



## CHAPTER II

# A NEW STRATEGY FOR DEVELOPMENT

### 2.1. Emergence of Poverty Reduction Strategy Papers

In the midst of a contagious debate over who and what propelled the PRSP initiative, in which critical voices of Global South\* argue that the invention of PRSP emerged as a response to hostile criticisms towards harmful IMF and WB policies on poor countries, while proponents of international financial institutions assert the PRSP is a realization and a response to complex reality changes, Sebastian Mallaby in his increasingly famous “The World’s Banker” says that even though the Bank has had times and leaders who advocated for radical change during the entire existence of the Bank, the main locomotive behind changes that finally led to the PRSP establishment was in spite of everything Jim Wolfensohn, the earlier president of the institution. The reason why Wolfensohn pushed for his Comprehensive Development Framework\*\* agenda, regarded by many as the most dramatic WB reform, lies in several eventful dynamics.

The chain of crises stretched throughout Asia, former communist nations and Latin America in the ‘90s spawned extraordinary discussions about the reasons why reforms funneled by the IMF and WB, failed so dramatically in these countries. Both the crisis and the rapidity with which it spread, but also the manner in which IMF sought to intervene, were generally viewed as a result of the way many countries had developed

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\* The use since the 1970s of the term “South” referring to the poorest countries collectively rests on the fact that all of the world’s industrially developed countries (with the exception of Australia and New Zealand) lie in the Northern Hemisphere. Its implications however changed in time and today it highlights that although developing countries range across the spectrum in every economic, social and political attribute, they all share a set of vulnerabilities and challenges, and some of these vulnerabilities are present in the developed world as well, therefore the use of the term “Global South”. (source: UNDP, “Forging a Global South: 25 Years After the Buenos Aires Conference on Technical Cooperation Among Developing Countries”)

\*\* Comprehensive Development Framework (CDF) emerged before the PRSP and is considered the foundation of a new relationship type between the WB and aid-recipient countries. CDF advocates a holistic, long-term strategy, which is designed and implemented by the country with a range of societal stakeholders (source: WB)

unregulated connections to international financial markets and a reliance on the liberal orthodoxy that had been pushed by international financial institutions. When the IMF failed to manage the crisis and even the WB admitted that the IMF had made mistakes, the entire orthodoxy came up for criticism, reassessment and a new search for alternatives.<sup>1</sup> Many analysts have come to believe that, in spite of the complexity of the crisis and its causes, both exogenous and endogenous, such unavoidable failures were ultimately due to the lack of country ownership.<sup>2</sup> These crises put IMF under the most negative light as IMF, for the most part, was the one to take away ownership from governments by imposing its harsh policies, so the reformation of a not-so-guilty WB was an unmistakable opportunity for Wolfensohn to adjust the image of his organization in an increasing rivalry between the two agencies. The year of 1998 was thus for Wolfensohn a year of advocacy for a Bank with a more human face. The WB president vigorously used the failure of IMF in the Asian crises to emphasize the Bank's antipoverty role, governments' leadership and communities' empowerment and pushed for an agenda that triggered copious debates over the economics of poverty.<sup>3</sup>

Wolfensohn's visions were complemented by the prominent switch in the intellectual underpinnings established inside the WB. "Assessing Aid", the 1998 WB research paper provided several fundamental arguments that demurred the way in which international aid was decided and delivered to the poorest countries. Among major conclusions of this report were the ones suggesting that financial aid works only in a good policy environment, that only strong domestic leadership can produce lasting change, and that active civil society is needed to improve public service delivery.<sup>4</sup>

Much impact on the WB thinking was brought by the 2000 World Development Report (WDR) "Attacking Poverty". Given that reports of such magnitude are a central source of

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<sup>1</sup> Arthur MacEwan, 1999, *Neo-Liberalism or Democracy? Economic Strategy, Markets, and Alternatives for the 21<sup>st</sup> Century*, London, NY: Zed Books

<sup>2</sup> Johnson, Omotunde E.G, January 2005, *Country Ownership of Reform Programs and the Implications for Conditionality*, G-24 Discussion Paper Series, UNIDO

<sup>3</sup> See Mallaby, Sebastian, 2004, *The World's Banker. A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations*, New York: The Penguin Press

<sup>4</sup> Dollar, David and Pritchert, Lant, 1998, *Assessing Aid – What Works, What Doesn't and Why*, Policy Research Report, World Bank Development Research Group, New York: Oxford University Press

mainstreaming development knowledge, and that certain elements of “Attacking Poverty” were highly debatable in WB/IMF circles, the process of producing the report was extremely controversial; so controversial, that Ravi Kanbur, the leader of the team managing the research project, resigned after disagreements on what should be included in the report.<sup>5</sup> While recognizing the importance of economic growth in reducing poverty, the report introduced several sensitive concepts about democratic development. It stressed “empowerment, security and opportunity” as defining elements of development policies. The three concepts, especially empowerment and security, were highly praised by non-governmental organizations who believed the acknowledgement of these concepts was a sign that the WB is adopting alternative perspectives both in content and process, but they were nevertheless received with much criticism by leading economists.

Empowerment, which had been a central piece in the Wolfensohn’s rhetoric, was seen as an unnecessary entrustment of responsibilities to parties that were conferred with no more legitimacy than the elected (albeit deficiently) governments, to decide for the poor. The first reaction was that the poor has neither the capacity nor the interest in deciding what’s best for the economy. Then, a precise criticism came from the former WB chief economist, Larry Summers, who denounced the new non-economic areas of emphasis in the development rhetoric, by pointing out that, if applied the new principle of empowerment would diminish the analytical rigor that supported the foundations of the WB success for over fifty years.<sup>6</sup>

Furthermore, amidst growing anti-globalization riots, another WB’s former chief economist, Joseph Stiglitz, adopted a hard-line position towards IMF in the aftermath of financial crises in East Asia, and called on for a change in the policies of international financial institutions. The main criticism of Stiglitz was that the Asian countries hit by the crisis had liberalized their financial and capital markets in the early 1990s not because they needed to attract more funds but under international pressure.<sup>7</sup> The criticism of

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<sup>5</sup> An excellent account of these events is given in Mallaby, 2004, and Wade, 2001

<sup>6</sup> See Remarks by Larry Summers at the Country Directors’ Retreat, 12 June 2001, accessed in August 2005, at Jubilee 2000 website, [http://www.jubilee2000uk.org/opinion/Larry\\_summers120601.htm](http://www.jubilee2000uk.org/opinion/Larry_summers120601.htm)

<sup>7</sup> Wade, Robert, 2001, *Showdown at the World Bank* in *New Left Review* 7, January-February 2001, accessed in July 2005, at <http://www.newleftreview.net/NLR24109.shtml>

interference was directed towards both international institutions that in his view were the vehicle of US Treasury Department's interests to promoting a free-market ideology worldwide.<sup>8</sup>

Further amplified by evidence that the poverty gap increased, and not reduced in poor countries after the pursuit of neo-liberal policies, skeptic views precisely identified that both the policies and the time were inadequate, and on top, the manner in which they were imposed was wrong. Since the US was regarded as the most powerful force behind the Bretton Woods organizations, it attracted most of the attacks, being accused of exploiting international institutions to diffuse free market rules around the world.

Having secured institutional leverage to choose its candidate for the president's position, the US is also the only member state able to exercise a veto on various key institutional issues and it makes the biggest contribution to the International Development Agency (IDA), its branch organization that lends to the poorest countries. LSE professor Robert Wade, who portrays the importance of the WB as a knowledge bank, says that it is American thinking about the roles of government and markets that sets the conceptual centre of gravity for WB debates, not that of Europe, Japan or the developing countries. The vast majority of Bank economists, whatever their nationalities, have a North American postgraduate qualification, and, as Wade noticed, there are many subtle ways in which the Bank's location – in the heart of Washington, DC, just a few block from the White House, Treasury and Washington think-tanks – helps contribute to the way in which American premises structure the very mindset of most Bank staff, who read American newspapers, watch American TV and use American English as their lingua franca:

More than just a source of funds to be offered or withheld, the WB is a fount of Anglo-American ideas on how an economy should be run. The role of the World Bank's chief economist is a critical one from this point of view. The Bank's legitimacy rests on the claim that its development advice reflects the best possible technical research, a justification readily cited by borrowing governments when imposing Bank policies on their unwilling populations.

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<sup>8</sup> Ibid.

The chief economist has much influence over what research is done and by whom: what evidence is accepted, what conclusions are drawn and how these are advertised; hence, much influence over what constitutes the best technical research.<sup>9</sup>

Criticisms of civil society, conversely, have had their own various dynamics. Inside developing countries, a growing social activism represented by a number of research institutes, non-governmental organizations, community based and indigenous groups – all with their different causes and concerns – has come to associate the multilateral banks with a spiteful hegemonic coalition between the big multinational corporations and governments of the richest nations who were impugned to pursuing economic and political interests at the expense of most impoverished countries. While accusing the Bretton Woods institutions for lacking democratic decision-making, transparency and accountability, most of critical civil society groups began assertive campaigning against structural adjustment programs, seeing in reforms such as deregulation of capital markets, privatization of state companies, and downsizing of public programs for social welfare, the main causes in rising poverty. Their criticisms further expanded with the belief that, although BWIs became more open to change and more considerate of civil society voices after the adoption of new frameworks such as CDF and PRGF<sup>10</sup>, both the Fund and the Bank established a relationship with selected non-profit groups, preferring certain kinds of NGOs over others. As James Paul put it, “judging from the NGOs it [WB] chooses to have a dialogue with, it prefers environmental NGOs to trade unions, docile outfits to truly grassroots groups, libertarian NGOs to socialist or communitarian ones.”<sup>11</sup>

The other source of the civil society dynamics was triggered by an increasing group of international NGOs, mostly American- and Western-led lobbying and interest groups, varying from labor unions, environmentalists to businessmen and farmers, who ended up demanding the WB to provide more efficiency in its development efforts in third world countries not for the sake of poor communities but precisely for a better protection of

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<sup>9</sup> Ibid.

<sup>10</sup> Poverty Reduction Growth Facility (PRGF) was the IMF successor loan arrangement of ESAF. It is a concessional framework provided to countries based on the approval of their PRSP and on prudent macroeconomic planning

<sup>11</sup> Paul, James A., *The World Bank and NGOs* in Global Policy Forum, accessed in August 2005 at <http://www.globalpolicy.org/ngos/analysis/wrldbank.htm>

their own interests, in their own countries. To mention labor concerns only, the liberalization of developing nations' markets unlocked tremendous opportunities for multinational companies to access cheap labor and resources in developing countries, and the outsourcing represented an undeniable shudder to the Western labor. Consequently, human rights campaigns initiated by Western advocacy groups against the exploitation of women, indigenous people and child labor in developing countries reflected an appeal to shield their own labor, at home.

All in all, multiple forces with various agendas amalgamated under a new message: to rebuild the development bank into a more poverty-oriented organization. While implying that the IMF's focus on Asian exchange rates came at the expense of focusing on real people, says Mallaby, Wolfensohn in his pro-poor speeches was playing up with the need to confront inequality and social exclusion, to think about corruption and institutions and governance, to learn to have a debate where mathematics will not dominate humanity.<sup>12</sup>

## 2.2. Principles of Poverty Reduction Strategy Papers

The project of Poverty Reduction Strategy Papers (PRSP) was first introduced in 1999 as a new scheme for nations that were part of the HIPC initiative (Highly Indebted Poor Countries)<sup>\*\*\*</sup>. Countries under the HIPC framework were promised debt cancellation and concessional lending by the IMF and WB if they provided feasible strategies to prove that the money acquired from debt relief will be effectively managed for poverty reduction. Later on, developing nations that were not part of HIPC have also announced their willingness to provide PRSPs to get concessional lending. Thus to date, 47 countries completed their PRSP, an additional 12 have finalized their Interim PRSP (I-PRSP), and a further group of countries are at the beginning of the poverty reduction strategy

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<sup>12</sup> Mallaby, Sebastian, 2004, *The World's Banker, A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations*, New York: The Penguin Press.

<sup>\*\*\*</sup> Proposed by the WB and IMF in 1996, the HIPC Debt Initiative aimed at reducing the external debt of the world's poorest and most heavily indebted countries in the world.

process.<sup>13</sup> In total, there are 59 countries that are currently engaged in producing or implementing full or interim PRSPs.<sup>14</sup>

Within the PRSP approach, governments are expected to prepare their strategies through a participatory process and have them approved by the Executive Boards of the Bank and the Fund, after a satisfactory Joint Staff Assessment carried out by experts of both institutions. When strategies are endorsed, governments are eligible to Poverty Reduction Support Credits (PRSC) from the World Bank and have easier access to financial assistance from other international and bilateral donors. Although poverty strategies should vary from country to country, there are specific components in all PRSPs. To begin with, governments must describe in their strategies how participatory processes with national development stakeholders and external partners, as well as inter-governmental consultations are used in poverty assessments and policy formulation. PRSPs are updated every three years with annual progress reports and describe the country's macroeconomic, structural and social policies and programs. Interim PRSPs (I-PRSPs), which are produced to avoid delays in concessional loans' release, summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP. As a measure of ensuring transparency, the WB and IMF place the country documents, along with the accompanying Joint Staff Assessments and progress reports, on their websites. Full PRSPs have three core elements: a) a poverty diagnosis; b) targets, indicators and monitoring systems; and c) priority public actions over a three-year period. In presenting those public actions, PRSPs are thus the documents portray country's macroeconomic framework, a summary of the overall public expenditure program and its allocation among key areas, and a matrix of key policy actions and institutional reforms and target dates for their implementation. The joint assessments of the WB and IMF, when conducted to ensure that PRSPs follow the main principles of the initiative, evaluate amongst other things, the adequacy of poverty diagnosis, feasibility of poverty

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<sup>13</sup> Poverty Reduction Strategy Papers Fact Sheet, 2005, accessed in August 2005 at <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,menuPK:384207~pagePK:149018~piPK:149093~theSitePK:384201,00.html>

<sup>14</sup> See Appendix C

reduction goals, indicators of progress and monitoring systems, appropriateness of macroeconomic framework and financing plan, adequacy of structural and sectoral policies and improvements in governance and public sector management.<sup>15</sup>

Five principles at the core of the PRSP initiative entail that poverty reduction strategies should be:

- Country-driven, promoting national ownership of strategies through broad-based participation of civil society
- Result-oriented and focused on outcomes that will benefit the poor
- Comprehensive in recognizing the multidimensional nature of poverty
- Partnership-oriented, involving coordinated participation of development partners (government, domestic stakeholders, and external donors)
- Based on a long-term perspective for poverty reduction.<sup>16</sup>

### 2.3. Ownership, Participation and Donor Coordination

Poverty Reduction Strategy Papers (PRSP) clearly emphasize that each country has the primary responsibility for its own development. While acknowledging that the previous framework was faulty, in a report prepared for the United Nations International Conference on Financing for Development, held in Monterrey in March 2002, the World Bank stated:<sup>17</sup>

One lesson from experience is that reform does not usually succeed without strong local ownership and a broad-based approach, which includes a consideration of institutions, governance, and stakeholder participation – a lesson that has provided the impetus for the PRSP process.

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<sup>15</sup> United Nations Conference on Trade and Development, 2002, *The Least Developed Countries Report 2002, Escaping the Poverty Trap*, Part II, Chapter 5, UNCTAD

<sup>16</sup> IMF, Poverty Reduction Strategy Papers Fact Sheet, 2005, accessed in August 2005 at <http://www.imf.org/external/np/exr/facts/prsp.htm>

<sup>17</sup> World Bank 2002, quoted in Cling, Jean-Pierre, Razafindrakoto, Mireille and Roubaud, François, 2003, "New Poverty Reduction Strategies: Old Wine in New Bottles?", article in World Bank Conference on Development Economics – Europe, Oxford University Press



As outlined by the World Bank, PRSP represents a framework, which encourages active participation by all stakeholders and establishes a new relationship between them. In theory, the initiative gives room to the possibility that several key new principles can be achieved: ownership, empowerment and accountability. The idea of the WB behind employing these principles is that if governments are given the responsibility to design poverty reduction strategies and to engage in participatory processes, this should increase their commitment to undertake the actions set out in the PRSP efficiently, while participation by civil society, not only in defining policies, but also in monitoring them, should ensure wide support for the reforms.

Although the concept of ownership became one of the key notions in the new framework, and basically in all recent initiatives undertaken by international institutions, it is seldom thoroughly explained. A condition to achieve this principle is to find consensus on what country ownership means. Johnson and Wasty identified four key prerequisites for country ownership.<sup>18</sup> The four-dimensional variable follows the rationale that “if the program succeeds, then there was ownership, and if it falters, then ownership was absent”. Johnson and Wasty identified four major requirements for achieving country ownership. The first requirement is the “locus of initiative”, namely, who had the initiative in formulating and implementing the program, that party will likely be in charge of its process. The second dimension is the “level of intellectual conviction among key policy makers”, that is, the degree to which there was consensus among policymakers on the nature and causes of the problem, the choices open for its resolution, and the approach to be taken. The third dimension is the expression of political will by top leadership, and the fourth one comprises efforts towards consensus-building among constituencies.<sup>19</sup>

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<sup>18</sup> Johnson J.H. and Wasty S.S., 1993, *Borrower Ownership of Adjustment Programs and the Political Economy of Reform*, WB Discussion Paper, cited in Johnson, Omotunde E.G., 2005, *Country Ownership of Reform Programs and the Implications for Conditionality*, G-24 Discussion Paper Series, UNIDO

<sup>19</sup> Ibid.

The concepts of empowerment and participation entail the intention to improve the quality of the political debate and to help define strategies that better meet real social needs. By offering the poor, the underprivileged and the under-represented a way to express themselves and to influence policies affecting their living conditions, the approach of empowerment also aims at fighting social exclusion, which is defined as one element of poverty. Through participation, all stakeholders are supposed to be invited to discuss government policies and hence make governments accountable to all citizens. Accountability therefore is to be applied to government policies in general, and specifically to the management of domestic and foreign resources provided for development.

However, the application of these principles is far not easy. Because the PRS documents are country-owned, the burden falls on the country to develop the plans. As Cling, Razafindrakoto and Roubaud noticed, this process proved to be an expensive route as it requires funds and capacity in a time when developing countries simply don't have them. The alternative is for the Bank or other donors to develop the PRSP or for the country to accept the Bank, Fund and the other donors to provide only consultative assistance, which leads back to the period of structural adjustment.

As for the new level of "balance of power", the PRSP initiative promotes the establishment of new relationships between donors and developing countries aimed at making recipient countries more aware of their responsibilities in relation to both the definition of policies and their implementation. In theory, the WB is supposed to adopt a more humble attitude towards the countries in which it intervenes and PRS documents are expected to be written by countries themselves, whereas previous World Bank's policy framework papers were mostly written in Washington. In parallel, PRS documents allow a better coordination between the WB, IMF and other donors themselves.<sup>20</sup> The new partnership approach, based on consultation rather than conditionalities, is believed to represent a major transformation of those requirements intrusively imposed to developing countries during the structural adjustment period as a clause to funding.

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<sup>20</sup> Cling, Razafindrakoto and Roubaud, 2003

Conditionality criteria are believed to be a change in that they no longer exclusively concern the measures to be adopted, but above all, the outcomes regarding poverty reduction.

In addition, the principles underlying the PRSP target the growth of budget support and not the project aid. During the structural adjustment period, international financial institutions were simply financing development projects, whereas PRSP allow governments under the initiative of Highly Indebted Poor Countries (HIPC) to achieve important savings in public debt servicing by being relieved of debt and thus have more ownership over this type of budget support.<sup>21</sup>

As PRSPs were conceived as a multidimensional approach, they also aim at establishing a better coordination between the bilateral and multilateral donors themselves. However, since the largest donors are also shareholders of the financial institutions, their say remain authoritative in the design of development policies. Moreover, the largest donors remain aligned behind these strategies. The fact that the major donors consider the PRSPs to be the basis of their interventions in low-income countries reinforces the importance of PRSPs as a condition for receiving foreign aid.

Thus conditionalities have not disappeared from the PRSP framework. They are simply self-imposed, because in order to obtain debt relief or Poverty Reduction Support Credits (PRSC), countries are required to define domestic economic strategies that the WB subsequently validates. As such, the principle of ownership is considered in some countries only an illusion. To obtain the international funding, which is often extremely urgent in low-income countries, the governments adjust their strategies to what they know the World Bank expects from them. The process of homogenization is bolstered even more with the access to WB poverty strategy documents available on its website, which generates a copycat effect. Hence the practice shows that even though the PRSPs claim more ownership and sovereignty by recipient governments over their own

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<sup>21</sup> With the release of PRSPs, the WB assumed that policy ownership becomes easier with budget support. This is justified by the fact that funds released by debt relief within the PRSP framework lead to savings in public debt servicing, and as such constitute budget support.



development policies, the state of affairs has not much changed: the financial aid is made available upon the compliance with international conditions.

Furthermore, the predominance of donors in providing funding for developing countries with no access to private capital flows has increased with the introduction of PRSP, because these have now become essential instruments in relations between developing countries and the donor community as a precondition both for debt relief and for access to new concessional lending by the World Bank. This biases the process of national ownership from the start. Because the WB must ratify the countries' strategies, the respect for conditionalities and policies suggested both by the WB and IMF take precedence over those judged adequate by national players.

The first part of this chapter illustrated only how mechanisms of implementing development strategies have changed. But what are the changes at the policy level is a question of much more scepticism, and the policy issue will be discussed both in this chapter and later in the paper with reference to the Vietnam case.

#### **2.4. Participation of Civil Society**

Another key transformation adopted by the WB with the elaboration of PRSP is the introduction of participation of civil society in the definition of poverty concepts, poverty assessments, formulation and monitoring of policies with the goal of strengthening the democratic debate and, as such, enhancing the legitimacy and efficiency of policies. But criticisms against this new principle come from all sides of the political scene.

On the one hand, some critics underline the inevitable interference with politics inferred by the participatory process, claiming that the promotion of citizen involvement by those other than the democratically elected government risks fragmenting young democracies.<sup>22</sup>

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<sup>22</sup> Larry Summers, Speech at the World Bank country directors' retreat, May 2001, accessed in March 2005 at [http://jubilee2000uk.org/opinion/Larry\\_summers120601.htm](http://jubilee2000uk.org/opinion/Larry_summers120601.htm)

On the other hand, some critics are suspicious of what they perceive as the WB duplicity, claiming that they have just adopted a slogan, but have neither the will nor the competence to intervene in the political arena and to conduct a participatory process.<sup>23</sup> This criticism is reinforced by the composition of WB staff, who are primarily economists and not political or social scientists. Few countries adopting PRSP, if any, have engaged in a truly democratic participatory process engaging actors such as NGOs, trade unions, associations, policy research institutes and academics, ethnic and gender groups or opposition political parties. In most low-income countries, unlike in established, long-standing democracies, intermediate civil society bodies are simply absent, yet, it is such bodies that are supposed to ensure democratic control between elections by means of lobbying groups, petitions, demonstrations and so on.

Moreover, the absence of such a process is emphasized by the lack of information and competence, as well as by the lack of political will of governments in power which often are interested in maintaining this state of deficiencies. Under such conditions, the principle of participation, like in the case of ownership, is an illusion. But the WB maintains a positive belief. Those who support PRSP view this initiative as a factor engendering the development of civil society rather than a product of participation by the civil society in the process of designing PRSP documents. And those who criticize PRSP view this belief as naïve thinking. If the WB thinks that PRSP would generate a civil society, it simply fools itself, given the fact that the need for debt relief is urgent and that in order to complete the PRSP rapidly, government will not waste time on consultations with civil society or, not mentioning, on waiting for it to be created.<sup>24</sup>

## 2.5. Content of PRSP

Detailed analysis of PRS documents shows that their content is of unequal quality, depending on the country concerned. Programs of poverty alleviation that were prepared

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<sup>23</sup> Chavagneaux, Christian, 2003, *Lutte contre la pauvreté; les enjeux politiques d'un slogan*, quoted in Annual World Bank Conference on Development Economics – Europe, Oxford University Press

<sup>24</sup> Whaites, Alan, 2002, *Masters of Their Own Development? PRSPs and the Prospects for the Poor*, Monrovia, California, World Vision International

for several years, such as those of Honduras, Mozambique, and Uganda, and those which received significant external technical assistance, Bolivia for instance, are distinguished by relatively elaborate PRSPs. By contrast, PRSPs are much more superficial in countries that prepared them under strict time constraint and lacked adequate experience with poverty alleviation, for example, Burkina Faso, Mauritania and Tanzania.<sup>25</sup> Nevertheless, despite these differences most countries' strategies consist of simple recycling of previous policies with minimal adjustments to establish a link with poverty. As stated before, in order to obtain the international funding they badly need, poor countries adjust their strategies to what they know the World Bank expects from them.

It seems that the emphasis on the fight against poverty and the establishment of a participatory process appear to have little influence on the content of programs. The translation of general orientations into concrete operational measures raises several difficulties, in particular, because of the lack of capacity in poor countries and because of the underestimation of these human and financial resource constraints, which are generally not even acknowledged.

The diagnosis that states' institutional capacities need to be strengthened is not clearly assessed, although managing poverty reduction strategies is even more complex and more demanding than managing past stabilization or adjustment programs. The World Bank itself recognizes that this problem is especially acute in Africa. In 2000, its report stated:<sup>26</sup>

The adjustment decades also saw a substantial deterioration in the quality of public institutions, a demoralization of public servants, and a decline in the effectiveness of service delivery in many countries. Together with falling incomes, these effects – which cannot be speedily reversed – translated into falling social indicators and capabilities in many countries and to losses of human capital, especially (but not exclusively) in the public service.

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<sup>25</sup> Annual World Bank Conference on Development Economics – Europe, 2003, Oxford University Press

<sup>26</sup> Ibid.

Given that PRSPs are inspired and validated by the World Bank, their inadequacies reflect above all the inadequacies of these institutions' "consultative" prescriptions for the developing nations.<sup>27</sup> PRSPs continue to support the principle that poverty reduction can be achieved through macroeconomic growth, a principle from which a first shortcoming can be traced. In practice, as explained by Cling, Razafindrakoto and Roubaud, the impact of growth on poverty depends to a great extent on inequality. Higher income inequality reduces the impact of growth, because the poor are further away from the poverty line and their income increases start from a lower base.<sup>28</sup> But with few exceptions (Bolivia and Vietnam, for example), most PRSPs do not address the issue of inequalities and redistribution. Cling, Razafindrakoto and Roubaud point out that the PRSPs of the four Central and South American countries, which are the most inegalitarian, mention concepts like equity/inequity, equality/inequality, equal/unequal, equitable/inequitable, and redistribution on average, on every other page, whereas the eight African countries, which are much poorer but also less inegalitarian, use them only once every three pages. Vietnam, whose socialist regime makes it more inequality conscious, mentions these concepts frequently – every one-and-a-half pages, whereas Albania, despite its high and rapidly increasing inequalities, only refers to these concepts about once every five pages.<sup>29</sup>

The lack of the interest towards the issue of inequality is in tune with the World Bank ideology. Contrary to the UNDP for example, the WB views the fight against inequalities as a means and not as an end in itself.<sup>30</sup> Whether the intent is to promote a policy aimed at reducing inequality or not, PRSPs always follow the same instrumental approach.

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<sup>27</sup> Cling, Jean-Pierre, 2003, *A Critical Review of the World Bank's Stance on Poverty Reduction*, in "The New International Poverty Reduction Strategies", London and New York: Routledge

<sup>28</sup> Ravallion, Martin, 2003, *Growth, Inequality and Poverty: Looking Beyond Averages*, paper cited in Cling, Razafindrakoto and Roubaud, "New Poverty Reduction Strategies: Old Wine in New Bottles?", Oxford University Press

<sup>29</sup> Cling, Razafindrakoto and Roubaud, *Ibid.*

<sup>30</sup> Klugman, Jeni, 2002, *A Sourcebook for Poverty Reduction Strategies*, Washington, D.C.: World Bank

On the content of PRSPs, the main criticisms are traced on several main areas: Macroeconomics, Governance, Trade, Gender, Education, and Poverty and Social Impact Analysis (PSIA).<sup>31</sup>

The macroeconomic focus results from the belief that economic growth is good for the poor. This part of the PRSP is intended to address some of the concerns that have traditionally been on the IMF agenda, for example inflation and exchange rate policy. In general terms, the expectations of PRSPs are the same as they used to be in the structural adjustment period, with the exception that the broad prescription seems to be one in which macroeconomic reforms should be planned out with concern to how the policies impact the poor. Oxfam is arguing that PRSPs continue to reflect the structural adjustment emphasis on “belt-tightening” economic frameworks, liberalization, privatization and growth based on one or two primary exports and that there has been virtually no attempt to question this tired and discredited uniform prescription, or to build evidence-based country-specific pro-poor policies.

On the other hand, PRSP sourcebooks specifically mention of the possible need to strengthen social safety net programs prior to embarking on the reform program. Although this is a new concept in the poverty reduction strategies, most of the countries preparing PRSPs don't have much capacity to ensure the safety nets to protect the poor from the adverse impacts of monetary policy while keeping an eye on the government budget deficit.

Another area in the content of PRSPs deals with improving the quality of governance. The idea behind this principle is that in order to ensure a successful implementation of poverty reduction strategies, a government needs to raise the quality of its institutions. The Bank and the Fund are expecting governments to become more accountable and transparent in the management of their expenditures as well as in the improvement or complete removal of non-functional public services. In principle, this is a laudable requirement. If the government is corrupt, the poor are going to have less influence on

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<sup>31</sup> Oxfam, 2004, *Donorship to Ownership? Moving Towards PRSP Round Two*, UK: Oxfam Publication



government policy and more difficult access to government services for the simple reason that they are less able to afford the access and services.<sup>32</sup>

On trade, conditions forcing countries to open up their markets have continued under PRSP, Oxfam argues again, and capacity building provided by the World Bank further promotes the agenda of openness as an end in itself, rather than careful analysis of the kind of trade policy that is best for poverty reduction. In Ghana and Georgia, tariffs agreed by parliament were later removed in response to pressure from the IMF and World Bank. On gender equality, almost all PRSPs have been very weak, with minimal attention paid to the issue. World Bank and IMF Joint Staff Assessments of PRSPs singularly fail to address gender equality. Oxfam believes that gendered poverty strategies are the only ones that will actually succeed in reducing poverty, and that the IMF and World Bank could do much more to ensure that the next rounds of PRSPs will comprehensively address the issue. On education, PRSPs have helped to put education firmly at the center of the drive for poverty reduction. However, the links between PRSP and the Education for All Fast Track Initiative are not clear in many countries, and major gaps remain between the resources required to deliver education for all and the resources being promised by donors.

Finally, on PSIA, even though the recent programs of BWIs represent an immense project in terms of operational research and applications, the first evaluation of the PRSP process found that poverty and social impact analysis remains non-existent. The review done by IDA and IMF says:<sup>33</sup>

PSIA of major policies and programs has typically not been undertaken as part of PRSPs, for reasons to do with national capacity constraints and its inherent technical difficulties. The data and capacity needs are formidable and serious methodological issues remain unresolved, despite some analytical advances in this area.

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<sup>32</sup> Levinsohn, Jim, 2003, *The World Bank's Poverty Reduction Strategy Paper Approach: Good Marketing or Good Policy?*, G-24 Discussion Paper Series, UNCTAD and Center for International Development, Harvard University

<sup>33</sup> IDA and IMF, 2002, *Review of the Poverty Reduction Strategy Paper Approach: Main Findings*, accessed in March 2005 at <http://www.worldbank.org/poverty/strategies/review>

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Currently, no instruments are available to enable precise assessment of the impact of the policies on poverty. Certain innovative paths of research, such as micro-simulations, represent promising methodological progress in this direction, but two fundamental problems remain unsolved: how can the multidimensional nature of poverty be taken into account when analyzing policies' redistributive effects and how can the impact of alternative policies be measured in terms of poverty.

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<sup>33</sup> IDA and IMF, 2002, *Review of the Poverty Reduction Strategy Paper Approach: Main Findings*, accessed in March 2005 at <http://www.worldbank.org/poverty/strategies/review>