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## Brief No 9 – Poverty Reduction Strategies

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### 1. Introduction

*'If PRSPs didn't exist, we would have to invent them. There is no question of going back.'*

(Source: Booth, 2005)

In 1999, the enhanced Heavily Indebted Poor Countries (HIPC) Initiative was launched by the World Bank and the International Monetary Fund (IMF), aiming at deeper and more rapid debt relief to a larger number of countries than planned under the first HIPC Initiative, which was launched in 1996. The enhanced HIPC made the integration of debt relief into comprehensive poverty reduction strategy papers (PRSPs) a precondition (Andrews et al., 1999). Although PRSPs began as a HIPC requirement, they soon became synonymous with the overall development strategy that the World Bank and the IMF were propagating globally.

**Table 1: The five principles of the PRSP**

<b>Country driven</b>	The initiative to formulate a PRSP should originate with the countries itself; broad participation by civil society organisations (CSOs) and the private sector in the elaboration of the strategy is essential.
<b>Results oriented</b>	The PRSP should focus on the effects of the policies rather than on the policies as such, and should show an understanding of the causal links between policy and intended outcomes.
<b>Comprehensive</b>	Poverty is multidimensional and cannot be reduced by increasing economic growth alone.
<b>Partnership oriented</b>	The PRSP should include the various partners of development: bilateral donors and multilateral institutions, national governments and parliaments, domestic and international CSOs, the private sector, etc.
<b>Long term</b>	Poverty reduction cannot be achieved in the short run, implying that the PRSP must be consistent over time.

(Source: IMF/World Bank, 2003)

PRSPs were born as a follow-up to failed World Bank/IMF approaches towards poverty reduction and growth promotion in developing countries based on structural adjustment programmes (SAP) and conditionality. They were also a response to poor records in poverty reduction in the 1990s, a new emphasis on results as championed in the Millennium Development Goals (MDGs), a growing understanding that traditional aid delivery mechanisms undermined recipient government capacity and a growing public critique of anti-poor SAP approaches. For some (e.g. Hermele, 2005), however, PRSPs are in content nothing more than replications of many of the standard components of the SAPs, and the main innovation lies in the principles underpinning them (Table 1).

### 2. Key areas of progress<sup>1</sup>

Experience with first generation PRSPs suggests that they have contributed towards important progress in three key areas.

#### 2.1. Poverty focus

Poverty reduction has moved up government agendas. Poverty is no longer viewed as a marginal concern or as a special activity to be handled through projects, but is increasingly mainstreamed into government policy and has become a priority concern. The PRSP approach has also led to the adoption of poverty reduction plans that are much more comprehensive and multi-sectoral than previous development plans, which often focused narrowly on social sectors. Pro-poor spending (i.e. in the education, health or transport sectors) has increased, accompanied by efforts to improve public financial management, leading in a number of countries (e.g. Tanzania, Ethiopia) to tighter links between PRSP priorities and budget allocation. The emphasis on demonstrating results has led to an increase in the number of participatory poverty assessments (PPAs) and household surveys, which is likely to improve information on poverty profiles and trends.

<sup>1</sup> This section is based primarily on Driscoll (2004).

## 2.2. Civil society engagement

National consultation processes as part of the PRS process have opened up space for direct engagement of policymakers with CSOs. Despite some remaining critical areas, such as the absence of meaningful participation, poor geographical coverage and limited involvement by civil society stakeholders other than those organised in vocal non-governmental organisations (NGOs), the strengthened role of civil society in holding government to account is a tangible gain from the PRS process. Umbrella organisations have played a vital role in organising parallel consultation processes around the formulation of national poverty strategies. Also, NGOs are often involved in PPAs with a strong advocacy focus, such as budget monitoring.

## 2.3. Donor alignment

The PRS approach has focused attention on donor alignment and harmonisation (Box 1). There is increasing recognition that donor behaviour has undermined national institutions and imposed high transaction costs on governments. Although there are some issues still to be overcome, first generation PRSs have had positive impacts in two areas: first, establishing principles of donor alignment and harmonisation internationally, as shown in commitments made at Monterrey (2002) and Rome (2003), which emphasised that donors needed to coordinate and harmonise their assistance around nationally owned PRSs; second, moves by donors towards alignment and harmonisation at the country level, reflected in reformulated donor country strategies in support of national PRSs, the creation of joint donor groups which, although still donor led, have provided a forum for dialogue with government with the potential to reduce costs in managing the aid relationship and increasing use of upstream aid modalities, such as sector and general budget support, instead of funding projects and programmes.

### Box 1: Harmonisation and alignment

**Harmonisation** refers to increased coordination and streamlining of the activities of different aid agencies. This involves agencies working together to introduce common arrangements for planning, managing and delivering aid, to reduce the use of complicated procedures and conditions and to share information. Relevant activities include jointly developed diagnostics, joint country assistance strategies, agreed policy and fiduciary conditionality frameworks and shared monitoring missions and evaluations.

**Alignment** involves donors allowing the partner government to take a leadership role in determining the policy agenda and in coordinating donor efforts. It entails not only donors working together, but also donors interacting with government. There are two key elements of alignment: *systems* alignment, which involves donors using country systems and procedures to manage and account for aid; and *policy* alignment, which refers to donors delivering their assistance in accordance with the recipient's policy priorities.

(Source: ODI et al., 2006a)

## 2.4. Remaining challenges

Despite these achievements, Driscoll (2004) identifies a number of challenges that needed to be addressed:

- Institutionalised commitment to poverty reduction;
- Civil society consultation to enhance government accountability to citizens; and
- Strengthened commitments to alignment and harmonisation to secure concrete behavioural change from donors at country level.

In many PRS processes to date, sector line ministries and sub-national levels of government have been insufficiently involved, and government buy-in remains mostly technocratic (Booth, 2005). This is partly because of weak institutions, which leads to low levels of government engagement and communication difficulties, meaning that lower tiers of government are not aware of new initiatives launched by central government. A further problem of weak institutionalisation is that the operational link between the PRS and budgets and outcomes, especially at sector level, is lacking. PRS priorities are often poorly costed and not translated into budget allocations. Outcomes are difficult to attribute to the PRS, partly because of the lack of a counterfactual, partly because of the short period of time since the introduction of PRSPs. Additionally, PRS monitoring needs sufficient skills and capacities, which in many low-income countries are lacking.

First generation PRSPs are characterised by lack of an integrated strategy and insufficient recognition of the productive sector, particularly agriculture (Cabral, 2006). Sources of growth and obstacles to pro-poor growth are inadequately identified and are often not linked to appropriate policy actions or reform strategies. There are a number of reasons for a social sector bias in first generation PRSPs: first, important analytical gaps remained in defining how development interventions best contribute to pro-poor growth; second, donor preference for social sector spending mirrored the relative dominance of social sector targets in the MDGs and, under pressure, donors opted for quick wins of targeted sector spending.

Although much has been achieved in terms of civil society engagement, analysis of first generation PRS highlighted a need to move beyond simple civil society consultation towards more support for a wider national process of holding government to account.

A group of Swedish NGOs (Sanchez and Cash, 2003) concluded that, although the PRSP process created spaces for CSO engagement, three critical areas remained:

**PRSP process:** The lack of institutional frameworks for participation, leading to both a widespread failure to facilitate broad-based participation and poor quality participatory processes. Particularly problematic was the exclusion of many social groups, such as rural communities, indigenous populations, youth or women,

as they were not well organised. Also, parliaments were hardly ever meaningfully involved. The quality of the participation process was limited because of limited capacity in both governments and civil society.

**PRSP contents:** PRSPs reflected World Bank/IMF policy prescriptions instead of poor people's priorities. PRSPs have to be approved by the World Bank/IMF, so these organisations have too much control over their content. In addition, poverty analyses were insufficient, leading to sectoral and geographical shortcomings. Finally, equity issues, such as land reforms or special support measures for vulnerable groups, tended to be avoided; the same was true for corruption and other difficult governance issues.

**PRSP implementation and monitoring:** PRSP documents provided insufficient guidance on solving conflicts between economic, social and environmental goals. They were insufficiently linked to other national planning tools such as the budget. They failed to identify constraints to implementation, and rarely provided a clear framework for monitoring and evaluation of their implementation. The debt relief provided on the adoption of a national PRS was insufficient to meet growth and poverty reduction targets, and unpredictable transfers of donor aid led to programmes not being implemented.

At the national level, a number of CSO umbrella organisations – for example the Ethiopian Poverty Action Network of Civil Society Organisations (PANE) and the Ugandan Debt Network – also raised a number of concerns: limited regional consultations or inclusion of wider CSOs during the PRSP formulation process; inadequate follow-up and consultations with CSOs in the later stages of the PRSP formulation process, and particularly the exclusion of CSOs from discussions between government and the World Bank/IMF; unclear hierarchical relations between existing policies and the PRSP; weak intersectoral linkages during implementation; inadequate capacity in civil society to engage donors and policymakers in meaningful dialogue about growth and poverty reduction; inadequate mainstreaming of CSO input; inadequate access to data for monitoring and evaluation purposes; and inconsistency between qualitative and quantitative studies on poverty. NGO umbrella organisations frequently made the observation that their role in PRSP monitoring and evaluation was left unclear, despite (i) their vast experience as representatives of particular population groups and members of the public, (ii) expertise, specialised and localised knowledge and capacity in a large number of areas that are of interest to PRSPs and (iii) their special position in terms of being able to present viewpoints independent from that of the government (Gariyo, 2002; PANE, 2008).

Despite some progress in donor alignment and harmonisation, only limited behavioural change among donors can be observed. Donors continue to spread their assistance across too many sectors and to deliver aid through fragmented projects and programmes that carry heavy transaction costs for government – some partner countries have over 1,000 donor-funded

activities, host over 1,000 missions each year and prepare as many as 2,400 progress reports annually (World Bank, 2007). Too many off-budget projects and programmes still exist, despite the emergence and expansion of budget support groups. There are a number of reasons why donors continue to provide aid in the form of projects or programmes, among them the costs of changing work modalities, fear of loss of control and power, perceived need for visibility, domestic interests to attribute field-level results to own interventions or the issue of tied aid.

Volatile budget support can have profound impacts for annual or medium-term budgeting, and the imposition of unpredictable and non-transparent 'last-minute conditionality' by donors over recipient country governance concerns can lead to delayed or cancelled disbursements. Action is needed to reduce current proliferation and fragmentation of donor activity, to provide more predictable commitment and disbursement of budget support and to increase pressure on those donors and vertical programmes that do not engage in the national budget process (Driscoll, 2004).

Hermele (2005) summarises the critique of the first generation PRSP process as follows:

- A democratic deficit and lack of broad-based participation;
- A lack of consideration of alternative policies and their impact (e.g. on different regions within a country, on different social groups, etc);
- CSO participation that is mostly formal, while the real influence over the process rests with a few actors;
- Backing of PRSPs by technical staff within national governments who are put in charge of the elaboration of the policies, while political support is more uncertain;
- Insufficient understanding of the drivers of poverty and of which policies contribute most to poverty reduction;
- Unrealistic figures and over-optimistic scenarios underlying PRSPs.

### 3. Transitioning to second and third generation PRSPs<sup>2</sup>

Driscoll (2004) identifies a number of additional issues for the formulation, implementation and monitoring of second-generation PRSPs.

PRSPs were seen largely as technocratic approaches, yet poverty reduction is fundamentally a political objective. The political context of a country both shapes the PRS process and is being shaped by it. History and political orientation are equally important. The political nature of the PRS approach manifests itself most visibly at moments of change in the political leadership midway through the PRS cycle. New political elites often try to

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<sup>2</sup> This section is based on Driscoll (2004).

change the orientation of a PRS to reflect their political ideology. This may be positive, as it increases ownership of the PRS. On the other hand, changes midway may be problematic for donors who have committed to multiyear funding.

PRSPs have not been drawn on a blank canvas in most countries, but on pre-existing planning documents such as five-year development plans or decentralisation plans. Often, links between existing plans and the PRSP are unclear.

PRSs have two main functions – that of providing an overarching policy framework and that of delivering an operational plan for poverty reduction. As such, PRSs are ambitious policy frameworks that guide public investments for poverty reduction; at the same time, they are expected to be operationally relevant, prioritised and linked to the annual budget, and to generate a clear basis for donor alignment and harmonisation. This may create tensions within both governments and donors with regard to balancing the need to operationalise the PRS and to protect the political momentum in a given country context.

The UN Millennium Project (2005) suggests that PRSs should be the starting point for assessments of longer-term MDG financing needs. This would require an assessment of the public investments needed to meet the MDGs and a long-term policy plan, focusing on '*what is needed*' rather than '*what is available*'.

Several countries have already produced, or are in the process of producing, third generation PRSPs. What can generally be observed, Vietnam being a good example, is that principles of the PRSP have increasingly been incorporated into regular planning processes. PRSPs have turned into growth strategies or national development plans that exhibit considerable country ownership. The role of donors has become less directive and civil society participation is more substantial. Also, many of the third generation PRSPs focus more strongly on harmonisation and alignment than their predecessors did.

#### 4. Implications for donors<sup>3</sup>

Donors face a difficult balancing act. They should provide aid with as few policy conditionalities as possible, while still remaining accountable to domestic taxpayers. Donors are also expected to support long-term institutional change while responding to pressure to deliver short-term results. This balancing act has a number of implications:

- Donors need to be aware of the politics of the PRS and of broader domestic policy processes. This includes moving beyond a narrow process of civil society consultation towards a more holistic approach to supporting government accountability to citizens, especially poor people and other socially excluded

groups. It needs also to take account of the role of donors as political actors, who can either step back and respect government decisions or impose their own policy preferences.

- Much greater efforts are needed to implement agreements around donor alignment and harmonisation. Donors must move beyond rhetoric towards tangible improvements in the delivery of aid at the country level.
- Governments need to be supported in making appropriate choices in the design of the PRS, whether as an overarching policy framework, an operational plan or a compact between donors around poverty reduction. Existing procedures should be applied less mechanically to leave room for domestic processes.
- Greater efforts are also needed to scale up external financial flows in support of the PRS and MDGs. This implies that donor funding needs to be longer term, i.e. five to 10 years. Linked to this is the need to agree on outcome targets and on policy deliverables, as well as on the provision of technical assistance aimed at strengthening government systems, increasing the absorptive capacity and enhancing domestic accountability.

Understanding the political economy of PRS processes is important. But donors must also recognise that they have limited power to influence how the PRS process engages with the policy system of a country, and even less ability to influence fundamental politics. Donors must behave with political intelligence. This may involve, for example, funding the kinds of CSOs that hold governments to account and lobby for the inclusion of policy ideas that are not currently part of the PRSP. Donors also need to be aware that setbacks must be understood technically and politically. Lastly, understanding the politics of donor and donor cooperation, such as the sceptical stance of some donors towards increased harmonisation and alignment, based on their understanding of the prevailing political problems of a given country, is equally important (ODI et al., 2006b).

An often underestimated role for donors is in supporting governments and civil society actors in PRS monitoring. Monitoring systems need to better understand impacts of given policies on poverty outcomes, and attribute observed changes in multidimensional poverty to particular policy interventions or public expenditures. Fora need to be established where stakeholders involved in PRSP monitoring (e.g. central ministries, sectoral ministries, parliament, the national statistical office, bodies of regional governments, independent research institutes, donor agencies and NGOs/community-based organisations (CBOs)) can share data and ideas. Building capacity (including institutional capacity towards more efficient accountability; organisational capacity, to have the organisations in place that can handle highly complex PRS monitoring and evaluation tasks; information and communication technology capacity to collect, analyse

<sup>3</sup> This section is based on Driscoll (2004).

and communicate appropriately the information needed for PRS monitoring; and human capacity, to have people with the relevant skills that match the institutional and organisational context and the tasks of PRS monitoring) among NGOs, CBOs, private sector groups and citizens for PRS monitoring and evaluation is also important. Their increased participation improves accountability and creates further demand for monitoring. This can improve data quality, supporting improvements in evidence-based policy and decision making (ODI et al., 2006c).

The IMF (2008) highlights, among other things, a key message from past reviews that donors need to enhance the overall effectiveness of aid by better aligning their support around the priorities articulated in the PRSP, and by harmonising and simplifying their policies and practices. The latest in-depth assessment conducted jointly by IMF and World Bank staff further emphasises the role PRSPs can play in balancing the different tensions inherent in the formulation of national development strategies, notably between realism and ambition and between domestic accountability - closely related to ownership - and external accountability vis-à-vis donors and other development partners.

## **Box 2: Switzerland's position on PRSPs**

In 2004, a High-Level Statement was published and approved by the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (seco), in which Switzerland pledges to support strategies to fight poverty. Switzerland's strong commitment in favour of PRSPs is based on the conviction that PRSPs are a key mechanism for countries and for the international community in harmonising development activities and in ensuring their effectiveness. For Switzerland, PRSPs represent key documents for targeting international cooperation towards two goals: that of reducing poverty and that of reaching the MDGs.

Switzerland views PRSPs, including related national strategies and budgetary processes, as the central analytical and political framework for its development cooperation. It also recognises that PRSPs are each individual country's own strategy for reducing poverty, strategies for which each of the individual governments concerned bears the burden of accountability first and foremost to its own population.

SDC considers PRSPs as an important analytical tool for (i) the evaluation and assessment of development activities in a particular country and (ii) North-South and South-South learning and partnership. SDC further stresses that PRSPs will gain national ownership and legitimacy if civil society representatives, groups and organisations are involved in the development, implementation, monitoring and evaluation of PRSPs. In order to improve PRSPs, SDC is committed to supporting national partners in improving and further developing them. Lastly, SDC highlights the role of PRSPs in effective donor harmonisation, making development partnerships more efficient and effective.

SDC has defined five key areas in its activities towards PRSP support:

1. **General policy dialogue:** SDC participates in its priority countries in general PRSP dialogue, wherever possible with like-minded partners, aiming at sustainable and equitable growth leading to poverty reduction. A particular strength of SDC is its experience on the ground, including the expertise of Swiss NGOs.
2. **Participation and legitimacy:** SDC supports and initiates mechanisms to strengthen the role of parliaments, of legitimate CSOs and of the private sector, with the aim of strengthening democratic processes, good governance and empowerment.
3. **Support for PRS Sectors:** SDC is committed to supporting those sectors in its priority countries that are essential to the achievement of the PRS objectives and where Switzerland has a comparative advantage over other donors. In particular, it analyses which parts of the PRSP can be financed. SDC contribution can be project, programme or budget assistance.
4. **PRS monitoring:** SDC has broad experience in project planning, monitoring and evaluation, skills which can particularly be applied in supporting participatory monitoring of PRS impact.
5. **Knowledge development and learning at national and international levels:** SDC promotes training and learning at national and international levels, with the aim of improving the effectiveness of PRS implementation in priority countries. Nationally developed PRS knowledge and learning are systematically and actively communicated. SDC intends to strengthen the relevance of national PRSPs through strategic partnerships with the Bretton Woods Institutions, the UN system, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) and other internationally recognised fora.

In planning its activities, SDC systematically integrates other national and international development actors in current PRS processes and programmes. This also concerns coordination of activities among Swiss partners, with SDC focusing on issues such as 'participation', 'democratic support', 'equity', 'poverty relevance' and 'impact orientation', while seco focuses on macroeconomic issues.

(Sources: SDC, 2004; SDC and seco, 2004)

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