learning-by-doing, the institutions are improving and the PRSPs that are being elaborated are of ever-higher quality. A few examples, taken from a major staff report:[13]

- Governments now back their own strategies – “ownership” is the label used – which is a great change from the SAPs that were imposed from the outside.
- Today there is a frank dialogue that involves at least some sections of civil society.
- At the same time, poverty reduction has become a key area of attention, which leads the countries to collect information about the poverty situation in their country.

All these changes can be seen as going in the right direction, aligning the actual PRSPs with the nice principles highlighted above (see Box 1). But the World Bank and the IMF do not shrink away from the problems of the PRSPs, although the implication is that these problems will be dealt with now that they have been pointed out:

- All stakeholders – this also includes the IMF and the World Bank – do not align with the purpose of reducing poverty.

[12] This situation prevailed until the beginning of 2005 when the approval process was slightly modified to give the impression that it is the countries themselves that take the decisions as to their PRS; see footnote 17 below.
[13] IMF/World Bank (2003).

- Policies established in the PRSPs are based on over-optimistic scenarios, especially when it comes to economic exports growth, neither of which are realistically viewed. This leads to a reduction in the levels of debt reduction – and sometimes also in the level of aid received – that the countries concerned are being offered by the creditors.[14]

The second kind of evaluation of the PRSPs, also elaborated by the IFIs, is carried out by the World Bank's Operations Evaluation Department, OED, and by the IMF's Independent Evaluation Office, IEO, respectively.[15] These evaluations are more outspoken and openly criticize the policies of the IFIs:

- Faulty process. PRSPs do not strengthen domestic capacity to formulate policies and do not facilitate national ownership of these policies. In other words, "country-driven" is not a term that aptly describes the PRSPs.
- The IMF does not encourage that alternative roads to achieve poverty reduction are considered, investigated or tested, a fact which questions that the PRSPs are "owned" by the countries themselves.
- Furthermore, when it comes to macro-economic policies, the PRSPs have not cared to take into consideration alternative policy options. This means that the PRSPs, just as the SAPs, can be described as being a case of TINA.
- There also exists a contradiction between the objectives of the PRSPs – to reduce poverty, usually by increasing social spending – and the requirement to tighten the budget and cut down public expenditure in order to be eligible to obtain the IMF PRGF-credit. In other words, the social conditions that are being imposed by the World Bank are countered by the macro-economic conditions imposed by the IMF.
- Another serious criticism, stressed by these evaluations, is that policies – and hence conditions – are not being judged against what they are supposed to achieve. Hence, the PRSPs fault by not being "results-oriented". In spite of the fact that the policies and conditions imposed are said to constitute a Poverty Reduction Strategy, there rarely are elaborated any assessments as to their consequences in terms of actual poverty impact. To the IFIs instead, it is of over-arching interest whether a certain policy is in line with pre-conceived, mostly neo-liberal, political ideals. Whether this is so or not, is judged through a Country Policy and Institutional Assessment, CPIA. However, and in line with the claim that the PRSPs should be results-oriented, the impact of the policies proposed should be evaluated (which could be done by way of a Poverty and Social Impact Assessment, PSIA, a tool which also has been elaborated by the World Bank).[16]

[14] According to UNCTAD (2004, p 49) the IMF and the World Bank systematically fault on the optimistic side. If we are to believe real historic trends, the likelihood that the poorest countries will have a sustainable debt situation – as measured by the HIPC initiative – is reduced by half compared to the optimistic data that the IMF and the World Bank use to build their proposals for debt relief. In other words, the indebted countries get too little debt relief.

[15] See IMF (2004) and World Bank (2004a). The reports are summarized on the web page of Eurodad – the European Network on Debt and Development, www.eurodad.org, search PRSP.

[16] The difference between CPIA and PSIA when it comes to their use in the PRSPs is discussed in Action Aid (2004). While a CPIA judges the policies and institutions of a particular country, a PSIA evaluates the impact of policies when it comes to poverty and social sector development.

Summing up, there is a striking similarity in the critique of the PRSPs from the IFIs. However, this does not imply that the institutions in any way seriously question the PRSPs, neither as process nor as policy. The IMF and the World Bank rather choose to temper their recognition of weaknesses and failures by stressing the progress achieved to date: poverty issues are now at the centre of the development discourse, budgetary discipline and transparency have been greatly improved.[17]

What is the PRSP process like?

Reports and studies published by civil society organisations, as well as by the United Nations, give a clear indication as to the issues which are at the core of the PRSP debate today: they mostly deal with the PRSP process. A frequent point of view is that groups, which are close to the critic, should be given a greater say in the elaboration of the PRSPs. For instance, the ILO (2001), used as it is to three-partite negotiations with participation from trade unions, employers´ associations and the state, laments the absence of trade unions in the PRSP processes.

Such deficiencies, of course, reflect upon the democratic deficit of the PRSPs and the lack of broad-based participation. But equally important, they also cause problems for the contents of the PRSPs. Thus, the consequences of alternative policies are only rarely studied when it comes to social or regional impacts, the consequences for children and elderly or the impact on gender. It is only when CSOs raise their concerns that the PRSPs may come around to evaluating these aspects of the policies proposed. But unless the perspectives defended by trade unions, environmental and gender action groups are made an integral part of the PRSP process from the outset, there will be precious little to show in the actual PRSP when it comes to indicators that are possible to follow-up in order to secure that the PRSP, when put into practice, actually does deliver the desired outcome.

The critique of the PRSP processes frequently stress the fact that CSO participation is mostly formal, while the real influence over the process rests in the hands of just a few actors, directed by the IMF and the World Bank. CSOs have no say over the agenda when it comes to the elaboration of the PRSPs, the documents discussed at meetings are only made available at the last instant, and they are furthermore frequently written in English and not translated to the national language, there is no time to prepare positions or to consult with wider constituencies. CSOs more often than not feel like hostages, token representatives in a process they have no influence

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[17] One – albeit mostly cosmetic – change that has been brought about as a result of these evaluations: formerly, the World Bank and the IMF issued a Joint Staff Assessment, JSA, based on which the boards of the institutions accepted the PRSP of a country. Both evaluations find this procedure problematic, firstly, because the approval of the boards casts a dark shadow of doubt as to the "ownership" of the PRSPs; and, secondly, the JSAs that were produced by the World Bank and the IMF with the purpose of having the PRSPs passed by the boards, were generally of a very low quality and lacked critical points or proposals which could improve the PRSP at hand. In other words, the JSAs did not contribute to the "policy dialogue" which was assumed to take place between the IFIs and the indebted countries.

Thus, the World Bank and the IMF have decided to replace the JSAs by Joint Staff Advisory Notes, JSANs. Such JSANs, the IMF claims, are to be "frank" and directed at the countries, which are elaborating their own PRSPs, rather than as hitherto at the boards of the institutions. However, it is to be doubted whether these changes will affect the ownership of the PRSP as it still will be only after the loans have been approved by the boards, that the PRSP in fact will obtain the finance needed to carry it through.

over. UNCTAD (2002a) and UNDP (2002), which represent governments, on the other hand stress the need to strengthen the role of parliaments as well as governments.

Thus, there may exist a slight imbalance in the critique against the PRSPs, depending upon the sender: while civil society organisations request a greater say for their fellow CSOs around the world, governments normally focus on the need to increase the part they themselves play, and sometimes the role of the parliaments, in the PRSP processes; they may also voice the opinion that CSOs lack democratic mandate and do not represent anyone but themselves and, hence, that the inclusion of CSOs in the process should be a secondary concern.

Box 2 presents a summary of what would be required from the PRSP process in order to make it live up to its nice principles (as summarized in Box 1 above). Of crucial importance here is whether the whole PRSP exercise was originated by the countries themselves; when this is not the case, claims of “ownership” and “country-driven” are difficult to sustain.

Box 2. Are PRSPs “country-driven”?

“Country-driven” requires	**In reality, so far**
that the initiative to elaborate a PRSP is local	No
domestic support, technocratic level	Yes
domestic support, political level	Sometimes
domestic support, society as a whole	No
institutionalising of the PRSP process	Not yet
reduced role for external actors	No

Based on Booth (2003) and Stewart & Wang (2003).

Up until today, the PRSPs are mostly backed by the technical staff in the administration who are put in charge of the elaboration of the policies, while the political support is more uncertain mostly back the PRSPs. One of the crucial issues – the institutionalisation of the PRSP process – has so far only taken place in a few cases, such as Tanzania.

However, this picture may be too grim: many CSOs welcome the principles of the PRSPs while being critical as to the absence of these very principles when the PRSPs are elaborated in practice. In this light, the PRSP initiative may be seen as a step in the right direction, if only it was followed by a fulfilment of its promises.

How to judge the contents of the PRSPs

In the literature – excluding reports and evaluations published by the IMF and the World Bank – there exist four positions regarding the contents of the PRSPs.

One way to analyse the contents of PRSPs is to compare it with the demands that are voiced by CSOs, trade unions and popular movements (see Box 3). There does exist a certain correspondence between the perspectives of the typical PRSP and the concerns of CSOs, e.g. primary education free for all. But in more instances, the positions differ widely, e.g. when comparing what CSOs and trade unions demand and what PRSPs normally offer in the areas of macro-economic policy, land reform, or privatisation. This mismatch is certainly problematic, and not only from the point of view of which policy is more suitable to reduce the incidence of poverty, The lack of confluence points to the absence of a fundamental human right, the right of the people affected by the PRSP to participate in the definition of their own needs . As the WHO points out, this could be amended if PRSPs as a matter of course began to include the opinion and voices of the people concerned when it comes to policies, which are intended to cater to their needs.[18]

Box 3. What PRSPs would look like if popular demands ruled

Concern	**Popular demands**	**Typical PRSP**
Education	Primary and secondary schools free of charge	Free of charge/low fees for primary schools but fees for higher levels
Health	Treatment and medicines free of charge	Primary health care free of charge but otherwise user fees (excepting some diseases and vulnerable groups)
Agriculture	Rural reform, subsidised inputs and credits, no privatisation of communal or cooperative land	Create a market for land, small-scale rural credit schemes, end public trade monopolies
Labour market	Create job, keep employment of public sector high	Increase flexibility
Macro-economy	Expansion	Restriction
Equity	Sensitivity for income and social differentiation	Avoids equity issues
Private sector	No wholesale privatisation, against big business and foreign capital	Private sector development key: privatise public services and credits
Corruption	Fight corruption and nepotism in health, education, justice, police	Fight corruption in high places (government, big business)

Based on UNCTAD (2002a) and Afrodad (2003)

Secondly, the PRSPs are questioned because they continue the earlier much criticized SAPs in spite of the fact that they are said to constitute a replacement of the SAPs by their focus on poverty reduction. PRSPs in general contain some of the customary traits of the SAPs, starting with the emphasis on growth at the expense of redistribution, the requirement that public goods and services like the supply of electricity and drinking water are privatized, a negative opinion of regulated trade flows. The conclusion is quite straightforward: since the PRSPs replicate core components of the traditional SAPs, no real local ownership can exist. And as most PRSPs contain the same components in almost all countries,

[18] WHO (2004) recommends that Participatory Poverty Assessments, PPAs, are used for defining the health component of the PRSPs, a practice which according to the WHO already is in course in other social sectors.

there must exist a pre-conceived model which countries are made to follow, irrespective of their various and differing needs.[19]

A similar critique is presented in an evaluation of seven PRSPs commissioned by the Nordic countries: since the conditionalities of the IMF are more or less identical to those of the SAPs, the conclusion is that key concepts like ownership, participation and transparency do not sit well with the PRSPs.[20] Such summaries may sound too general, but an evaluation of the trade component of 17 PRSPs reaches a similar position: only in a few cases could important deviations from the former SAPs be identified. However, these rare cases do testify to the fact that there exists a possibility to design "home-grown" policies (see Box 4).

Box 4. The exceptions to the rule

Exception	**Rule**
Ethiopia: protection of domestic agriculture.	Deregulation of agriculture.
Rwanda: subsidization of local coffee growers, protection of domestic entrepreneurs.	Subsidies are expensive, create rent-seeking, all of which is detrimental to the development of a competitive edge.
Vietnam: anti-dumping policies (to counteract rich countries' subsidies to their agricultural exports).	Will only protect inefficient businesses.
Zambia: export processing zones to attract foreign direct investments	EPZs do not work in Africa.
Mozambique: import substitution to promote local business.	Creates inefficiencies and a risky political dependence on local industrial capital.

Sources: Hewitt & Gillson (2003) and UNCTAD (2002a)

The third form of critique levied against the PRSPs – and this may well be the most serious kind – is that they lack a real understanding of how poverty is fought and how development is brought about. Such criticisms are voiced academics as well as by the UN institutions – UNDP, UNCTAD, WHO – which stress that development and poverty reduction require structural reforms and investment; spending more on social sectors – so called pro-poor spending – is not the way to reduce poverty in the long run.

What pro-poor spending might entail varies from one country to the next, but it usually encompasses primary education and health, rural development, safe drinking water, and sanitation. Such pro-poor spending is the main area where the PRSPs have been successful. The most recent statistical information tells us that for the 19 PRSP countries where figures exist, pro-poor spending grew by 1.4

[19] Stewart & Wang (2003). It is as part of this line of argument that the acronym PRSP is interpreted to stand for Policies to Roll back the State and Privatize, i.e. vintage structural adjustment policies.

[20] See Review of Nordic Monitoring (2003). The Nordic critique is framed in a slightly more technical language: the conditions imposed by the IMF for its PRGF loans, are the same as those imposed for the Enhanced Structural Adjustment Facility, ESAF, which financed the SAPs. Note that the Nordic report here talks of *qualitative* conditionality and thus avoids counting the number of conditions imposed. A few but essential conditions may be more devastating than a great number of inconsequential demands.

percentage points 1999-2001 (measured for 14 countries) and by 2.5 percentage points 1999/2002-2005 (19 countries).

These are certainly impressive figures.[21] But they hide the fact that the *absolute* level of pro-poor spending in many countries is insufficient to guarantee a reasonable social service. This in turn means, according to the WHO, that the PRSPs will not ensure that the millennium development goals, MDGs, are reached. The same fear is voiced by the UN Millennium Project, which strongly criticizes the PRSPs for blocking poor countries from spending enough money to achieve the MDGs. The Millennium Project claims that it is the MDGs which should stipulate what finance a PRSP needs by indicating how much money must be made available in order to reach the goals.[22] Or put in a more technical language: we should start by the MDGs, followed by the PRSP and then, finally, the PRGF.

A policy for development is something else than pro-poor spending, at least according to the UNDP (2002).[23] While the PRSPs cling to the old structural adjustment policies, a wise policy to fight poverty needs other tools and components, such as redistributional policies, investment in production and infrastructure, as well as industrial and trade policies, not just more money directed to social sectors.

Finally, there exists a more technical critique of the PRSPs: they are not formulated with realistic figures, their scenarios are generally over-optimistic and will not come true.[24] This kind of wishful thinking is a common trait of the prognoses fabricated by the IFIs, and it is part and parcel of their ambition to remain "lead agencies": if creditors and donors just follow suit in the direction indicated by the IMF and the World Bank, everything will be fine, poverty will be reduced and the debt crisis will be overcome.

During the last 20 years, the outcome of this game has been far from convincing: the over-optimistic prognoses should be understood as a way to get "everybody" on board. When it later turns out that the prognoses were overly optimistic and without foundation in reality, the IMF and the World Bank leave it to those who followed suit to pick up the pieces and finance yet another debt rescheduling program.[25] Thus, PRSPs on average are estimating growth rates, which are 25-30 percent higher than the levels achieved during the last decade 1992-2001. However, today, the IFIs themselves claim, the prognoses are getting better, only

[21] IMF (2004) p 55. These are averages; a few of the countries included actually suffered reductions in the levels of pro-poor spending: Burkina Faso and Nicaragua. Furthermore, the *level* of pro-poor spending vary tremendously among the 19 countries, from 2 percent of GDP in Cambodia to 16 percent in Mozambique.

[22] Millennium Project (2005). An example given in the report: private education and health care means that poor families cannot afford to send their children to schools and health clinics or purchase medicine. This will lead to a failure as far as the MDGs for education and health are concerned.

[23] According to the UNDP, PRSPs are characterized by a standard set of measures, such as privatization and de-regulation, financial liberalization, trade liberalization and full capital-account convertibility. In other words, the bad, old SAPs.

[24] As we saw above, this critical point is also stressed by the evaluations of the IFIs themselves.

[25] The IMF and the World Bank themselves, however, are normally protected from taking any losses through their status as preferred creditors: it is always somebody else that needs to bear the burden, just not the institutions that lead all the other creditors and donors astray.

every other scenario is based on growth rates which are considerably higher than the historic rates; the rest are based on more pessimistic readings. Thus, we are led to believe that the PRSPs *on average* are correct.[26]

Summing up: contents and process

We are now ready to evaluate the claims presented by the World Bank and the IMF with respect to the PRSPs (see Box 5). The conclusion is not very encouraging: when it comes to the five principles of the PRSP, neither contents nor process is up to standard.

Box 5. The principles of PRSP vs reality today

Principle	**Reality so far**
Country-driven?	No, IMF still has a signal function: approval by the IMF releases debt rescheduling and aid from donors. The countries are not in the driver's seat.
Results-oriented?	No, PRSPs give more attention to the policies than to the effects of that policy.
Comprehensive?	No, PRSPs focus social sectors but underestimate the need for investments in productive areas as well as structural reforms.
Partnership-oriented?	No, most stakeholders involved continue to impose their own brand of conditionality on the PRSP countries. No, CSOs, and sometimes even parliaments, are left outside of the processes.
Long-term?	Too early to tell, but the frequently heard worry that change of governments – the outcome of democratic elections – may alter the PRSPs – leads one to question if IFIs align with democratic rules.[27]

In a more optimistic vein, one could add a "but" in each of the five "reality boxes" above. It is true that PRSPs are not country-driven, the countries are not in the driver's seat, *but* there are countries, like Uganda and Vietnam, which are leading the formulation of their own PRSP. PRSPs are not results-oriented, *but* the use of PSIA to evaluate the impact of policies on poverty is growing. PRSPs are not based on equal partnerships, *but* the trend is going in that direction with a greater alignment among donors, e.g. in Tanzania and Mozambique. And in a number of PRSP countries, CSOs are participating more and more in the elaboration of the PRSPs.

[26] IMF/World Bank (2003) and IMF/World Bank (2004b), p 21. It should be noted that the conclusion as to the increasing realism of the prognoses, is based on one single year, 2003.

[27] The point that elections and political changes – in fact: democracy – may lead to new policies is also highlighted in the study commissioned by Sida of the PRSPs in three Latin American countries; see Vos & Cabezas (2004), p 1.

As stressed above, the evaluations published by the IFIs typically end up in an optimistic conclusion of “permanent learning and improvement”. But the reports from the United Nations, CSOs and universities question whether the PRSPs are in fact the right road to poverty eradication.[28] The weaknesses of the PRSPs appear to be of a permanent nature, and no real break with the dismal experiences of the SAPs has occurred during the five years that have passed since the PRSP process was launched. The critique of CSOs – with regard to process as well as contents – can be summarized thus:

- The policy, which is intended to fight poverty, does not take into consideration that there may exist alternatives. In fact, only a strategy stressing the social sectors is permitted. But and although the social sectors certainly are of crucial importance, poverty eradication needs to consider complementary policies as well.[29]
- The macro-economic restraint that is imposed by the IMF as a condition for its PRGF loans, limits the possibility to fight poverty. Macro-economic policy choices are left out of the PRSP discussion in spite of the fact that they are essential for poverty eradication.
- “Ownership” of the PRSP is threatened from a number of directions: policies are poorly embedded in the local context, neither CSOs, trade unions, religious organisations nor parliaments are behind the policy package. Local demands have not been accepted by the PRSPs which are sent to Washington for approval.
- Donors continue to have their priorities and to formulate their own conditions; alignment is just as rare today as ever, with a few notable exceptions.[30]
- There is frequently as mismatch between the priorities formulated in the PRSPs and the budget allocations, a critique also voiced by the IMF and the World Bank. This means that poverty reduction in fact does not receive the priority that a PRSP requires. The actual budget allocation is the final proof when it comes to translating words into deeds.

In sum, when PRSPs are well entrenched nationally, they have a fair chance of being implemented. Locally elaborated PRSPs simply stand a greater chance of success and to become long-term, as they are part of the local political culture.

But there are several possibilities to define what “local” means. The PRSP processes have led the ministries of finance to become involved in poverty reduction policies in a leading position. This change is welcomed by the British development agency DFID (2002), which stresses that it is only when the local ministry of finance takes an active role that the agreed PRSPs stand a fair chance of being implemented.

This is a break with the way aid agencies have viewed the internal government processes of many countries of the South. Traditionally, development aid has been

[28] The following is based on Oxfam (2004), Vos & Cabezas (2004), Action Aid (2004) and ODI (2004).
[29] ODI (2004) talks of ”a social sector bias in PRSs”, a trait which also characterizes the MDGs. However, states ODI, economic policies have become more varied and nuanced and have begun to allow investments and structural reforms. In other words, the critique still holds true, but there are signs of a positive development.
[30] On the other hand, one may say, like Piron & Evans (2004, p 34) that the present situation is no worse than what we are used to see when it comes to donor conditionality.

channelled through the various line ministries – education, health, rural development – but with the PRSPs, the finance people are also made party to poverty reduction. This could be a step forward in the direction of “donor alignment” through the coordinating role of the finance ministry. But many stakeholders in the social sectors see this as a threat: the finance ministry is usually not known for having an acute sense of social justice and for giving priority to the social sectors.

In the same line of arguments, faith-based organisations request that representatives of civil society be given more influence vis-à-vis governments and elected bodies as well as in relation to the IFIs. The stated objective is that CSO participation assures that the policies considered will contribute to the overall objective, poverty reduction. This position is clearly formulated by Action Aid: the decisive issue in relationship to PRSP is whether the IMF and the finance ministries are ready to share influence with the organisations of civil society over the PRSPs.[31] The question *why* CSOs ought to have this influence and power is not raised: on what democratic mandate are CSOs acting?

In short, DFID welcomes the new role of the finance ministries while CSOs, as well as the World Bank and the IMF, would like to see a reinforcement of the organisations of the civil society when it comes to the PRSPs. It is with this latter objective that Action Aid has proposed that opportunities to discuss alternative policy options – a national space – should be found. Here, central issues that today have a tendency to disappear, can be voiced and discussed openly.

In the absence of such a space, real choices are not dealt with openly and real debates are inhibited, e.g. the conflict between macroeconomic austerity and social needs; the lack of evaluations of the impact of alternative policies on poverty; the reluctance of donors to consider wider economic and structural issues.

As a consequence, the attention is drawn away from structural issues such as ownership of productive resources (e.g. a land reform), strategic choices (e.g. industrial policies), as well as from matters related to market access and protection (e.g. trade policies, privatisation, capital account liberalisation).

In contrast, a serious poverty eradication policy needs a wide and pluralistic approach, where different policy strands are brought together to contribute to the common purpose. And that purpose ought to be at least as far-reaching as the goal that the World Bank established more than 30 years ago: a world free of poverty.

[31] Action Aid (2004), p 34-35. A similar view can be found in Sanchez & Cash (2003), commissioned by Swedish CSOs, as well as in CIDSE/Caritas Internationalis (2003). From the point of view of the IMF, such a strengthened role for CSOs is looked at favourably as it would counter-balance the influence of governments and parliaments. See Robbs, CM: *Poverty and Social Impact Analysis*, IMF Working Paper WP/03/43, Washington 2003.

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