

Second Generation Poverty Reduction Strategies

I. INTRODUCTION

Five years on from its adoption by the Boards of the IMF and World Bank, the PRS approach increasingly lies at the centre of development assistance and debt relief to poor countries. International endorsement of the approach as critical for more effective poverty reduction and better development aid is reflected in the Monterrey consensus¹ and the Rome Declaration². Forty countries now have a PRS under implementation, and a second generation of Poverty Reduction Strategies (PRSs) has begun to emerge in Bolivia, Burkina Faso, Nicaragua, and Tanzania. Uganda, the forerunner of the PRS approach, is already developing its third strategy.

This paper examines the particular challenges and opportunities confronting countries that are formulating and implementing their 'second generation' PRS³. While there is clearly an element of continuity in the technical, institutional and political context confronting the second generation of PRSs, it also differs from the first in a number of respects:

1. The influence of HIPC as a driver and shaper of PRS engagement is on the wane as countries progress from decision to completion point and beyond. New pressures can be felt however, such as the donor desire to demonstrate progress towards the Millennium Development Goals in the run up to 2015, and to make the case for aid as a contribution to global security. These carry a risk of undermining fragile steps toward greater country ownership, but also present an opportunity for the PRS approach to assume its full role in delivering sustainable national development.
2. Key stakeholders in government, donor and civil society organisations have now moved beyond principled rhetoric and towards practical action in support of the PRS process at country level. The risk of disillusionment is real, as the approach uncovers but cannot immediately transform the enormous legacy of failed aid and poverty reduction efforts over the past half a century. Yet opportunities also exist in this phase, to learn from an emerging body of experience in early-adopting PRS countries, to refine support mechanisms, and to begin institutionalising the gains already made.

A range of formal and informal sources of information about PRS experience to date has been drawn upon in this paper, including selected interviews with DFID staff and others. It is not an attempt at comprehensive evaluation, which would be beyond our remit and premature, given the scale and complexity of the challenges the PRS approach seeks to address, and the fact that it is only four years since it came into being.⁴ Instead, the aim is to review progress made to date, identify key challenges, and draw out practical implications for those engaged in PRSs at country level, particularly donors.

The paper is divided into four sections. Section 2 outlines progress made in the first generation of PRSs and Section 3 describes outstanding challenges. Section 4 identifies key questions emerging in the second generation of PRSs, particularly for donors. Section 5 examines some operational implications and suggests a potential way forward for donors engaged in supporting second generation PRSs.

¹ United Nations (2002).

² World Bank (2003).

³ The paper is not concerned with explaining why some countries (mainly conflict countries in Sub-Saharan Africa) are making particularly slow progress through the PRS process, or examining the implications of extending the PRS approach to countries which are not heavily-indebted or aid-dependent.

⁴ Two major evaluations have just been completed by the Independent Evaluation Office of the IMF and the Operations Evaluation Department of the World Bank and their key findings are reflected in this paper.

2. WHAT HAS BEEN ACHIEVED TO DATE?

Experience with the first generation of PRSs suggests that the approach has made important progress in three key areas. It has:

- Contributed to a much stronger focus on poverty inside government;
- Engaged civil society in poverty policy debates on an unprecedented scale;
- Focused attention on donor alignment and harmonisation internationally and at the country level.

Each of these gains is described in more detail below.

More poverty focused government

Poverty reduction has moved up government agendas as a result of first generation PRS processes. Whereas previously, it was often viewed as a marginal concern or a special activity to be handled through projects rather than the mainstream of government business, it now appears to be more of a priority concern and one with potential to shape the whole of government activity. This sharper focus on poverty reduction can be seen in:

1. Poverty plans which are more comprehensive than ever before.

Previously, national strategies for addressing poverty tended to take the form either of vague statements of political aspiration, or of operational plans focused narrowly on social sector projects and programmes.⁵ The PRS approach has led to the adoption of plans which are much more comprehensive and multi-sectoral than their predecessors in almost all cases. Weaknesses in content remain in key areas such as growth⁶ and gender⁷ and are likely to remain a significant second generation issue, but experience in countries such as Tanzania suggests that some of these can be offset over time through a quality PRS process.⁸

2. Increases in 'poverty-oriented' expenditures and inputs.

Despite its additional emphasis on comprehensiveness, the PRS approach has managed to maintain the trend established by the HIPC initiative towards increasing 'pro-poor spending'. Data available for five countries on the first year of PRSP implementation indicates that annual expenditure as a percentage of GDP was higher post-PRSP in the education, health and transport sectors compared with the mean annual expenditure for the pre-PRSP period.⁹ This finding broadly matches previous ones on poverty-reducing expenditures in larger numbers of PRS countries,¹⁰ though these are less robust due to definitional concerns affecting data aggregation.

3. Improved prospects for linking poverty planning and budgeting.

Responsibility for poverty reduction used to rest largely with social sector line ministries, but in Africa the PRS association with HIPC and BWI financing has established a clear link between core units charged with poverty planning and Ministries of Finance charged with resource allocation. Links of this kind are less clear in Asia and other regions, where PRS units have tended to be attached to Ministries of Planning or Offices of

⁵ Booth (2003).

⁶ IEO (2004).

⁷ Whitehead (2003).

⁸ OED (2004).

⁹ OED (2004).

¹⁰ C.f. World Bank and IMF (2003).

Prime Ministers and Presidents instead. However, the PRS+budget support equation, especially in Africa, has catalysed broader efforts to improve public financial management.¹¹ PRSs have both facilitated and been strengthened by Medium Term Expenditure Frameworks (MTEFs).¹² These changes have already translated into tighter links between PRS priorities and budget allocations in Tanzania and Ethiopia,¹³ and augur well for improvements over time in other countries.

4. Increased interest in poverty monitoring

Project implementation units and donor practices have long served to undermine government monitoring capacity in poor countries, but the PRS approach has generated increased interest in addressing these weaknesses. The emphasis on demonstrating annual and medium-term results has led to an upsurge in participatory poverty assessments (PPAs) and household-survey work, with the latter likely to result over time in significantly improved information about poverty profiles and trends.¹⁴ Significant challenges remain however, with many monitoring systems still designed to meet donor data requirements and ill-matched to weak government capacity.¹⁵

More engaged civil society

The PRS approach has resulted in unprecedented engagement by civil society organisations in poverty policy debates, though NGOs have played a far more active role than other types of organisation to date. Whereas before most NGOs related to government only in a service delivery role, many have now begun to engage in policy activities with clear potential to scale up their contribution to poverty reduction and help challenge non-transparent and unaccountable government behaviour. Gains can be traced in two main areas:

1. New spaces for poverty policy debate, including some permanent ones.

Many officials and politicians have had their first experience of engaging directly with civil society organisations on matters of public policy through a national consultation process as a result of the PRS process. In Malawi, for example, PRS consultations have been associated with some erosion of a culture of secrecy inherited from the Banda era.¹⁶ In countries such as Bolivia, Honduras and Rwanda, new spaces opened up through the PRS process have been enshrined in legislation aimed at strengthening the role of citizens in holding government to account.¹⁷ These gains are tangible and remain significant, despite valid criticisms about the failure to deliver meaningful participation or a quality process, sufficient geographical coverage, and involvement by the full range of civil society stakeholders in the first round of PRS consultations.¹⁸

2. Civil society mobilisation on an unprecedented scale.

Faith groups and umbrella organisations have organised parallel consultation processes or engaged in government-led consultations in all PRS countries. New national networks of civil society organisations have been formed around poverty policy, often with sub-committees grouped around sector or other special

¹¹ World Bank and IMF (2003).

¹² Holmes with Evans (2003).

¹³ OED (2004).

¹⁴ Booth (2003).

¹⁵ Lucas (2004).

¹⁶ Jenkins and Tsoka (2003).

¹⁷ Molenaers and Renard (2003); Bugingo with Painter (2002); Interview # 4.

¹⁸ McGee with Levene and Hughes (2002).

interests. On the monitoring side, many NGOs have begun to complement their role in delivering PPAs with more advocacy-oriented activities such as budget monitoring. Examples include the Malawi Economic Justice Network, Zambia's Civil Society for Poverty Reduction network, and Nicaragua's Co-ordinadora Civil and Red de Desarrollo Local.¹⁹

More attention to donor alignment

The PRS approach has focused attention on donor alignment and harmonisation questions, both internationally and at the country level. Donor behaviour is now recognised to have undermined national institutions and imposed high transaction costs on government in recent decades. While much more action is needed if these obstacles are to be overcome, the first generation of PRSs do appear to have had positive impacts in two areas:

1. Establishment of the principle of donor alignment and harmonisation internationally.

Commitments made at the Monterrey and Rome meetings emphasised the need for donors to co-ordinate and harmonise their assistance around nationally owned PRSs.²⁰ The OECD-DAC has produced a series of good practice papers on alignment and harmonisation, as well as beginning efforts to track member progress towards PRS alignment.²¹ The Strategic Partnership with Africa has made donor alignment the central element of its new agenda, conducted action learning missions, and begun a regular survey of alignment of balance of payments and budget support with the PRS.²² IMF and World Bank staffs have undertaken joint work to achieve a better conceptualisation of what alignment means in the context of multilateral and bilateral budget support instruments.²³

2. Initial moves towards alignment and harmonisation at country level.

Most donors have rewritten their country strategy documents to reflect support for the national PRS, although this is a fairly straightforward exercise in the context of weakly prioritised first generation strategies. The PRS approach has catalysed the creation of new or more closely co-ordinated joint donor groups. Although these remain largely donor led,²⁴ they do provide a joint forum for dialogue with government with potential to reduce the costs it bears in managing the aid relationship.

The World Bank and IMF have introduced new lending instruments to support the national PRS. Bilateral donors are moving away from projects and programmes and towards more upstream aid modalities such as sector and general budget support.²⁵ A recent study of eight African countries, for example, found that an average of eight donors are now involved in budget support groups and their total annual disbursements represent around 15-20% of total government spending.²⁶

¹⁹ Driscoll with Evans (2003).

²⁰ United Nations (2002); World Bank (2003).

²¹ C.f. OECD-DAC (2003).

²² SPA (2004).

²³ World Bank (2003a).

²⁴ World Bank and IMF (2003).

²⁵ World Bank (2003a).

²⁶ Chiche with Hervio (2004).

3. WHAT IS STILL MISSING?

Despite these important gains, a number of outstanding challenges remain for those engaged in PRS processes. The approach has potential to help:

- Develop the stronger government focus into an institutionalised commitment to poverty reduction;
- Expand civil society consultations into deeper forms of government accountability to citizens linked to longer-term drivers of change; and
- Build on initial commitments to alignment and harmonisation to secure concrete behavioural changes from donors at country level.

Each of these challenges is outlined in more detail below.

From government focus to institutionalisation

A stronger poverty focus is now in evidence inside governments that have engaged in their first PRS process, but the approach has the potential to develop this into a deeper and more institutionalised form of state commitment to poverty reduction. Achieving this potential will demand attention to three key areas:

1. Ownership amongst line ministries and local government

Sector line ministries and sub-national levels of government have not been actively engaged in many PRS processes to date,²⁷ yet some form of involvement is clearly essential for successful implementation and monitoring, as well as improving the quality of the PRS over time. This tendency for PRS units to operate as enclaves within government is changing slowly²⁸ – through the creation of sector working groups, for example - but a number of factors militate against broader and deeper government ownership.

Incentives for line ministry engagement in the PRS process are often unclear, with both officials and ministers fearing loss of control over sector priorities, targets and indicators, as well as a reduced share of donor funding if they move projects and programmes onto the national budget. Donors, including many that provide small amounts of budget support, reinforce these disincentives to national ownership by maintaining large sections of their portfolios off the national budget. Sharing and combining information for monitoring purposes is not usually part of the culture of sector line ministries, creating a perception of the PRS as a source of additional demands with no obvious benefits.²⁹

Weak institutions contribute to low levels of local government engagement. Communications difficulties mean lower tiers often remain only vaguely aware of new initiatives emanating from the centre of government. Time pressures create a tendency to concentrate on core service delivery functions, with weak traditions of evidence-based planning reflected in low demand for poverty data.³⁰ Decentralisation initiatives continue to proliferate, delegating new functions to weak institutions, despite evidence that they

²⁷ Driscoll with Evans (2004).

²⁸ World Bank and IMF (2003).

²⁹ Lucas (2004).

³⁰ Lucas (2004).

do not necessarily contribute to poverty reduction. These are rarely well integrated with the national PRS or budget process.³¹

2. Operational links with budgets and outcomes.

Operational links between the PRS and budgets and outcomes, especially at sector level, remain extremely weak in many countries. PRS priorities are often poorly costed and not translated into budget allocations.³² The process of aggregating individual sector strategies under one umbrella has given Ministries of Finance a co-ordinating role and highlighted potential synergies between different sectors, but it has yet to force consideration of tradeoffs among sector priorities and reformulation of separate strategies into a single operational framework. Although the PRS appears to have increased inputs and outputs at sector level, it is too early to trace clear links to MDG results and poverty outcomes.³³

The absence or weakness of the inter-linked triangle of PRSP, budget, and MTEF is a key part of the explanation for weak operational links with budgets. Behind this lies longstanding neglect of public expenditure management (PEM) systems in poor countries. The PRS approach, and especially its emphasis on budget support, has given added impetus to PEM reform and important signs of progress can be seen in early adopting countries, but such efforts are increasingly recognised as having not only technical but also political dimensions.³⁴ Disincentives to reform include: the high cost of getting elected, which creates a need to repay supporters with the spoils of office; the absence of effective watchdog bodies; and the lack of a professionally salaried, politically neutral civil service.

Difficulties in tracing links to outcomes, especially at the sector level, are to some extent inevitable given difficulties in attributing results to PRSs in the absence of a counterfactual, and the short amount of time that has elapsed since their introduction. A further significant factor is that severe capacity constraints across the range of skills required for PRS monitoring are usually still not sufficiently recognised or acted upon.³⁵ The introduction of joint donor monitoring frameworks aligned to the PRS does not appear to have been accompanied by a proportionate decrease in other donor reporting demands, which detract from governmental capacity to establish domestically accountable systems for PRS monitoring.³⁶

3. Integration of social and productive sectors.

Most PRSs have yet to deliver a fully integrated strategy in which the quality of social sector plans is matched by those for the productive sectors.³⁷ Applied analysis of the sources of growth and obstacles to pro-poor growth has been variable in quality and often not linked to the choice of policy actions or the setting out of a reform strategy. Macro-frameworks have been characterised by a lack of realism and flexibility, including little analysis of policy tradeoffs and how these relate to broader poverty goals. PRSs have also been weak on understanding and managing shocks. There are signs of more systematic attention to growth and pro-poor growth emerging over time however.

³¹ Holmes with Evans (2003).

³² World Bank and IMF (2003).

³³ OED (2004).

³⁴ Centre for Aid and Public Expenditure (2004).

³⁵ Lucas (2004).

³⁶ SPA Budget Support Working Group (2004).

³⁷ IEO (2004).

Relative neglect of the productive sectors in PRSs can be attributed to a number of factors.³⁸ Important analytical gaps remain in defining how development interventions can best contribute to pro-poor growth. Underlying policy processes in the productive sectors are often particularly weak. Success may depend on effective joint working between a range of government and private sector institutions, rather than a single package of outputs delivered across one sector. The most useful ministry activity may be to reduce its role, but there are generally few incentives to do so. The PRS emphasis on centralised national or sectoral expenditure targets tends to limit the focus on support for the local enabling environment or the provision of 'soft' services such as extension and technology to rural or informal sector producers.

Donors have also been key drivers of this social sector bias in PRSs.³⁹ HIPC II featured a strong emphasis on allocating 'savings' from debt relief to social sectors and was accompanied by World Bank and IMF efforts to track expenditures on health and education in HIPC countries. Donor preferences for social sector spending can be seen in the relative dominance of social sector targets in the Millennium Development Goals, with some donors actively persuading governments to adopt these as PRS targets and indicators. Under pressure to demonstrate results, many donors have opted for the quick wins of targeted social sector spending instead of seeking to address the paucity of analytical work on pro-poor growth, and support longer-term government action to bring it about.

From civil society to downward accountability and drivers of change

The PRS approach has initiated unprecedented levels of civil society engagement in public policy processes, but it could also potentially contribute towards much deeper forms of government accountability to citizens that are linked to longer-term drivers of progressive change. To do so, the approach will need to move beyond a narrow model centred on civil society consultations and towards more widespread support for broader national processes of holding government to account:

1. Monitoring by parliaments, audit offices and the media.

Existing institutions for government accountability have been largely bypassed in first generation PRS processes in favour of introducing new mechanisms for participation such as focus groups, consultative workshops and PPAs. Only sporadic attempts have been made to engage the existing media, parliamentary committees, audit offices and watchdog bodies in monitoring and holding the government to account for delivering on PRS commitments, or to strengthen their capacity and commitment to fulfil this role.⁴⁰

The reasons behind this neglect are complex. Some critics argue that the PRS approach is based on unwarranted faith in a technocratic, depoliticised mode of governance,⁴¹ while others blame the dominance of the process by a narrow corps of development professionals⁴². While there may be some basis for these criticisms, and the World Bank in particular does appear to have promoted a model of PRS participation derived largely from development projects rather than country-specific political contexts, the fact is that many PRS processes have also unfolded in semi-democratised states in which domestic politics tend to be

³⁸ Foster et al (2001).

³⁹ OED (2004).

⁴⁰ Driscoll with Evans (2003); Eberlei and Henn (2003).

⁴¹ Craig and Porter (2002).

⁴² Gould and Ojanen (2002).

patronage based, with fragmented party systems and weak civil societies, and in which the domestic media often lack basic political freedoms.⁴³

Domestic oversight and media institutions are under-resourced and overstretched, and benefit from little donor support beyond short-term projects or those aimed at promoting donors' own foreign policy interests.⁴⁴

Actual and potential achievements through PRS processes are heavily conditioned both by longer-term drivers of change and by current political conjunctures, and do not lend themselves to simple explanations or solutions centred on present day political actors and institutions.⁴⁵ Country-specific and comprehensive analysis is needed to gain an adequate understanding of forces likely to enhance downward accountability over the medium- and longer-term.

2. Demand-side accountability for results

Poor people and organisations representing their interests have not been adequately represented in most PRS processes to date, which have instead tended to engage largely urban-based NGOs, including many with strong links to INGOs or donor agencies.⁴⁶ Poor people represent the majority of citizens in PRS countries so higher levels of engagement by organisations that work closely with, and are genuinely knowledgeable about, poor people and other socially excluded groups are likely to prove crucial for ensuring that over time the approach contributes to greater demand-side accountability for results from government.

Several factors help to explain low levels of engagement by poor people and their representatives in the first round of PRSs. Inexperience on the part of governments and a desire to secure debt relief as early as possible clearly contributed to a flawed first round of participatory processes, but also many smaller civil society organisations lack the skills, experience and resources to engage effectively in public policy processes, especially in technically complex matters such as budgets. Donors have tended to act bilaterally and to avoid funding more politically controversial groups such as domestic producer organisations and trade unions, which can have more direct links to poor people. Some governments continue to have antagonistic relations with parts of civil society, making it difficult for donors and other actors to support a nationally representative participatory process.

From donor co-ordination to alignment and harmonisation

Despite strong international endorsement of the principle of donor alignment and harmonisation, the PRS approach has so far resulted only in rather limited forms of behavioural change from donors at country level. Donors have begun to better co-ordinate their activities, reformulate their country strategies in PRS language, and move towards budget support, but most have yet to make the fundamental change in practices that is needed to reduce transaction costs and ensure that aid helps to build rather than undermine national capacity.

⁴³ Booth (2003).

⁴⁴ Interview # 11.

⁴⁵ Piron with Evans (2004).

⁴⁶ Driscoll with Evans (2003).

1. Proliferation and fragmentation of donor activity.

Donors continue to spread their assistance across too many sectors and deliver aid through fragmented projects and programmes that carry heavy transaction costs for government.⁴⁷ Sector working groups are providing a forum for sharing information and developing common support strategies, but they have not led donors to make hard choices to limit support to priority sectors, become silent partners or withdraw from activities which are adding little value. Budget support groups are expanding rapidly in Africa, but most of their members continue to contribute only modest amounts of budget support and deliver most of their portfolio through off-budget projects and programmes.

Some of the reasons for continued proliferation and fragmentation are clear. High levels of aid dependency place donors in a powerful position, while governments often lack the capacity to articulate or impose a preference for certain forms of donor behaviour, although Uganda's Programme Partnership Principles and the Tanzania Assistance Strategy are partial exceptions to this rule. Some parts of government continue to have an interest in accessing project funding rather than joining a national budget process, as the latter potentially restricts opportunities for personal and political gain.

The structure of institutional incentives within donor agencies also appears to be a key part of the explanation for limited progress in this area.⁴⁸ Competing or perverse incentives facing staff include the cost of changing work modalities, fear of loss of power, institutional rigidities, a perceived need for visibility, domestic parliamentary interest in attributing field level results to own interventions, disbursement imperatives, weak policy coherence, inflexible rules and regulations, tied aid, and unforeseen spending cuts.⁴⁹

2. Predictable commitments and disbursements of budget support

Donors are now agreeing joint monitoring frameworks for budget support, but they have yet to match procedures for tracking progress against these with predictable commitments and disbursements. Volatility of budget support can have much more profound impacts than similar problems with small amounts of project and programme aid. In the absence of adequate reserves, such volatility can have serious implications for annual and medium term budgeting. The morale of sector planners can be damaged by within-year budget cuts, PRS implementation can be placed in jeopardy, and governments can be forced to incur heavy interest charges.

Delays in committing and disbursing budget support are generally caused by administrative problems at donor headquarters, difficulties among donors in reaching agreement on pooled funding arrangements, disagreements over political controversies, and failure to remain on-track with specific PRGF conditionalities.⁵⁰ The IMF has been accused of adopting a rather mechanistic approach to PRGF conditionality,⁵¹ but there may also be a case for budget support donors to be more flexible in their use of PRGF assessments in their own decisions about disbursement. Disbursement could be allowed on the basis of a positive IMF assessment of the overall macroeconomic situation and management, for example, even if the completion of a formal PRGF review by the IMF Board is delayed for other reasons.

⁴⁷ Driscoll (2004); OECD-DAC (2003); SPA Budget Support Working Group (2004).

⁴⁸ Ostrom et al (2001); de Renzio et al (2004).

⁴⁹ OECD-DAC (2004).

⁵⁰ OECD (2003).

⁵¹ Oxfam (2004).

The political governance concerns of donors are particularly inclined to lead to imposition of unpredictable, non-transparent 'last minute' conditionality, leading to delayed or cancelled disbursements.⁵² Such conditions are rarely articulated explicitly in budget support monitoring frameworks or long-term partnership agreements, because donors and governments are keen to avoid formally elevating them to the level of fiduciary concerns; but in reaction to particular cases they can prove to be equally significant. In Mozambique, for example, individual budget support donors took different positions on the assassination of a political journalist who had exposed a banking scandal in 2002. Some wanted full suspension of disbursements, even though such political events were not an explicit benchmark in the Joint Agreement underpinning the provision of macro-financial support. A separate MoU has since been introduced in Mozambique as a means of addressing 'underlying principles' related to political governance, corruption, poverty and macroeconomic management.⁵³

3. Non-likeminded donors and vertical funds.

Large amounts of aid continue to flow into poor countries almost entirely outside of the national PRS and budget processes. They include project and programme aid provided by large bilateral donors, as well as much of the support provided through vertical funds such as the Global Health Fund. The prospect of large sums of budget support being delivered to small numbers of countries against US-defined governance criteria through the Millennium Challenge Account potentially inflates such amounts still further if this type of financing is not provided through the national budget process.

This type of donors and funds have remained largely isolated from moves towards alignment and harmonisation at country level, despite having signed up to the relevant principles internationally. They are rarely engaged in joint donor budget support arrangements, though some moves have been made to invite them to participate as observers in the hope that they could become interested over time. They are not placed under pressure to move support on budget by their government contacts because sector line ministries often have a vested interest in maintaining their share of financing for donor projects. They are also not under pressure from their own domestic taxpayers, who lack the information to make critical judgements on reports of 'results' delivered by their national aid programme through expenditure on projects.

Continued disengagement by these donors is arguably made much easier by the absence of definitive comparative league tables of donor behaviour and their visible use by NGOs and donors as an advocacy tool on the international stage. Without high level political pressure of this kind, such donors are unlikely to move towards institutional incentives aimed at encouraging alignment and harmonisation because they and domestic taxpayers remain comfortably isolated from the negative institutional impacts of their practices at country level.

⁵² SPA (2004).

⁵³ DFID Mozambique (2004).

4. WHAT NEW QUESTIONS ARE EMERGING?

In addition to the outstanding challenges described above, the transition from first to second generation PRSs is also highlighting a number of new questions, particularly for donors engaged in the approach. These emerging questions concern both the political and technical dimensions of the PRS process, and the ways in which donors can interact effectively with both in the interests of poverty reduction. Key questions concern:

- The political nature of the PRS process;
- Political transitions midway through the PRS cycle;
- The relationship of the PRS to other competing strategies;
- Design choices for the PRS;
- Aspirational financing;
- Predictable budget support; and
- Backstage donorship.

Each of these questions is discussed in turn below:

The PRS as political process

The PRS approach has tended to be articulated largely in technocratic terms to date, perhaps because much of the debate has been led by the World Bank and IMF. Yet poverty reduction is a fundamentally political objective and the original principles of the approach do have political implications.⁵⁴ Country ownership, for instance, implies some form of consensus between national actors and involvement beyond the state elite, but leaves open questions about which actors should be paramount, how consensus is to be achieved, and how to deal with unforeseen and complex outcomes. Comprehensiveness requires the bringing together of macro frameworks and poverty reduction goals, which assumes a fair degree of state capacity as well as authority and legitimacy over territory and the fiscal space. Results-orientation demands that government is explicit about its goals and their implications. Implicit in this is a potentially major shift away from clientelism and towards higher degrees of local resource capture.

Recent research into politics and the PRS approach suggests that the process both shapes, and is itself shaped, by the political context in which it unfolds.⁵⁵ The history and political ideology of the country set the longer-term context, for instance the civil war in Uganda or the communist project in Vietnam. Formal political structures matter, as seen in the role played by a coalition government in Bolivia or the more decentralised system of government in Vietnam. Political timing can also be either more or less favourable to the PRS process, for instance the pre-existence of a domestic Poverty Eradication Action Plan (PEAP) process in Uganda gave added impetus whereas forthcoming elections in Georgia led to fragmentation and in-fighting amongst politicians. State-society relations can be more or less conflictual, leading to bloody street demonstrations in Bolivia but a peaceful process of consensus-building through the PRS in Vietnam.

⁵⁴ Piron with Evans (2004).

⁵⁵ Booth with Piron (2004); Conway (2004); Hamilton (2004); Piron with Norton (2004).

Political ownership is also often far from inclusive and can exclude both parliamentarians and local government officials.

Political transitions

In the emerging second generation, the political nature of the PRS approach is making itself tangibly felt at moments when there is a change of political leadership midway through the PRS cycle. These moments are characterised by a tendency on the part of political leaders to seek changes to the PRS, giving it some of the characteristics of a political manifesto. In Bolivia, for example, the appointment in 2003 of a new president committed to governing without parties took place against a backdrop of massive social unrest, forcing restructuring of the government and its budget.⁵⁶ The government elected the previous year had already committed itself to reorienting the PRS in order to be consistent with its election platform. In Nicaragua, a new government elected through a democratic process based its 2003 budget plan on the existing PRS, but simultaneously began revising it almost immediately upon entering office.⁵⁷ In Honduras, the new government has chosen to develop a PRS Long Term Plan aimed at providing an agenda that will prevail through political cycles.⁵⁸

Revisions of this kind bring potential benefits as well as potential disadvantages to the PRS process. Deeper country ownership could result from allowing incoming politicians to make their mark on the PRS, especially if they have a clear mandate from citizens acquired through elections or another representative process. In Tanzania, for instance, moves towards a national development plan appear to be driven by a desire to move beyond the donor-driven demands of HIPC and towards a political platform which has stronger Cabinet backing and public support.⁵⁹ In Bolivia, the revision is taking place against the background of violent protests against government policies that it is feared are driven more by US foreign policy than by the priorities of the indigenous majority. The new President appears to want to respond to public concern about production and employment-generation, and also bridge the gulf between protest and policymaking which precipitated the recent crisis.⁶⁰ In Nicaragua, the new government was keen to address weaknesses in the first PRS and its new National Development Plan seeks to promote broad-based growth and strengthen institutional arrangements for state accountability to citizens.⁶¹

On the other hand, such revisions pose difficult challenges for donors, particularly those locked into multi-year funding commitments. When faced with changes of political leadership, the first instinct of many donors can be to seek to maintain continuity. In Nicaragua, for instance, donors refused to recognise the incoming government's National Development Plan as the second PRS and recommended that it be downgraded to a proposal for strengthening the first PRS, as this allows the maintenance of links to actions required for fulfilling PRSC, PRGF and other donor reporting requirements.⁶² As well as seeking to safeguard the predictability of future financing, donors may also be motivated by a desire to maintain significant policy concessions secured through influencing and negotiation. In Mozambique, for example, there is concern that the next government may adopt a protectionist approach to rural poverty which

⁵⁶ Booth with Piron (2004).

⁵⁷ Interview # 7.

⁵⁸ Interview # 4.

⁵⁹ DFID Tanzania (2004); Interview # 8.

⁶⁰ Booth with Piron (2004).

⁶¹ Interview # 7.

⁶² Interview # 7.

departs substantially from the donor consensus on broad-based growth embodied in the first PRS. The implications of substantive change of this nature for delivering on multi-year commitments of budget support remain unclear.⁶³ Donors are called upon to strike a delicate balance between the political and technical dimensions of progress made through the PRS.

Competing strategies

The PRS was not drawn on a blank political canvas in any country and the links between it and other strategies which may command stronger national ownership often remain unclear. Examples include national planning processes, regional political and economic integration plans, and decentralisation programmes. In Mozambique, for instance, the PARPA (The National Action Plan for the Reduction of Absolute Poverty) has tended to sit somewhat uncomfortably alongside the more established processes for the Five-Year Programme for Government, sector strategic plans, annual Economic and Social Plan (PES) and state budget.⁶⁴ In Nicaragua, local government planning had weak or non-existent links to the national PRS, though this may change with Regional and Departmental Development Plans being considered in the formulation process of the National Public Investment Plan for 2005, a process to which all municipalities have contributed.⁶⁵ In the Balkans and parts of Central America, the PRS is much less of a recognised national priority than European accession and the Central American Free Trade Agreement respectively.⁶⁶

In the face of such competition, donors face a dilemma between continuing to uncritically support the PRS 'brand', which could prove unsustainable over time, and opting instead to work with the grain of strategies that are more strongly owned, but firmly within the spirit of the PRS approach. In Mozambique, donors have begun to move in this direction by agreeing a government-led Performance Assessment Framework that is rooted in the annual Economic and Social Plan (PES) process, but which maintains the PRS emphasis on linking funds to past performance rather than future promises, encouraging frank and open dialogue between donors and government, developing a donor accountability framework, and supporting a voice for domestic stakeholders.⁶⁷ Acceptance of alternative strategies brings clear potential benefits in terms of ownership of the reform process, but also some risks such as diluted poverty focus, unless donors are able to agree and adhere to a clear and common 'bottom line' for their continued support. Again, donors are required to make highly nuanced judgements.

Design choices

Deciding on the relationship between the PRS and competing processes underway in the national context is only one dimension of the broader design choice confronting governments developing their second PRS. Implicit in this choice is a tension between the twin functions of the PRS as an overarching framework and an operational plan for poverty reduction. PRSs are intended to provide an ambitious policy framework to guide public investments for poverty reduction, but they are also expected to be operationally relevant, tightly prioritised, linked into the annual budget and act as a clear basis for donor alignment and harmonisation. The second generation appears to be characterised by moves to develop the PRS into a

⁶³ DFID Mozambique (2004).

⁶⁴ DFID Mozambique (2004); Interview # 6.

⁶⁵ Interview # 7.

⁶⁶ Interviews # 1 and # 4.

⁶⁷ DFID Mozambique (2004).

tighter operational plan. In Nicaragua, for example, the first PRS lacked detailed plans for delivering on economic growth and structural reform, as well as good governance and institutional development. The second PRS will be an amalgamation of the first with existing operational plans for the PRSC and PRGF, and draw on first PRS progress reports, local development plans developed by regional and departmental development councils, and sector plans developed by new sector working groups.⁶⁸

Donor pressure for this transition from ambitious framework to operational plan brings both risks and opportunities. For example, the vision of a single annual progress report with clear backward links to PRS policies, targets and indicators and forward links to revisions of these and budget allocations has yet to be realised in most countries.⁶⁹ As donors seek to provide urgently needed budget support for the PRS, they and governments are turning to donor instruments such as the PRSC and PRGF to fill this gap. Experience in Uganda indicates that using the PRSC in this way, with strong support from government, does serve to enhance the quality of PRS reporting and enable budget support to be committed and disbursed more predictably in the immediate term.

Yet the Uganda experience also suggests that this approach risks shifting policy dialogue and accountability, once again, towards donors and away from domestic stakeholders.⁷⁰ Moves to whittle down ambitious visions into operational plans could potentially serve to undermine some of the political success factors behind the PRS in certain contexts. Where the PRS process has most clearly succeeded, it has tended to coincide with a national project for poverty reduction that is both articulated by political leaders and widely shared by citizens, for instance longstanding communist ideas prevalent in Vietnam or Museveni's nation-building project in post-war Uganda.⁷¹ Donors are called upon to strike a delicate balance between essential moves to operationalise the PRS and protecting the political momentum behind it in a given country context.

Aspirational financing⁷²

An operational focus in PRSs has implications for financing their implementation. PRSs were intended to be bold, inclusive documents which set out the broad direction of policy for achieving the MDGs but in practice they are often only moderately ambitious in their spending commitments and targets for the medium term, and limited in their vision of the policy and financing challenges for achieving the MDGs by 2015. This is due in part to the way in which financing frameworks are estimated, using top-down estimates of existing resource availability drawn largely from PRGF frameworks. These estimates may be realistic reflections of the expected flow of external financing, but they do not reflect an assessment of the level of financing that is needed to meet the MDGs. The opportunity to develop an ambitious programme that would capture a growing share of donor resources is lost.

An alternative approach could be to return to the idea of the PRS as an overarching strategy and to base estimates of required PRS financing on an assessment of longer-term MDG financing needs. An ongoing study by the Millennium Project⁷³ suggests that this should be part of a two-stage planning process involving a needs assessment of required public investment for meeting the MDGs and a long term (10-12 year)

⁶⁸ Interview # 7.

⁶⁹ Driscoll with Evans (2004).

⁷⁰ Interview # 9.

⁷¹ Piron with Evans (2004).

⁷² Evans (2004).

⁷³ Millennium Project (2004).

policy plan. The national PRS would then form the medium term component of this longer term plan; the idea being not to create a new policy process but to re-base existing ones around the concept of 'what is needed' rather than 'what is available'. This more aspirational approach would provide the basis for more ambitious estimates of required financing (both domestic and external), and place in front of both donors and governments a clearer picture of the future cost of achieving the MDGs.

Concerns about weak or missing institutions, weak capacity and poor budgetary systems constrain what is likely to be a credible scenario for scaling-up PRS financing. Concerns about absorptive capacity and the political implications of low-income countries financing the majority of public expenditure through aid, including a significant share of recurrent financing, ⁷⁴ inevitably trim back expectations of how far and how fast it is possible to increase financing to levels consistent with MDG achievement. This should not, however, deter donors from attempting to articulate a higher case aid-scenario based on:

- A credible scale-up strategy that is realistic about absorptive capacity issues;
- A medium to long-term time horizon; and
- Commitment to enhanced predictability.

Predictable budget support

Unpredictability of aid is often a function of other dimensions of donor practice, including off-budget, fragmented and uncoordinated delivery, parallel systems, and heavy procedures and reporting demands driven by donor rather than national needs. Efforts to address this problem by persuading more donors to deliver their aid direct into the national budget have so far met with only moderate success in the first generation of PRSs. In Tanzania, for example, thirteen donors are now providing budget support but it captures only 30% of total Overseas Development Assistance (ODA) and three-quarters of the total budget support is provided by only three donors.⁷⁵ The situation is similar in Mozambique, where despite the expansion of the budget support group to include fifteen donors, more than 50% of overall public expenditure continues to be financed outside of the national budget and 66% of grants received are spent off budget.⁷⁶ Only in Uganda does budget support appear to have delivered real improvements in predictability.⁷⁷

It appears therefore that limited gains secured through incremental and inclusive approaches to membership of budget support groups are functioning as a block to further progress. Donors are weakly motivated to commit further because providing small amounts of budget support is enabling them to buy the listening ear of government and fulfil headquarters commitments on harmonisation, without incurring high levels of fiduciary and political risk. Governments, on the other hand, are unwilling to articulate and impose a strong preference for budget support in the absence of a clear commitment from the donor community to this modality and convincing evidence that donors will use it to enhance predictability and reduce transaction costs. Instead, some governments are actively seeking to reduce the risk of 'herd behaviour' from donors by maintaining bilateral relations alongside those they have with the joint donor group.⁷⁸

⁷⁴ Interview # 9.

⁷⁵ DFID Tanzania (2004).

⁷⁶ DFID Mozambique (2004).

⁷⁷ OED (2004).

⁷⁸ DFID Mozambique (2004); SPA Budget Support Working Group (2004a).

This challenge has led some to make the case for minimum subscription fees as a pre-requisite for joining budget support groups. In Tanzania, for example, it has been suggested that entry fees could be set at US\$50million or 70% of the donor's total ODA.⁷⁹ The advantages of such an approach are clear, but so is the risk that some donors, particularly smaller ones and those which are not 'likeminded', could be deterred from continuing their venture into budget support by the sudden increase in fiduciary and political risk they would be required to take on in this scenario. Recruitment gains that were hard-fought through advocacy at headquarters and country level could be seriously set back, making the prospect of improvements to predictability even more remote over the medium term.

Backstage donorship

If the PRS approach itself has tended to be conceived apolitically, so too has the role that donors play in what is intended to be a nationally owned process. Principled commitments to move from policy to process conditionality have not in practice translated into real moves by donors to 'step back' from influencing the content of PRSs. Donors continue to pursue the adoption of their favourite policies, targets and indicators through a combination of explicit conditionality and backstage negotiation and influencing.⁸⁰ This is most clearly exemplified in the performance assessment matrices for budget support, which are usually highly prescriptive and extremely detailed. In Tanzania, for example, the Performance Assessment Framework matrix has grown exponentially and now contains 77 separate actions, 13 of which are prior actions for the PRSC, with the addition of reporting requirements for 59 indicators within the PRS.⁸¹

As donors seek to minimise the level of detailed policy conditionality and give honest signals to government about likely grounds for suspending or withholding budget support, but also remain accountable to domestic taxpayers, they face yet another difficult balancing act. Their support for the PRS does come with conditions attached, yet they have to find a way of applying conditionality which does not undermine country ownership. The Mozambique approach of articulating essential conditions in a monitoring framework and confining other more general principles to a Memorandum of Understanding is one step towards a solution, as long as it is adhered to in practice. Signs of progress can also be seen in some donors seeking to make more strategic decisions about when and how to engage their sector advisors in dialogue with government about the PRS, and in others seeking to complement their own heightened influencing activities with support for national actors seeking to do the same.

⁷⁹ DFID Tanzania (2004).

⁸⁰ Oxfam (2004).

⁸¹ DFID Tanzania (2004).

5. WHAT ARE THE OPERATIONAL IMPLICATIONS?

As donors continue their support into the second generation of PRSs, they face a complex balancing act between the political and technical dimensions of the PRS approach. They are expected to support a process of longer term institutional change, while also responding to pressures to deliver short- and medium-term results. In terms of political process, they need to match heightened donor expectations of policy dialogue and influence with efforts to improve national accountability from above and below. In addressing policy bottlenecks, they are called upon to strengthen the national budget process while simultaneously persuading other parts of government to join in and capture more resources for use in PRS implementation. In moving forward on alignment and harmonisation, they are balancing the transaction costs of inclusivity against the potential risks of fragmenting a fragile donor alliance around budget support.

This balancing act has a number of operational implications for donors engaged in supporting the PRS approach at country level:

1. There is a clear need for donors to take better account of the politics of the PRS and broader domestic policy processes. This entails moving beyond support for a narrow process of civil society consultation and towards a more holistic approach to supporting government accountability to citizens, especially poor people and other socially excluded groups, through national institutions such as parliaments, media and watchdog bodies. This holistic approach needs to be rooted in understanding not only of longer term drivers of change in a given country context, but also the role of donors as political actors capable either of stepping back and respecting government decisions and choices, or of imposing their own policy preferences through more or less explicit forms of conditionality.
2. Much greater efforts are needed to deliver on the donor alignment and harmonisation agenda endorsed at Monterrey and Rome. Donors must be encouraged to move beyond principled rhetoric and towards tangible improvements in the delivery of aid at country level. This means moving resources onto the national budget, committing and disbursing them predictably, and reducing reporting burdens on government by prioritising conditions and articulating them explicitly, instead of applying them randomly. Key steps along the way are likely to include more explicit donor peer review as a means of tracking progress and empowering governments to articulate and impose a preference for aid modalities that strengthen rather than undermine national institutions.
3. Governments need to be supported in making the appropriate design choice for the PRS, whether as overarching framework, operational plan, policy subset or compact with donors around poverty reduction. Such flexibility implies less mechanistic application of procedures such as Annual Progress Reports and Joint Staff Assessments, and more willingness to accept domestic processes that fulfil key PRS objectives of improved performance, enhanced accountability and reporting to donors. It also entails clear and common agreement by donors of their 'bottom line' expectations in terms of poverty focus and effectiveness of country-owned strategies and plans.
4. Greater efforts are needed to scale up external financial flows in support of PRSs. Donor commitments need to be increased to longer term funding against 5-10 year frameworks rather than current annual or at best 3 yearly frameworks. Clear application of aid-effectiveness principles with greater clarity over the use of outcome (MDG-type) targets and policy deliverables in conditionality frameworks is also needed. Constructive efforts to harmonise and align need to include Technical Assistance aimed at strengthening government systems, raising absorptive capacity and enhancing domestic accountability. Fewer donors and fewer aid relationships must be part of this vision for aspirational financing.

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Interviews

Interview # 1	Robin Milton	DFID Albania	24/03/04
Interview # 2	Oscar Antezana	DFID Bolivia	18/03/04
Interview # 3	Peter Kerby and Stuart Tibbs	DFID Ethiopia	24/02/04
Interview # 4	Jorge Monge	DFID Honduras	16/03/04
Interview # 5	Andrea Cook	DFID Malawi	16/02/04
Interview # 6	Melanie Speight	DFID Mozambique	22/03/04
Interview # 7	Maria José Jarquin	DFID Nicaragua	15/03/04
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