

**Poverty Reduction Strategy Papers
And Sustainable Development**

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In his 1998 Prebisch Lecture, Joseph Stiglitz put forward a new paradigm for development, which is a key topic of discussion at this workshop. Today I will make the case that the Poverty Reduction Strategy Paper—PRSP—program launched by the World Bank and the IMF is an effort to make operational the core principles of that new paradigm. I will begin my remarks today by explaining the PRSP approach and its consistency with the Stiglitz paradigm. Then I will discuss several of the most difficult questions about how to implement the PRSP approach. In closing, I want to talk briefly about the relationship between the PRSP approach and the challenge of sustainable development.

As a background reading, you have received a Bank-Fund document entitled “Poverty Reduction Strategy Papers: Progress in Implementation,” dated September 7, 2000. This report, which was submitted to the Development and IMF Committees at the most recent Annual Meetings, provides a great deal of detail about the PRSP approach that I will not attempt to repeat here. However, if you have questions about this report that I do not address in my remarks, I hope that we can discuss those during the question and answer session.

The PRSP Approach is Based on Country Ownership and Participation

At the end of 1999 the Executive Directors of the World Bank and the IMF endorsed a new approach for providing assistance to low-income countries. This approach is simple in concept but potentially radical in its implications for development assistance. The basic idea is that governments seeking concessional lending from the World Bank and the IMF must prepare their own Poverty Reduction Strategy Papers. These PRSPs must be prepared through a participatory process involving both domestic stakeholders and external development partners. And the Bank and the Fund would align their support behind these country-owned strategies.

The PRSP approach is intended to make operational the principles of the Comprehensive Development Framework articulated by Jim Wolfensohn. These are essentially country ownership, a comprehensive and long-term perspective, partnerships,

and results orientation. Of these, I want to stress today the principle of country ownership and the associated concept of participation.

In my view, the essence of the PRSP approach is to change the processes underlying development assistance by emphasizing country ownership and participation. While there are other important elements of the Stiglitz paradigm, these concepts of ownership and participation are central. Let me quote at some length from his Prebisch lecture:

...Effective change cannot be imposed from the outside....Thus, the key ingredients in a successful development strategy are ownership and participation. We have seen again and again that ownership is essential for successful transformation: policies that are imposed from outside may be grudgingly accepted on a superficial basis, but will rarely be implemented as intended. But to achieve the desired ownership and transformation, the process that leads to that strategy must be participation. Development cannot be just a matter of negotiations between a donor and the government. Development must reach deeper. It must involve and support groups in civil society; these groups are part of the social capital that needs to be strengthened, and they give voice to often-excluded members of society, facilitating their participation and increasing ownership in the development process. By involving these groups, the process of strategy formulation may be able to elicit the commitment and long-term involvement that is necessary for development to be sustainable.

The guidelines that have been established for the PRSP approach are based on these ideas. The Bank and the Fund have required that each government seeking concessional assistance and debt relief under the Enhanced HIPC Initiative should first present an Interim PRSP that describes its poverty situation, its existing policies, and its plans to develop a first full PRSP through a participatory process. The first full PRSP should describe the participatory process by which it has been produced, evaluate the dimensions and causes of poverty, set targets for poverty reduction and indicators to monitor progress, and outline the priority public actions for reducing poverty. It is expected that governments will prepare annual progress report and will update their strategies every three years. This is consistent with the Stiglitz view that: “ a development strategy is a living document: it needs to set forth how it is to be created, revised, and adopted, the process of participation, the means by which ownership and consensus is to be obtained....”

It is hoped that PRSPs will present home-grown strategies that are grounded in a long-term vision for societal transformation. They should also set priorities reflecting the country’s own preferences and consistent its financial and institutional constraints. Good strategies will necessarily include measures to promote sustainable economic growth from which the poor will benefit as well as public investments targeted to assist the poor. As these strategies emerge, the Bank’s own Country Assistance Strategies will be

redesigned to support the PRSPs, and the conditionalities in Bank and IMF lending will be drawn from or elaborate on the set of policy measures contained in the PRSPs.

Although the Bank and the IMF have launched the PRSP approach, it is intended to be a means by which the low-income countries can improve their partnerships with all development partners. Indeed, the PRSPs will be dramatic failures if they become only documents for the Bank and the Fund rather than an instrument for overall aid coordination.

Difficult Questions in Implementing the PRSP Approach

The PRSP approach reflects a vision of how development and development assistance ought to work that is quite at odds with the current realities in many low-income countries. Strategies and policies should be home-grown, not dictated in Washington. Governments should actively engage their own societies in policy debate and formulation, not do secret deals with donors in the meeting room of the Ministry of Finance. Priorities should reflect a deep concern with the well-being of the poor and vulnerable, not primarily the needs of modern economic enclaves. External assistance should provide coordinated support to the government's own programs, not a disjointed set of projects that fragment and perhaps deplete institutional capacities within the country. Indeed, the PRSP vision implies a major transformation in the way the business of development assistance is done.

How well is the PRSP approach working? It is far too early to say. The changes that are envisioned will take time—maybe 5 to 10 years in most countries, and even in that time horizon, the desired changes will not likely be achieved everywhere.

Implementing the PRSP approach well will require changes in the traditional behaviors of the Bank, the Fund, and other donors. And it will require improving the capacities of many low-income country governments. The PRSP approach was launched only one year ago. So far 27 countries have presented Interim PRSPs and only 4 have presented their first full PRSPs. Hence there is a long way to go.

Nevertheless, I believe that the early signs are encouraging. Many low-income governments have gladly accepted the invitation to take the initiative in defining their own strategies. Some have launched participatory processes that involve healthy departures from recent practice. Most external development partners have indicated strong support for the principles and a willingness to cooperate in realizing the goals of the PRSP approach. In terms of adopting processes that ought to enhance country ownership and participation, I think that we are off to a good start. In terms of the content of strategies and policies, in my judgment, there has not been much change so far. Changes were not expected at the stage of the Interim PRSPs. Among the few PRSPs, one can find encouraging signs of new thinking and clearer priority setting. But, for the most part, the emergence of differentiated, home-grown strategies is still ahead.

Even in this first year, the significant challenges in realizing the vision of the PRSP approach have become clear. Let me talk about three particularly difficult

questions about how to implement the PRSP approach: How to balance between speed and quality? How to reconcile country ownership and the responsibility for donors to ensure that their funds are well used? And what should be expected of governments with respect to participatory processes?

The trade-off between speed and quality has been much discussed during this first year of implementing the PRSP approach. Everyone recognizes that building country ownership through a good participatory process takes time. Undertaking the analytical work to design better strategies and policies also takes time. And low –income countries have limited institutional, analytical and organizational capacities to prepare participatory PRSPs. And, quoting again from Stiglitz, “Social and organizational capital cannot be handed over to a country from the outside.” Despite these considerations, the Fund and the Bank have required that countries prepare at least Interim PRSPs as a prerequisite for new IMF financial support and for interim debt relief. And we have created incentives for the first full PRSPs to be ready by mid-2002. Critics have charged that the pressures for speed will seriously erode quality in terms of ownership, content, and partnerships. This is a serious issue. How to find the right balance between two extremes? On the one hand, the Bank and the Fund—and perhaps other donors—could suspend new assistance until countries have developed high-quality strategies. On the other hand, we could conduct business-as-usual, providing assistance under old modes of business, while waiting for countries to complete high-quality PRSPs. Instead of either of these extremes, we think it best for countries to have incentives to work diligently to prepare initial strategies and for donors, including the Bank and the Fund, to begin the task of

aligning our support behind those strategies as they emerge. In particular, we want to provide interim debt relief sooner rather than later for eligible countries and we want to link that relief to better poverty reduction strategies. So on a country-by-country basis we are trying to achieve a reasonable balance between speed and quality, recognizing that the PRSP is not a one-time event and that the quality of strategies and donor alignment with those strategies will improve over time.

A second question is how to reconcile the principle of country ownership with the continuing responsibilities of donors to reasonably ensure the good use of their funds. Under the PRSP approach, the Bank and the Fund—and hopefully other donors—intend to be more flexible and open-minded in evaluating home-grown strategies. This means listening to countries, recognizing that there are no blueprints for many of the socially, institutionally, and political complex problems of development, and realizing that country-ownership itself is a primary ingredient for successful implementation. But donors will still commit their financial resources only when they have sufficient confidence that they will be well used. That confidence will depend on the donors' professional judgments about the credibility of the country's strategies. Increasingly those judgments should be based on the actual achievements of results under those strategies, not on the donors' theories about what should work.

In this context, I should say that the PRSP approach will not eliminate the use of conditionalities in Bank or Fund lending operations. However, the use of conditionality should change in several ways. First, over time the PRSP approach should lead donors to

allocate their resources to countries that have designed and implemented strategies that are generating results in terms of poverty reduction. Consistent with the conclusions of the work on aid effectiveness, the PRSP process should be used to reveal those countries in which external assistance can be well used. These countries should attract more assistance, consistent with their capacities. Countries that cannot design and implement good poverty reduction strategies should attract less support. In short, over time, the PRSP approach should induce donors to respond to actual results in terms of poverty reduction, not to promises for policy changes which may not be implemented or may not work as intended. Second, conditionalities should involve holding governments accountable for the commitments within their own PRSPs, and those commitments will be made to their own societies through the participatory process. Third, conditionalities should be streamlined and simplified, including only the most important measures to which a government has committed and not over-constraining or micro-managing the implementation process.

A third difficult question is what the external donor community should expect from governments with respect to participatory processes. Organizing participation is an inherently political process. The Executive Directors of the Bank and the Fund have indicated that governments must define their own participatory processes and that the staff cannot dictate the modalities of participation. As governments design their preferred processes, they face many challenges and are subject to diverse advice, if not pressure, from many stakeholders. One challenge is to design processes that enhance the role, the legitimacy and the stability of emerging democratic institutions, especially

parliaments, rather than to create parallel processes. A related challenge is to use the participatory process to help create social capital. This might be especially useful for dealing with environmental issues, as I will discuss further below. Finally it is a challenge to find the right balance between involving domestic stakeholders and engaging external development partners. Many donors, including the Bank and the Fund, are eager to provide technical assistance, analytical support, and policy advice during the preparation of PRSPs. But governments need to be given space so that the dialogue about their poverty reduction strategy is primarily an internal country dialogue, not a negotiation with external partners.

These three questions—and others that I do not have time to discuss today—highlight the fact that implementing the new development paradigm put forward by Joe Stiglitz and reflected in the PRSP approach will be difficult. But I remain persuaded that that new paradigm and the PRSP approach are the most promising way forward in improving development assistance. Of course, we will need to learn and adapt as we gain experience. But I believe that the intention to base development assistance on the principles of country ownership and participation is irreversible.

The PRSP Approach and Sustainable Development

In the Prebisch lecture, I believe that the term “sustainable development” is used to mean development that has sufficient country ownership and broad participation so that societal transformation can be sustained successfully over time. I do not think that

Stiglitz was referring to the sustainable use of the natural resource base so that the needs of the present could be met without compromising the ability of future generations to meet their own needs.

Nonetheless, it is important to ask how the PRSP approach might impact on the design of development strategies that take into account the imperatives of poverty reduction and also the sustainable use of natural capital. I cannot add to what Prof. Markandya has said about the empirical evidence on the relationships between poverty reduction and sustainable use of natural capital. However, I can report on the extent to which these issues have so far come up in government's PRSPs.

The Bank's environment department reviewed the extent to which the first set of 17 Interim PRSPs and 2 full PRSPs dealt with environmental and natural resource management, that is NRM, issues. It considered how well the documents described environmental and NRM issues, assessed the causal links between environmental degradation and poverty, and described the policy responses to identified problems. In general, the results of this review were disappointing. Few Interim PRSPs gave much attention to environmental or natural resource management issues. There were some positive observations. For example, the full PRSP for Burkina Faso specifies a program of soil and water conservation designed to break the vicious cycle of soil degradation, poverty, and food insecurity. It also includes a program to test ways to improve property rights to land under a national land management program. But, overall, the initial set of

Interim PRSPs suggests that, in thinking about poverty issues, these governments have apparently not yet given high priority to environment and natural resource management.

This reflects, I believe, the intrinsic complexity of the issues and the lack of robust policy advice in this area. It is not, in my judgment, an inherent outcome of the PRSP approach. This poses a challenge and a potential dilemma. Clearly the external development community needs to continue the efforts to understand environment-poverty links and to propose policies that government might consider as they develop PRSPs. The challenge is to do better research and to translate that into timely and persuasive policy advice. The dilemma may arise if governments prepare poverty reduction strategies that largely ignore well-established problems of environmental and natural resource management that, in the view of external partners, ought to become part of their strategies. Should donors refrain from financing environmental and NRM policies and projects that do not enjoy sufficient country ownership to merit inclusion in the PRSP? The logic of the PRSP approach would imply so. A more serious dilemma would arise if there were a case in which the external development community were persuaded that dealing with environmental and NRM issues was absolutely critical to a successful poverty reduction strategy and yet the country's PRSP gave this low priority. At what point would it be justified to significantly reduce external support to the country-owned strategy?

In this sense, inserting the principle of sustainable development into the new development paradigm proposed by Stiglitz remains problematic from an operational

perspective. If we give primacy to country ownership, do we then defer to a country-owned strategy that neglects sustainable development concepts? To encourage consistency between the new development paradigm and sustainable development, it seems to me imperative to fully engage research and policy institutes within developing countries in all of our work on environmental and natural resource management issues so that they become domestic advocates for sustainable development policies. Also, to the extent possible, external development partners should lend support to participatory processes in which community groups can build the social capital needed to improve the management of natural capital. Both of these avenues should be possible within the PRSP approach.

Concluding Remarks

I hope that I have persuaded you that the PRSP approach launched by the World Bank and the IMF is consistent with core principles of the new development paradigm put forward for Mr. Stiglitz. I have also acknowledged that making this paradigm operational for external development partners poses many difficult challenges. Inserting the concept of sustainable development into the paradigm will be particularly challenging. The most promising avenues may be working actively with local research groups on environmental-poverty links so that good policy advice can be injected into a country's own policy dialogue and to support community groups which may have stakes in sustainable management of natural capital.

