CHAPTER 1

Introduction

In recent times, there has been increasing recognition of the need to improve aid effectiveness through enhancing country ownership of reform programmes and better alignment of donor support behind effective country strategies. In the absence of such country ownership, the leverage of aid conditionality alone has often been found to be inadequate in bringing about sustained economic reforms. There is also a renewed emphasis on making aid more effective in reducing poverty, while at the same time promoting economic growth.

In response to these aid ideas, the World Bank and the IMF have adopted the 'Poverty Reduction Strategy' approach in providing development assistance to low-income countries. The PRS process involves the preparation of a Poverty Reduction Strategy Paper (PRSP) in order for a country to remain eligible for World Bank-IMF assistance – that is, concessional loans. The PRS/PRSP process is also increasingly being accepted as providing a basis for support from other international aid agencies and bilateral donors. In addition to promoting country ownership, the approach is expected to result in a lowering of transaction costs of delivering aid through a realignment and harmonisation of donor policies and practices[1].

Over the period 2004 to 2006 the Commonwealth Secretariat sponsored four studies to monitor implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. The purpose was to provide independent monitoring of how the PRS process, and support for it from international institutions, donors and others was working, as seen from the perspective of recipient countries. Each study was carried out jointly by a local research institution or consultant and a UK-based consultant. The four studies were:

- Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in The United Republic of Tanzania by Peretz and Wangwe (August 2004)
- Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in Ghana by Aryeetey and Peretz (August 2005)
- Monitoring Donor and IFI Support for Poverty Reduction Strategies: Malawi by Chipeta and Peretz (August 2006)
- Monitoring Donor Support to Poverty Reduction Strategy in Bangladesh: Rethinking the Rules of Engagement, which was prepared by Professor W Mahmud, with Dr B Mukherjee acting as Commonwealth Secretariat consultant (August 2006)

The studies were then discussed at successive annual meetings of the Commonwealth Finance Ministers in 2004, 2005 and 2006.

Events have moved on in all four countries since the studies were completed, and of course each country's circumstances are unique. Nonetheless, a number of common themes emerged from the research and these seem likely to continue to be relevant in the four countries and elsewhere. Issues emerging in Tanzania, which was one of the first countries to adopt a PRS, and in Ghana, where the initial PRS was launched in

2002, are likely to be the ones faced in other PRS countries in due course. In Malawi, the original PRS was also launched in 2002, but failures in macroeconomic policy and subsequent shortfalls in donor support meant it only began to be implemented effectively after a gap of several years, and rebuilding trust between government and development partners is a continuing process. In Bangladesh, the PRSP was launched towards the end of 2005. The following paragraphs discuss themes emerging from the studies under six headings: design of the strategy; the extent of country ownership, and how to strengthen it; implementation; accountability; alignment of development partner support; and improving donor practices and procedures and cutting transactions costs.

Overall picture

Design of Poverty Reduction Strategies

Countries have been learning from weaknesses in first generation Poverty Reduction Strategies and at the time of the studies, Tanzania, Ghana and Malawi were in the process of incorporating these lessons into their second-generation strategies. Key lessons include practicability, focus and ambition.

Practicability. What countries need as a basis both for their own policies and for external support is a comprehensive but practical medium-term national development strategy, defining an approach for all key aspects of development policy. 'Comprehensive' does not mean exhaustive or highly detailed; but the strategy does need to cover all the issues that are key to successful development and poverty reduction. 'Practical' means that the complexity, ambition and in some cases time frame of the strategy needs to match a country's ability to implement it. Particularly in countries where implementation capacity is relatively weak, it is important to identify a relatively limited set of achievable actions and expenditure priorities, which should be the strategy's focus. Indeed, in some cases it may be sensible to cost only those actions set out for the first year of the strategy, and rather than seeking to set out anything resembling a medium-term expenditure plan, simply illustrate a range of scenarios for later years.

Focus. Early PRSs, written in the first years of the century, tended to be focused excessively on policies and sectors that national officials thought to be of most interest to development partners, such as health, education and social protection – with less emphasis on other policies critical for development such as policies to enhance economic growth and create employment. This may partly explain the emergence or continuation in some countries of parallel national development strategies alongside the PRSs – in Tanzania a 'Medium-Term Plan for Growth and Poverty Reduction', in Ghana the 'Co-ordinated Programme for Economic and Social Development' and in Malawi the 'Malawi Economic Growth Strategy'. At the time of the studies, these parallel strategies were in the process of being integrated into second-generation PRSs, with much stronger emphases on economic growth and private-sector development – in some cases with a name change (in Malawi to the 'Malawi Growth and Development Strategy') to reflect the new, more comprehensive nature of the strategy. As discussed further below, some donors have been slow to adapt to this change of emphasis, preferring to focus on 'aid popular' interventions with a direct poverty focus rather than, for example, the investments in infrastructure and energy that are also essential for poverty reduction.

Ambition. A further lesson is that some of the early PRSs lacked ambition in the sense that they were based on IMF-agreed macroeconomic programmes that typically made conservative assumptions about possible aid flows and in some cases were difficult to adjust if aid flows turned out stronger than allowed for. Countries have been learning the advantages of illustrating more than one medium-term scenario, showing the faster progress that could be made with different levels or modalities of external assistance.

National ownership and how to strengthen it

The four studies reveal ownership to be a complex issue with many dimensions. There are issues of ownership among the key central ministries; ownership among a wider group of officials at national and local levels responsible for implementing the strategy; national ownership as endorsed by the elected government and parliament; ownership by stakeholders, such as the business sector and civil society; and ownership or at least a degree of understanding of the strategy among the general population. In countries eligible for heavily indebted poor country (HIPC) debt relief it appears that many of these dimensions of ownership were undermined initially by a widespread perception that the only reason for preparing Poverty Reduction Strategy Papers (PRSPs) was to qualify for debt relief, and that PRSPs had to be 'approved' by the boards of the International Monetary Fund (IMF) and World Bank in Washington. This is hardly surprising given the origin of the concept. Changes made in IMF and World Bank procedures after 2004 may have lessened this perception to some degree, and the studies suggest that ownership on most dimensions has strengthened over time – but in all four countries at the time of the studies, national ownership was far from complete. It is not proving easy to remove the perception that PRSs are primarily linked to the provision of external support, rather than being central national frameworks for growth and poverty reduction.

While the studies all find a high degree of ownership in the central departments – planning ministries or commissions (in Tanzania the Vice President's Office) and finance ministries – in many cases ownership and understanding of the strategy in implementing ministries was much less. Ownership and understanding among officials at the local level, including those with key implementation responsibilities, appeared to be even lower. The studies all suggest the need for greater efforts – not only to involve implementing ministries and local authorities more in strategy preparation, but also to ensure that they understand the strategy when it is agreed and ensure that it is implemented.

Parliaments had had little if any involvement with PRS processes at the time of the studies. In Tanzania in 2004, there appeared to be a widespread lack of awareness of the existence of the PRS among parliamentarians – an indication of how far there was to go to fully integrate the PRS into national processes. A common theme from the studies is the need for formal parliamentary scrutiny and endorsement of PRSs, as a symbol of true national ownership, and the role that civil society organisations (CSOs) and others could play in informing parliament and improving the quality of parliamentary debate.

CSOs were in all cases much involved in the process of developing initial PRS documents, and this has led to continuing involvement and some degree of ownership among the CSO community. In Malawi, for example, CSOs are putting much effort into spreading knowledge of the PRS among groups responsible for its implementation, parliamentarians and elsewhere. Business and private-sector representatives, by contrast, have felt much less involved, but were beginning to feel more involved in the preparation of second-generation PRSs with their stronger emphasis on growth and private-sector development.

A further common theme from the studies is the importance of outreach to the general population once a strategy is adopted, and the role that public accountability and monitoring, for example by CSOs, can play in implementation.

Implementation

The studies were concerned with the whole PRS process, including implementation, recognising that however well conceived or well written a strategy document is, it has little value unless it is implemented. Poor implementation was a key weakness, particularly in Malawi where the whole PRS process following the initial PRSP went badly off track. A number of common themes emerge from the studies, focused on different ways to improve financial management.

First among these is the need, ideally, for the strategy to be linked to a properly sequenced annual cycle of review of the PRS and its implementation, preparation of medium-term expenditure plans (usually in the form of medium-term expenditure frameworks – MTEFs), budget preparation, budget implementation and monitoring budget outturns. Where implementation capacity is weak, there needs to be at least a firm link between the strategy and annual budget preparation.

Second, is the important and continuing role that finance ministries can play, in co-operation with planning ministries/commissions, in ensuring that annual departmental budgets are clearly and transparently linked to the strategy. This requires effective arrangements for challenging ministries' budget bids and for monitoring and evaluating outturns to ensure that plans when agreed are executed effectively.

Moving to national accountability

A further theme of the studies is the importance of developing and strengthening systems of domestic accountability. Over the years, development partners have established quite elaborate arrangements for ensuring accountability to themselves for governments' development strategies and progress made in implementing policies and projects. Arrangements for continuing policy dialogue with budget support groups of donors, and also at the sector level, have acted to strengthen such accountability to donors further. To avoid undermining moves to strengthen national accountability, development partners, including the international financial institutions (IFIs), need over time to draw back from these arrangements, while governments need to strengthen their own arrangements for accounting to parliament and people for the country's development strategy and its implementation.

In particular, governments should move to developing and presenting to parliament the policy contents of IMF letters of intent, like PRS documents, as their own policy statements. (For the IMF, the government could then simply send a covering letter enclosing the government's policy document). Similarly, where policy assessment frameworks (PAFs) are developed in co-operation with development partners, these should be treated and presented as government statements of policy intentions, with the government, not donors, responsible for monitoring and reporting progress on its commitments.

These and other improvements in governance require domestic political commitment; without that, donor support for the institutions of governance and accountability will not be effective.

Donor alignment

From the outset of the PRS approach, and most explicitly in commitments made in the Paris Declaration on Aid Effectiveness in 2005, donors have agreed that where a country has a viable PRS in place, then external aid will be aligned with country priorities as set out in that strategy. The studies – and subsequent discussions among Commonwealth Finance Ministers suggesting similar experiences in other countries – throw much light on what progress is being made in practice on these commitments and what more needs to be done. It is a process likely to take some time, involving as it does reconciling systems and priorities of individual donors with those of country governments.

One highly positive development has been the shift away from support for individual projects, each requiring separate negotiation and not always within the government's priorities, and towards general budget support and support for sector strategies through basket-funding arrangements. The studies suggest that in the past, aid provided for individual projects has not only sometimes been in conflict with national priorities, but also has not been captured properly in government financial and other statistics, undermining the country's financial and resource allocation systems. Some donors have preferred to bypass the government and channel aid through non-governmental organisations (NGOs). Moreover, in some countries projects have in the past been subject to frequent cancellations, particularly where projects were inadequately informed by local knowledge of what works and what does not, leaving a substantial proportion of committed aid unutilised.

There is, however, some way to go to achieve a situation where development partners simply accept the government's priorities as set out in the PRS and sector strategies and support them. Both budget and sector support are still subject to separate negotiated conditions. As suggested above, it would seem preferable for these policy commitments to be presented for what they are – more specific government commitments made within the framework of the PRS for which the government holds itself accountable in the first instance to its parliament and people.

Where confidence among development partners is weak, it may be more realistic to seek to establish arrangements where donors can channel funds into sector baskets – sector-wide approaches (SWAps) – rather than expecting a rapid move towards a more substantial measure of direct budget support.

Where funding for sector baskets or individual projects continues, it will be important to ensure that it falls within overall government priorities, and as far as possible is accounted for within government systems. This applies also to aid delivered through NGOs, where it is important to develop the NGO/government partnership: donors should not be seeking to deliver aid through NGOs as a way of circumventing government. Where support for a project or sector does not fall within government priorities, on occasion governments should be prepared to say 'no'.

Improving other donor practices and procedures

The Paris Declaration contains many other commitments to improve donor practices and procedures and aid modalities, to reduce transactions costs for recipients and improve aid effectiveness – for example, using country systems where possible. However, progress in implementing these commitments at the country level remains slow – perhaps in some cases reflecting stronger ownership of the Paris principles by agency policy staff at headquarters than by staff operating on the ground.

One issue for recipients is a concern that despite its other advantages, budget financing could prove less stable and predictable than project finance. In particular, there is seen by many to be a risk that budget-support donors could suspend the totality of their budget support because of relatively modest policy disagreements or political events. Some donors are showing the way by making firm long-term commitments for at least substantial parts of their budget support.

Another issue is the continuing large numbers of inward donor visiting missions, which place high demands both on government and development partners. Where missions are technical, they can of course add value. The problem arises when – as is too often the case – they provide little technical added value, but tie up the scarce time of senior officials. Increasingly elaborate systems of local consultation machinery add further demands on the time of the same officials. The best approach – being pioneered by some of the countries that were studied – is probably to cut back visiting missions to an absolute minimum, to try to focus more on local consultation and to set a clear annual timetable for joint consultations with all budget donors and IFIs.

Despite improvements in government financial management and accounting systems, these are still being used too little by donors, reflecting agency rules or operational habits that should be changed.

A closer local-development partnership of the kind that is being developed in all four countries will require other changes from development partners. All significant partners need to organise themselves locally so they can engage effectively in policy discussion in-country. In some cases this may require more local staff, but more importantly it will require empowerment of local staff by head offices to take decisions locally; better arrangements for continuity when local staff rotate; and implementation of arrangements for specialisation among development partners, assigning different donors or agencies the acknowledged lead in different sectors or policy issues.

In too many cases, donor co-ordination is still being driven by donors rather than by recipient governments. The early experience in Tanzania, which is drawn on elsewhere, suggests that strong government leadership can do much to progress implementation in each country of the global commitments that have been made to align donor support behind country strategies, and to co-ordinate and harmonise donor practices and procedures to reduce the administrative burden on government. Such strong leadership is also usually welcome by donors. In addition, in too many cases, monitoring and evaluation of progress on this agenda – essentially implementation of the Paris Declaration on Aid Effectiveness – is being carried out by donors. The Tanzanian experience points to the potential value in all countries of setting up arrangements for truly independent monitoring of such progress.

Concluding comment

One final lesson that emerges from the four reports (presented in chapters 2–5, below) and subsequent discussions at meetings of Commonwealth Finance Ministers is the potential value to countries from being able to learn from each other's experiences in developing and implementing Poverty Reduction Strategies. It is hoped that the four studies will encourage further interaction between countries facing similar issues in implementing a PRS approach and handling their relationships with development partners.

Note

1. The new aid consensus was embodied in the Paris Declaration of March 2005, which was a follow-up to the Rome Declaration of 2003.