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Stepping Up Ambitions of the Poverty Reduction Strategy

Amar Bhattacharya[1]

William Lyakurwa's chapter provides an excellent historical perspective and overview on the performance of Africa, on the evolution of economic thought and approaches and on where we are today.

Why did reform programmes in Africa fail to produce the results that had been foreseen? There are three possible hypotheses, and they are similar to what John Williamson has used in looking at the Washington Consensus. The first hypothesis is that the policy reforms that were part of the programme were not really implemented as had been anticipated. The second hypothesis is that there were important errors in the design of those policies. The third hypothesis is that there were important missing elements.

Without a rigorous analysis, it is difficult to determine how much each explanation attributed to the poor results. There is general agreement that all three were at play. The important thing is to draw the lessons from it. There are both important lessons in *content*, in the form that William Lyakurwa laid out, and important lessons in *process* about political economy and sustainability of reforms. There is now a broad consensus on William's bottom line conclusion, i.e. that the Poverty Reduction Strategy (PRS) approach provides the best possible framework for moving ahead with a country-driven process.

I want to present some nuances on the high growth rates needed to achieve the Millennium Development Goals. I agree that the current

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growth numbers are absolutely incompatible with the attainment of the Millennium Development Goals and, in particular, with the attainment of the poverty goals. However, I would point out, that since the mid-1990s, there has been both an improvement and a differentiation in performance in sub-Saharan Africa. In the last seven years, some 12 countries recorded growth rates in excess of 5 percent per annum and some 18 countries had sustained growth in excess of 4 percent per annum. There has been a strong improvement compared to the 1980s in the growth performance of African countries. This is most evident from the increase in investments, which is even more encouraging than the improvement in growth.

I want to link that to the forward-looking agenda and the decision on which approaches to choose. In sub-Saharan Africa, there are now a significant number of countries where the conditions are propitious for moving more aggressively on the development agenda, countries that Matthew Martin called the mature post-stabilisers (Chapter 4).

On the other hand, there is still a large number of countries, albeit much smaller than before, that fall into the pre- and early stabilisers group. This landscape of development is important to point out because it shows that there is now a set of countries where the PRS model can provide the basis for stepping up ambitions. But there is another set of countries where we have to think about other approaches, where politics is perhaps the immediate constraint. How are we going to take this kind of model that William put forward and push to get higher results in Africa? If you have to push on the PRS, some issues are worth putting on the table.

Country Ownership

First is this issue of ownership. The IEO review, the Bank's OED review and, indeed, the staff progress reports on PRSPs acknowledge that while we are in the fourth year of the PRSPs, we are really only at the beginning in terms of making these instruments truly country-owned. We have to do a lot better in this regard. There are several elements that need work. The first is to link the PRS much more closely to country decisionmaking processes so that it is not driven by the Fund's PRGF, the World Bank lending, but really by country-driven processes, especially the country budget and planning processes. Second, there is a need within the countries for fuller engagement of line agencies, local authorities, and even of the government, so that this becomes a truly country-owned process. There also needs to be a parliamentary oversight if these PRSPs are to have legitimacy and to have political bite. The PRS process has clearly brought out the value of civil society and we have had mixed progress on the engagement of civil society. And finally, there is a need to align the PRSPs with country decisionmaking processes. If we are going to scale up, the challenge will be how to rely on country decisionmaking processes and align donor support.

Stepping Up Ambitions

The second issue that we have to tackle – which is a little bit at odds with country ownership – is stepping up the results and ambition of PRSPs.

On the one hand, we have a report that will be coming out from the Millennium project that says that we are far behind what needs to be done to achieve the Millennium Development Goals at the country level and that we need to step up efforts in a huge way.

On the other hand, at the country level we are very much tied up with what are the chess pieces that you have to move in order to produce concrete results. So one of the key issues right now is how can you make the PRSPs more ambitious within a country-owned process and how do you translate that into an action plan for both the countries and the donor community? The reality is that we have not done this in even a single country.

This scaling up of ambition, looking at the MDGs, is a big agenda. What does it mean in practical terms?

One clear issue is the issue of growth. If we don't attain a much higher level of growth in Africa, we are not going to be able to achieve any kind of lasting progress on poverty. We do not yet have a very good understanding of the levers that are going to produce that growth. We agree that there is a need to shift from stabilisation to more growth-oriented macro frameworks, and to go from more growth-oriented macro frameworks to more pro-poor macro frameworks. But we have not yet fully laid-out what this means in terms of content. One issue on the growth agenda is the investment climate. Despite all of the reforms in the 1980s and 1990s, the investment climate in Africa still does not compare favourably with that of other developing countries. There is a large, unfinished agenda in strengthening the investment climate in simple things like processes, procedures, but also the rule of law and property rights.

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As Louis Kasekende pointed out, infrastructure plays an important role in achieving growth. Relying on the private sector's financing for infrastructure is not going to produce either the scale or the kind of infrastructure that we are looking for.

The second area where ambition needs to be stepped up is the MDG agenda on education, health, water, sanitation and the like. There are three issues on the table.

The first is, what are the conditions under which we can provide sustained budget support for the kind of investment that is needed? This is not the traditional kind of macroeconomic criteria.

The second is the perennial issue of governance. If we are going to be able to provide large sums of money through the budget for education, health, and local service delivery, the issues of governance and fiduciary frameworks on the budget are vital. There has been a lot of good work done under the HIPC Initiative and this is beginning to produce results, but it is not an area where all donors have reached agreement. We are not yet advanced enough in our dialogue with countries to be able to say: "Yes, this is the framework that we will use as a basis to acquire support in terms from our boards in the Fund and in the Bank".

The third is the whole issue of service delivery at the local level. The 2004 World Development Report made a strong case that just putting the money in the budget is not sufficient. There also needs to be effectiveness and implementation at the local level in terms of service delivery.

This takes me to one issue that has not received adequate attention in discussions on PRSPs and donor support, and that is the issue of absorptive capacity. What capacity constraints need to be addressed in order to be able to scale up in the way we are thinking?

In sub-Saharan Africa, the quality of staff and of institutional capabilities of central banks and ministries of finance compares quite favourably with other developing countries and with benchmarks. However, there is much greater need for capacity building at the line agency level. And if you go down to the local level, i.e. education and health, the needs for capacity building are substantial. But when we look at what has been prescribed in the PRSPs, there is a lot of focus on financing and much less attention for the capacity constraints we face when it comes to teachers, health service workers and addressing those kinds of capacity constraints in a sustainable way.

The Forward-Looking Agenda

Let me close with two other points on the forward-looking agenda. Financing and debt sustainability are clearly key issues. Here the discussion is not just about the adequacy of funding, but also about the predictability of donor funding. Despite all of the hype for the "Education for All" programme, we have not yet managed to acquire even a three-year commitment of donor funding for a programme where you need ten-year commitments going out. The same applies for HIV/ AIDS, all of the things where recurrent costs financing in the long term is key.

This issue of recurrent costs brings us to the issue of budget support. There is a movement toward more budget support since its advantages are increasingly recognised. However, the way we are providing donor budget support is still hugely fragmented. This is not just an issue for the Fund and the Bank, but one that we have to resolve through donor harmonisation and alignment efforts.

Finally, I want to mention the issue of shocks. The shortcoming in dealing with shocks is not just a failure of the Fund and the Bank. It really is the architecture of international support right now of how to deal with asymmetric shocks of developing countries which is just not adequate.

The final issue, which does not get enough attention, is the issue of trade and, in particular, agricultural trade. There is nothing that is more powerful for African development than dismantling the trade barriers that currently exist in specific commodities, such as cotton, and more generally for agriculture. This could be the most powerful measure of support to the development agenda.

To conclude, the country-driven PRS provides a good basis, we have agreed on it, but now we need to populate it with content and methods for advancement in order to achieve results.

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