

# **The Latin American Experience with the PRS approach**

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### **1. Introduction**

In 1999, countries that wished to qualify for the Enhanced Initiative for the Heavily Indebted Poor Countries (HIPC initiative) had to elaborate Poverty Reduction Strategy Papers (PRSP) and had to do so with participation of civil society. Since then, the elaboration and subsequent implementation of PRSs (Poverty Reduction Strategies) have been seen as a tool for the international donor community to guarantee that not only debt relief, but also aid in general would be spent well. All low income countries that want to access the concessional facilities of IMF (PRGF) and World Bank (IDA credits) must present a PRSP. The PRS approach was going to embody the following five principles: national broad-based ownership with participation of civil society, partnership with donors, and the plans themselves would be comprehensive, long-term and result oriented. Together, the application of these five principles was expected to bring about more democratic accountability, more effective aid and ultimately more poverty reduction.

The aim of this paper is to assess the experience with this PRS approach in Latin America, and in particular in three Latin American HIPC countries Bolivia, Honduras and Nicaragua. It is based on a five year (2003-2008) study of these processes, undertaken by a team of European and Latin American researchers and funded by Swedish Sida. All three countries wrote their first full PRSPs in 2001 and did so with extensive consultation processes. Since then, and despite institutional commitments like a “National Dialogue Law” (Bolivia) or a “Poverty Reduction Fund Law” (Honduras), the PRS process was not always followed smoothly. The countries have undergone several changes in government. New governments did not accept “old” strategies, nor were they always willing to elaborate a new one. In the meantime, donors wishing to work on the basis of a PRS were in trouble as they either had to discontinue disbursements, or they had to assume that current governments were implementing the former government’s strategy even when they said they were not.

Especially among donor communities in these three countries, it is often argued that the Latin American experience is very different from that in other parts of the world, especially in Sub-Saharan Africa. In Africa, the idea of elaborating Poverty Reduction Strategies appears to be widely accepted by governments. They develop new strategies regularly and present annual Progress Reports on their implementation. This practice, in turn, allows donors to work together in Budget Support Groups and to align their aid with national systems. In Latin America the idea of the PRS has been much less accepted or has been rejected outright, as in Bolivia as of 2004, and joint budget support schemes have only come about on a limited scale. According to these often heard views, these two facts are related, and they are both due to the frequent changes in government occurring in Latin America. These changes and instabilities, so the view holds, prevent stable, long-term and comprehensive strategies from coming about, and so also prevent donors from maintaining stable aid relations with governments.

In this paper we analyze to what extent the Latin American experience really has been different from that in other parts of the world. We focus, in particular, on the degree of ownership of the strategies, on the extent of participation and democratic accountability, on

improved partnerships with donors, and on the implementation of the strategies and the actual poverty reduction. While recognizing that there have been more frequent government changes in these Latin American countries and that this has had some consequences for the PRS process, we argue that the results of the PRS process are not necessarily and in all respects much worse than in Africa. In some areas, the results may even have been better than elsewhere.

In order to compare the Latin American and the African experience, the paper begins by a brief assessment of the results of the PRS process in general. Most of the literature on PRS so far has dealt with Sub-Sahara Africa so we rely on this secondary material to describe the main achievements with respect to ownership, participation, partnership and results for actual poverty reduction. We then examine the results of these processes in the three countries, in particular for broad-based ownership and improved participation, improved partnerships with donors and for actual poverty reduction. In the conclusion, we highlight differences and similarities between the two regions and attempt to explain our findings.

## 2. Observations about the PRS process in general, mainly Sub-Sahara Africa

Since 2000, 59 countries have elaborated a full PRSP, of which 23 did so twice and three countries even made a third version of the strategy.<sup>1</sup> Most countries with a PRSP have presented Annual Progress Reports (APR) as well, although no country managed to do this annually. In Latin America, there are seven countries meeting the criteria for IDA support and six of them have an approved PRSP. Nicaragua was the only country that presented an approved second PRSP, and the six countries together produced seven approved APRs (Table 1). In Sub-Sahara Africa, out of the 34 low-income countries, 29 have at least one approved full PRSP. Eighteen countries wrote already two PRSPs, and two have three approved strategies. The average number of strategies by country (of those countries that have at least one approved strategy) is 1.17 in Latin America, and 1.76 in Africa. African countries also have more APRs, namely 1.9 versus 1.17 per country.

Table 1. Number of PRSPs and Annual Progress Reports (APR) in Latin American low-income countries

	<i>Starting year</i>	<i>(1) PRSP</i>	<i>(2) APR</i>	<i>(3) Max Possible PRSPs</i>	<i>(4) Max Possible APRs</i>	<i>(3)/(1), in % PRSP</i>	<i>(4)/(2), in % APR</i>
Bolivia*	2001	1	0	3	5	33	0
Dominica	2006	1	0	1	2	100	0
Grenada							
Guyana*	2002	1	2	3	4	33	50
Haiti	2007	1	0	1	0	100	
Honduras*	2001	1	2	3	5	33	40
Nicaragua*	2001	2	3	3	5	67	60
Average		1.17	1.17			61	30

\* HIPC countries

Source: [www.worldbank.org](http://www.worldbank.org) and own computation

<sup>1</sup> Source for these data on approved PRSPs and APRs: [www.worldbank.org](http://www.worldbank.org), accessed 2 February 2009.

However, this difference may be due to an earlier start of the process in the average African low-income country as the need for debt relief and concessional loans may have been higher. For this reason, we compare the actual number of PRSPs and APRs with a maximum number of both that could have obtained given the starting year and assuming one PRSP every three years (as was the original intention), and APRs in the years in between, after the year of the first PRSP. When comparing the actual with the maximum number of possible PRSPs and APRs, Africa still shows higher scores than Latin America (Tables 1 and 2). So the presumption that the PRS process is more accepted in Africa is confirmed by the more extensive implementation.

Table 2. Average number of PRSPs and APRs in low income countries with at least one PRSP

	<i>PRSPs</i>	<i>APRs</i>	<i>PRSPs as % of maximum*</i>	<i>APRs as % of maximum*</i>
Africa	1.76	1.90	74	48
Latin America	1.17	1.17	61	30

\*The maximum for Africa is computed as in Table 1, see also text.

Source: [www.worldbank.org](http://www.worldbank.org) and own computations.

In the remainder of this section, we briefly summarize the evidence to date on the PRS process in general, and especially in Africa; focusing on the results for ownership, participation, partnership, and poverty reduction. Although countries usually did not take the initiative for writing PRSPs, PRSPs may still be nationally owned. The degree of ownership depends on the size of the circle of local actors that have a “perception of possession” of the strategy (Stewart and Wang 2003). This perception may be limited to the group of technocrats who designed the strategy, while it may also include the top political leadership, or key political officers such as the Vice-President or the Minister of Finance. Ownership would be broader if other ministers who are supposed to carry out the strategy are involved, and even more if this ownership is extended to all public sector officers. Finally, ownership is really broad-based if it extends beyond government: if it includes opposition parties, a majority in parliament, civil society organizations and the public at large.<sup>2</sup>

Most studies of the original PRSPs that were elaborated in order to qualify for the HIPC initiative (the “first generation” of PRSPs) conclude that ownership was fairly limited. It usually included the group of technocrats writing the strategy plus some key political leaders - those who were most interested in accessing the debt relief. Ownership among other policymakers such as the line ministries was limited (Booth 2005; Driscoll and Evans 2005; Whitfield 2005; Holtom 2007; Woll 2008). Parliaments were not involved at all. The fact that the strategy had to be approved by World Bank and IMF limited the possibilities for real participation and thus also for real ownership among the wider society (IEO 2004; OED 2004).

As a result, and as another proof of limited ownership, the contents of the strategies proved to reflect the then dominant international poverty agenda: market-based growth, continuation of liberalizations and privatizations, attention for good governance, and a focus on social sectors

<sup>2</sup> This is loosely based on the classification in Booth (2003).

and social protection mechanisms (Craig and Porter 2003; Stewart and Wang 2003). Yet, this similarity may also have been a reflection of the internalization of this poverty agenda by a group of key actors in government and society who stood to win by cooperation with donors; some countries have become “post-conditionality regimes” (Harrison 2001). Or, as Holtom (2007) describes for Tanzania, there was a “Fraternity of economists”.

Little has been written so far on the extent of ownership of later strategies. Woll (2008) observes that there was much less interference of donors for Ghana’s second PRSP. Donors were not so much interested in the contents but more in the show (the PRS process) continuing. On the other hand, high-level political ownership of the most recent (2005) PRSP in Uganda was lower than in the two earlier strategies (the 1997 and 2001 PEAP). This is explained by the fact that the two earlier strategies had a higher budget and could include high-profile and politically attractive measures such as free education and health care (Canagarajah and Diesen 2006).

With respect to participation, most authors concur that in practice it was, at best, consultation (Stewart and Wang 2003; IEO 2004; OED 2004; Gould 2005; Lazarus 2008). To the extent that civil society groups were invited to discussions at the national or regional level, the agenda was usually determined by the government. This implied that macro-economic policies or structural reforms were not discussed. Useful participation was also limited because invitations and relevant documents did not arrive in time, or civil society constrained itself as it also had an interest in receiving debt relief fast (IOB 2003). A general critique was also that representative local political institutions, such as Parliaments, were forgotten in participation processes. When consultations were extensive, and for example included local meetings with the poor themselves, there was the generalized difficulty of integrating widely diverging detailed demands in a national strategy - both practically, and politically. This also held for participation for the so-called second generation PRSPs, for example in Uganda and Tanzania where extensive grass roots consultation processes were financed by the donors. This led to thousands of pages of reports and that was far too much to be used in the actual strategies (Hartog 2005; Canagarajah and Diesen 2006). Actual influence was therefore limited.

Yet many authors also maintain that participation processes meant that a larger group of actors has become involved in public policies (Driscoll and Evans 2005; Cheru 2006; Holtom 2007). The Survey on Budget Support carried out for the Strategic Partnership With Africa (SPA) observes that there has been an increase in number of actors involved in the preparation of the APRs between 2003 and 2007, although Parliaments are still only involved in less than half of the countries (SAP BSWG 2007).<sup>3</sup> More critical reviews of participation processes for the PRSP argue that the donor attempt at opening political space for non-state actors was deliberately meant to increase the power of external actors, both official donors and International NGOs vis-à-vis the government (Fraser 2005; Lazarus 2008).

The PRS process was also expected to enhance partnerships with donors. With a government-owned PRSP in place, donors would be able to support this strategy by non-earmarked aid

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<sup>3</sup> The 2007 was carried out in 14 Sub-Saharan African countries, Benin, Burkina Faso, Ethiopia, Kenya, Ghana, Madagascar, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia and included 20 donors.

modalities, such as General Budget Support (GBS) and Sector Budget Support (SBS).<sup>4</sup> In this way, governments would take the lead over the aid process. Many authors concur that progress in donor harmonization and in donor alignment with national policies and systems is slow (Booth 2005; Driscoll and Evans 2005; Cheru 2006). According to the most recent (2007) Annual Survey of Budget Support undertaken for the SPA, the number of donors involved in joint GBS agreements in Africa has increased between 2004 and 2007. All fourteen countries reviewed in this Survey received General Budget Support, and by 2007, 11 out of 14 have a formal joint Memorandum of Understanding for its provision. But the amount of GBS is still small relative to total aid to these countries: 21.2 per cent, on average. If we add SBS, the share of these two modalities becomes 24.2 per cent (SPA BSWG 2008). Although budget support was non-earmarked, it was not free of conditions, both in the form of underlying principles (macro-economic policies, fiduciary issues, political and governance issues, etc.) and to concrete policies and targets to be achieved with budget support. The latter are usually jointly (all donors and government) defined in Performance Assessment Matrices. In at least one country, Uganda, donors have also agreed on a Joint Country Assistance Strategy (Canagarajah and Diesen 2006).

In order to assess the results of the strategies for actual poverty reduction, it is first important to examine the contents of the strategies and then the extent of their implementation. With respect to contents, the first generation of PRSPs had a heavy focus on social policies and suffered from a lack of attention for policies to increase economic growth (Maxwell 2003; IEO 2004; OED 2004). This made sustainable poverty reduction more difficult. Another generally recognized problem was the lack of priority setting and of operationalization and costing of policies described in the PRSPs.

The attention for growth was usually better in second or third strategies, but the lack of operationalization remained a problem (Canagarajah and Diesen 2006; Woll 2008). In Uganda, for example, the PRSP was in fact operationalized in the PRSC (Poverty Reduction Support Credits of the World Bank), while in Ghana costing exercises were mainly done for projects that were to be financed by the donors.

The limited ownership among line ministries (see above) also limited an effective implementation of PRSPs. In practice, there were only weak links between PRSPs and government budgets. Although many African countries have developed Medium Term Expenditure Frameworks, these MTEFs are sometimes only existing on paper and do not provide real budget constraints, as in Mozambique (Cheru 2006). Donor attempts to reform public financial management for example by introducing MTEFs, performance management and activity based costing are far too complicated and “drain available capacity” (Renzio 2006: 632). Budgets are often just a “façade” (Rakner *et al.* 2004). In Ghana, there proved to be an almost 50 per cent difference between budgeted expenditure and actual expenditure per ministry, on average (Lawson *et al.* 2007). On the other hand, the SPA Survey found that in an increasing number of countries (but still less than half of the total surveyed) the APR does have significant influence on policies and budgets (SPA BSWG 2008).

Studies show that pro-poor expenditure and social sector expenditure have increased in most or all HIPC countries (IDD and Associates 2006; IEG 2006). However, definitions are not the same everywhere and have often changed over time. In addition, this did not lead to higher

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<sup>4</sup> According to the OECD DAC definitions of these concept, the only difference between the two is that in SBS, the policy dialogue (or the conditions) are focused on a particular sector, while there is no such restriction for GBS.

efficiency and quality of public service delivery (Lawson *et al.* 2005; IDD and Associates 2006). Yet, Sub-Sahara Africa as a whole has experienced improvements in social indicators such as the infant mortality rate, access to improved water sources, primary enrolment, primary completion rates, and improving gender equity in education (World Bank 2008b). The poverty headcount (at the new international measure of US\$1.25 a day) decreased from 55.0 to 50.9 per cent between 2002 and 2005 (World Bank 2008a).

In the next three sections of the article, we will examine in more detail the experience with the PRS process in Bolivia, Nicaragua, and Honduras, first with respect to ownership and participation, then with partnerships with donors, and finally with policies and poverty reduction.

### **3. Ownership and participation**

#### ***Ownership and participation in the initial PRSP***

All three countries were quick in submitting Interim PRSPs in order to reach the Decision Point of the HIPC initiative (see Table 3 for an overview of important dates in PRS and HIPC process in the three countries). They then also moved to write the “full PRSPs”, for which broad participation was a requirement. The participation processes in Bolivia, Nicaragua, and Honduras were quite different from each other. This nature of the process in each country was shaped by recent national experiences with participatory planning.

In Bolivia, an important impetus for participatory planning came from the decentralization process in the mid-1990s. With the Ley de Participación Popular (Law of Popular Participation) 20 per cent of national revenues were distributed to the municipalities. These funds were to be spent by municipal governments, based on municipal development plans conceived through a participatory process and with oversight from “Vigilance Committees” of citizens. The idea of participatory planning moved to the national stage in 1997, when the government of President Banzer held a national dialogue, with limited attendance, to discuss poverty issues (Komives *et al.* 2003).

In Honduras and Nicaragua, Hurricane Mitch (1998) and the donor pressure attached to the flow of aid provided in its aftermath laid the groundwork for civil society participation in policy discussions through the creation of various new committees and civil society networks. In Nicaragua the CONPES (National Council for Social and Economic Planning) with membership from industry, trade unions, NGOs, municipalities, community organizations, and political parties was created in 1999. In Honduras, FONAC (National Fund for Convergence) was created in 1998, with representation of the vast majority of civil society organizations. In 1999 the Commission for Civil Society Participation was formed to bring together FONAC, municipal representatives, and INTERFOROS, another civil society network.

This backdrop shaped the nature of the PRS consultative processes in each country. In Bolivia, a Technical Dialogue Secretariat attached to the Office of the Presidency, was formed to run the participatory process. This group set up a dialogue process with a heavy focus on municipal consultations, and more limited space for civil society. Later, the government also made room for two parallel dialogue efforts organized by civil society groups (Komives *et al.* 2003).

Table 3: An overview of the PRS processes in the three countries

	Bolivia	Honduras	Nicaragua
Interim PRS	January 2000	April 2000	August 2000
HIPC Decision Point	February 2000	July 2000	December 2000
Original PRS Approved	June 2001	October 2001	September 2001
HIPC Completion Point.	June 2001	April 2005	January 2004
PRS Progress Reports * if approved as APR by IFIs	Several written 2002-2003, replaced by annual monitoring of Millennium Goals	November 2003* March 2005* June 2006	November 2002* November 2003* November 2005* May 2006
Changes in Government * if as result of elections	June 2002* October 2003 June 2005 January 2006*	January 2002* January 2006*	January 2002* January 2007*
New National Plans * if approved as PRS by IFIs.	Plan for Government 2002 Revised PRS 2003 Bolivia Productiva 2004 National Plan 2005 Emergency Plan 2005 National Development Plan 2006	National Plan 2002 Expanded PRS 2003 Plan for Government 2005 Revised PRS 2006-08	National Development Plan (NDP) 2002, Revised NDP 2003 NDP-O 2004 New NDP = PRS 2*, December 2005

In Nicaragua, the discussion on the shape of the participation process led to the first meeting of CONPES (which before had only had a paper existence). Donors pressured for the actual participation process to begin, but the government delayed it. In the meantime donors financed parallel processes at the local level. When the formal participatory process was finally set up, the results could no longer feed the actual strategy: the government's desire to present the final PRSP before the elections of November 2001 meant that the strategy had to be finalized before the consultation process was completed (Guimarães and Avendaño 2003).

In Honduras, civil society groups had a role in organization of the PRS participatory process: the government's "Social Cabinet" and the Commission for Civil Society Participation had joint responsibility for organizing the dialogue process. Invitations were sent to civil society groups to participate in discussions and presentations at both regional and national levels. According to Cuesta and Cid (2003), all the most influential groups participated in some way in the process and one would be hard pressed to find a group that felt it had been actively excluded from the process.

Despite the differences in the structure and breadth of these processes, participants in and observers of these processes cite similar outcomes and problems. In all three countries, the discussion centred on social issues. Some topics were not up for discussion, for example the macroeconomic framework and unequal access to productive assets (in all three countries), topics related to growth and natural resources (in Bolivia in particular), and corruption (in Honduras). Civil society was widely complaining that government did not take their demands and concerns seriously. Not only in Nicaragua, but also in Bolivia the results of the

consultation process were hardly used because a new group of consultants was charged with writing a strategy that would meet the expectations of the international community. In this stage, ministries were also involved.

This is not to say that the consultation processes had no impact on the strategies. In Nicaragua, civil society (supported by donors) helped argue for attention to governance in the final PRSP (Guimarães and Avendaño 2003), and in Honduras the dialogue helped flesh out some elements of the government's initial plan (Cuesta and Cid 2003). In Bolivia, the dialogue was instrumental in determining that all HIPC money would be distributed to the municipalities, based on a formula that prioritized the poorer municipalities.

Ultimately, the actual influence of civil society groups on the strategies themselves was quite limited in the three countries (Vos *et al.* 2003). As was the case in Sub-Saharan African countries, Parliaments were not involved in the participatory process in the three countries, but there is little evidence that Parliamentarians were upset by this omission. The strategies in all countries were written by a small group of technocrats that was in close contact with the donors. Their main objective was to get access to the HIPC relief and in this they succeeded. So there was little domestic ownership, let alone broad-based ownership of the strategies. Only in Bolivia there was also some influence from other ministries, so that ownership was at least to somewhat shared within the government.

Yet, the civil society organizations that participated in the PRS discussions appreciated the chance to be heard, in Honduras, particularly the small ones, says Cuesta (2007). The processes also strengthened an already active civil society, especially in Bolivia where indigenous groups and the small producer network that had taken advantage of donor support for civil society capacity building helped increase the pressure on the government through protests and highway blockages (Komives *et al.* 2004). In all three countries, one could say that among civil society groups commitment to the idea of continuing participatory planning was relatively high in comparison to commitment to the PRSPs themselves. In Bolivia, national dialogues were even institutionalized in a National Dialogue Law, which required a dialogue process every three years.

### ***Second and third generation participatory processes***

In Nicaragua, the newly elected Bolaños administration (2002) quickly announced its rejection of the country's original PRSP; it was seen as a plan written for the donors. Bolaños had won the elections on the basis of his own National Development Plan (NDP) which was mainly focused on achieving economic growth, not poverty reduction. However, in order not to threaten progress towards the HIPC completion point, the government began to produce PRSP Progress Reports. At the instigation of the donors, the administration also began to revise its NDP to bring it more in line with donor wishes.

The revision of this Plan was accompanied by extensive sector, departmental and municipal consultation processes. The reach of this participatory process was much larger than with the original PRSP, and in some cases participation was effective in influencing municipal, department or sector plans. National level consultation and discussion of core strategy issues was much more limited, even in the CONPES, which had been weakened by changes in its composition (Guimarães *et al.* 2004). After several revisions, donors finally accepted the revised NDP as PRSP 2 in November 2005. This national strategy had more ownership by the government than the original PRSP, but less by civil society actors. In addition, ownership



was limited to the Executive as the Bolaños administration had lost all support from Parliament including from his own political party - as a result of his bringing to jail of fellow party member and former President Alemán who was accused of corruption. With the election of President Ortega in 2007, the fate of the PRSP2 (national development plan) and of participatory planning processes is unclear. Ortega did not reject the plan, but has in parallel put forward numerous new poverty reduction policies (see below), which have not been subject to consultations (Dijkstra and Komives 2008).

Like Nicaragua, Bolivia had a change of government in 2002. As Bolivia had already reached the HIPC completion point by that time, new President Sánchez de Lozada had little incentive to continue monitoring or implementing the PRSP. Donors, however, wanted to keep the PRS process alive and pushed for a revised strategy. The administration did produce PRS monitoring reports in 2002 and 2003. These were never approved by the staffs of the IMF and World Bank, but served as a back and forth consultation between government and donors about key elements of a revised PRS (Komives *et al.* 2004).

Donors and the National Social Control Mechanism, an organization created to provide civil society oversight of the PRS process, wanted to see a new participatory process to accompany the new strategy. The Sánchez de Lozada government also recognized the value of national discussions on central issues of contention, such as gas and land, but kept postponing a dialogue due to rising social tensions and street protests. The revised strategy was ultimately rejected by the donors at a Consultative Group meeting in 2003 because there had been no consultation process. Immediately upon returning from this meeting with donors, there was severe violence in the streets, and the President was forced to step down.

Vice President Mesa took over, and he acted in keeping with both the National Dialogue Law and donor wishes by organizing a new dialogue in 2004. The National Dialogue for a Productive Bolivia aimed to redress a number of criticisms about the first dialogue process: the lack focus on production in the original PRSP, the fact that civil society groups had no role in agenda setting and lacked capacity to fully participate in the discussions, and the absence of government decision makers at the dialogue table. The organizing committee for this dialogue included representation from increasingly influential indigenous and small producer groups. Donors provided resources for civil society organizations to develop productive strategies to bring to the dialogue during a “pre-dialogue” process. Again, however, there was hardly any link between dialogue outcomes and the Plan. Furthermore, even the Plan went nowhere, since President Mesa also had to resign in mid-2005. He was replaced with a placeholder President in mid-2005. Yet, the policy measures that civil society groups had managed to extract from the government as a condition of participating, and the long-term strengthening effects on civil society organizations of the donor-funded “pre-dialogue” activities were significant (Jong *et al.* 2005).

With the election of President Morales in 2006, the new administration made clear that it had no intention of preparing a revised PRSP. It came to power with its own National Development Plan (NDP). Some further consultations were held but mainly with civil society groups with close ties to the government, and the discussions were largely presentations of the government plans rather than dialogues. Yet, the NDP and the recently approved constitution both call for increased “social control” of government activities and for more autonomy for indigenous groups. It is still too early to tell exactly what shape these will take.

Following the pattern in Nicaragua and Bolivia, Honduras' President Maduro (2002-2006) first did not accept the PRSP approved under his predecessor. So as not to jeopardize the HIPC process, however, he ultimately decided to preserve the PRSP, write Progress Reports, and maintain the tri-partite (government, donor, civil society) Consultative Council of the PRS, which had been created in Poverty Reduction Fund Law. As no new plan was created, there were no new participatory processes for a few years, but the existence of a Consultative Council to which the government had to listen was a step forward in participatory planning in Honduras (Seppanen 2005).

In 2005 the country achieved the HIPC Completion Point and a lively discussion about how to use the HIPC resources emerged. Far from structuring the decision on how to spend HIPC resources, the Honduran PRSP and the procedures established in the Poverty Reduction Fund Law took a backseat to new discussions about what projects to fund with resources liberated through debt relief. The Maduro government organized a round of consultations about how to use the HIPC funds just before the elections. As had been anticipated, the decisions made in these discussions were not respected as the government changed. The newly elected Zelaya government (2006-) had other ideas about how to spend the resources, and the Parliament began to show interest in the PRS process now that it produced resources. Parliament ultimately decided to send a good part of the HIPC funds to municipalities. The drama around HIPC resources in Honduras shows that formal recognition of a PRSP and of PRS consultation processes do not mean anything when it comes to actual spending decisions. On the instigation of the donors, the Zelaya government began to work on revised PRSP. The work was mainly done by a consultant hired by the Inter-American Development Bank and although several versions have been produced it has so far it not been approved.

### *Conclusions*

From this overview of PRS processes in Bolivia, Honduras and Nicaragua it can be concluded that the first PRSPs were mainly written for the donors and that domestic ownership was limited to a group of technocrats, often donor-funded consultants. Only in Bolivia ministries had been actively involved in designing the strategy. The influence of participatory processes on the contents of strategies was limited - but these strategies were merely pieces of paper anyway. New governments came to power on the basis of their own National Development Plans. Obviously, government ownership of these Plans was much bigger but donors usually did not accept these Plans as new PRSPs. They forced governments to either accept the old one (Honduras) or to rewrite the strategy to give more attention to donor wishes (Nicaragua). Only in Bolivia this did not happen, as the country already achieved the HIPC Completion Point in 2001. By the time Honduras and Nicaragua had a further government change in 2006 and 2007, they had also achieved their Completion Points and the situation with respect to the PRS process has become similarly unclear as in Bolivia.

Yet, the participatory processes that were organized around the development of first or later national strategies, did have an impact in the three countries. They helped further strengthen participatory bodies, civil society networks, and the capacities of civil society actors. In Honduras, the participatory process led to the establishment of the PRS Consultative Council, which gave a voice to civil society groups that they did not have before. It also provided civil society with a chance to be heard by donors, who (as is discussed further below) continue to wield significance influence in policy making discussions. In Nicaragua, a similar development could be expected from the establishment of the CONPES, but it has lost influence during the Bolaños government as he used it for his own purposes (Braunschweig

and Stöckli 2006). Furthermore, as donors are not involved in the CONPES, civil society is excluded from the real policy discussions (Guimarães *et al.* 2004). Yet, in Nicaragua the participatory processes at sector, department and municipal level did strengthen civil society actors and it gave them a chance to influence actual policies at these lower levels. In Bolivia, the donor-funding for civil society groups in both the 2001 and 2004 national dialogues, strengthened these groups, including the indigenous and small producer movement that were protesting against governments. Ultimately this helped bringing President Evo Morales to power. It remains to be seen whether the recently adopted Constitution will lead to more openness toward civil society groups who are not natural supporters of the administration.

The links between civil society groups and political parties are weak in Nicaragua and Honduras (Booth *et al.* 2006), which means that civil society groups welcome the participatory bodies created and/or consolidated in the PRS process as places there they can raise issues, ask for information, and generally make their voices heard. However, civil society actors use the spaces to have a voice in policy making, more than to monitor a poverty reduction strategy or government policies (Komives and Dijkstra 2006). One common explanation for weak participation in monitoring and evaluation of the PRSPs is lack of civil society capacity (see also (Molenaers and Renard 2006; Eberlei 2007)). While this is certainly a factor in Bolivia, Nicaragua, and Honduras, much has been done in the name of the PRS process to strengthen capacity and provide donor resources to civil society groups. At least as important as lack of capacity is the fact that civil society groups have more interest in promoting and pushing new ideas and changes in policy direction than they do in monitoring the government policies.

#### **4. Partnership with donors**

In this section we examine what happened in the relations between government and donors in the three countries as a result of the PRS process. In particular we analyze to what extent donors moved to freely spendable aid modalities, such as GBS or SBS, to what extent conditions for these aid modalities were based on the PRSP - or otherwise “owned” by the recipient government, and whether governments took on the leadership of the aid process.

A first thing to be noted is that the relationship between the PRS process and the change to other aid modalities was not as straightforward as it appears to have been in Sub-Saharan Africa. The move from project aid to budget support has also been less extensive than in those other countries. Like in other countries, part of World Bank and IDB lending consists of policy-based loans (in fact, GBS), and the EC has also turned an increasing share of its grants into (sector) budget support as of 2004. But bilateral donors have changed much less in the three countries. In Bolivia and Nicaragua joint budget support schemes have come into existence around 2004-2005, but only in Nicaragua do disbursements continue to this day. The Bolivian program was short-lived: it lasted one year only and hardly led to disbursements. Honduras never had a joint budget support agreement,<sup>5</sup> which is contrary to expectations as Honduras was the country where the PRS process continued to have most presence. In Bolivia, by contrast, when the “Multi-annual Budget Support Program” was signed, the country did not have an approved PRSP. So the presence of an approved PRSP or APR was not *necessary* or *sufficient* for the creation of a joint budget support agreement in these three countries.

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<sup>5</sup> Sweden and Germany (KfW) have provided some budget support on their own or linked to the PRSC.

Yet, having an approved PRSP did have consequences for the lending operations of the IMF and the World Bank. When, in response to severe uprisings in February 2003 the Bolivian government and the IMF concluded a new agreement in April 2003, it was a Stand-By and not the concessional PRGF. The reason for this unfavourable treatment was that the country did not have an approved PRSP. In Honduras, the PRGF concluded in January 2004 went off-track in 2005. This, combined with a lack of clarity on the status of a new draft PRSP, led the World Bank to postpone a new PRSC.

Table 4. Amount of program aid\* 2001-2006, in US\$ millions and in per cent of total aid

	2001	2002	2003	2004	2005	2006	Total program aid 01-06	Total aid 01-06	Program aid as % of total aid
Bolivia	21	57	381	227	95	19	800	4137	19
Honduras	27	4	1	51	103	25	210	1628	13
Nicaragua	38	54	78	90	51	133	443	3291	13

\*Program aid comprises of all freely spendable modalities: balance of payments support, debt relief (by bilateral donors on multilateral debts), GBS and SBS.

Source: Data from Ministries of Finance in Bolivia and Honduras, and from the Central Bank of Nicaragua.

Table 4 shows the amount of program aid received by the three countries between 2001 and 2006. In per cent of total aid, only Bolivia comes near the average for the fourteen African countries surveyed by the SPA. However, this country received in 2003 and 2004 large amounts of balance of payments support in view of the threat of a balance of payments crisis. In addition, these figures are overestimated because they include loans from the Andean Development Corporation (CAF) which are not concessional so strictly speaking do not form part of aid. Excluding both CAF and balance of payments support, Bolivia would present a much lower figure than Honduras or Nicaragua. In Honduras the program aid figures are slightly underestimated as they do not include grants (but the total aid figures for this country do not include grants either).

There are three reasons for the more limited move to budget support in Latin America and for the weak link between the PRS process and this change in aid modalities. First, the existence of a PRSP was meant to signal the poverty reduction commitment of governments. But the limited ownership of the first PRSPs and, perhaps even more important, the subsequent rejection of these strategies by new governments made it hard for donors to keep up this idea. Having an approved PRSP did not imply such commitment (similarly as in other countries), while rejecting it did not automatically imply a lack of such commitment.

Second, although budget support was increasingly stimulated by donor headquarters, especially since the Rome and Paris Declaration, this pressure was not the same for all donors. Donors like USAID, Canada, Spain and Japan have a large presence in Latin America and are much less inclined to provide budget support than the “like-minded” donors such as the UK (DFID), Sweden, Norway and The Netherlands. This explains, in particular, the absence of a joint donor scheme in Honduras, as Sweden and Germany (KfW) were the only bilateral donors potentially in favour of such a scheme.

Third, having elaborated a PRSP is not the only entry condition for budget support. All donors are of the view that macroeconomic stability must be in place, and usually an IMF agreement is taken as proof of such stability. Most donors, and in particular bilateral donors and the EC, also give a high weight to governance conditions, in particular fiduciary conditions: a certain level of transparency in budget execution and absence of corruption. In practice, an IMF agreement as entry condition has played a role in all three countries and for all donors, with the partial exception only of IDB and CAF (in Bolivia). The status with respect to the IMF explains to a large extent the ups and downs in program aid (Table 4). The conditions with respect to governance have not been very important in practice. Donors were usually satisfied if there was some evidence of a willingness to improve budgetary processes or other governance issues. Ad-hoc political reasons also seem to have played a role in the bilateral decisions to move towards budget support. Donors wanted to support President Mesa in Bolivia, in 2004, in order to prevent further political and economic instability, and they had a large confidence in President Bolaños in Nicaragua because of his fight against the former government's corruption.

As in other countries, the Latin American PRSPs did not present clear priorities nor were they very "operational". For this reasons, donors wanted to accompany budget support with specific agreements on policies to be implemented and targets to be achieved with the provided resources. Given that there were so few joint schemes, the World Bank, the IDB and later also the EC negotiated separately their policy-based loans or budget support grants. To the extent joint schemes existed, a larger group of donors, including bilaterals, negotiated the Performance Assessment Matrices (PAM). But the multilateral agreements continued to exist alongside the joint scheme. Given the doubts that existed among donors about the extent of government compliance with the entry conditions (macroeconomic stability, governance and transparency, and poverty commitment), the number and scope of conditions was extensive. They not only included macroeconomic policies, tax, trade and financial reforms, and privatizations, but also governance reforms and social sector policies. In Nicaragua, for example, the first PAM contained 160 policies and targets for two years. All in all, conditionality was "business as usual" with the difference that sometimes more actors were involved on the donor side (EC and several bilateral donors) and that more sectors were covered. The extent of ownership can be seriously questioned. This is also clear from the degree of implementation. Although usually a fair amount of indicators were met, there were also many incidences of non-performance.

With respect to government leadership of the aid process in general, and in coordinating and harmonizing the donors, progress has also been limited. Donors stimulated the forming of sector roundtables in which government and donors would discuss policies for a sector and in which coordination of both government and donor actions could take place. In all countries sector roundtables have been operating, but by no means in all years since 2001. New governments first had to be persuaded of the importance of aid coordination via the establishment of sector groups and sector plans. By the time they had their own version of the sector roundtables running, it was already almost time for new election campaigns. In addition, even when there were sector roundtables they were not always functioning well. Their effectiveness (in the donor view) depended on the presence of high level government officers, but that did not always happen. It seems that ownership of the idea of having sector roundtables for donor coordination was often limited to the President and a few ministers.

Yet, some sector plans have been elaborated, sometimes with participation of civil society. Examples include education sector plans in Bolivia and Nicaragua, and a sub-sector plan around the Education For All Initiative in Honduras. In the first two countries a few donors provided sector budget support for the implementation of these plans. But government changes also interrupted the operation of these plans and of the budget support schemes within it. The current governments in Bolivia and Nicaragua do not seem to be interested in reviving the sector roundtables. They can get their political priorities financed with aid from Venezuela. This is a form of leadership of the aid process, but not the one envisaged by the Paris Declaration.

In sum, there are two reasons for the lack of progress in government leadership of the aid process and of donor coordination. One is the frequent government changes and political instability in these three countries. But another reason is the clash between the technocratic view of policy-making adhered to by the donors, and actual policy processes. Donors seem to assume that policies in recipient countries can be made by establishing long-term consensus and writing this down in comprehensive plans; in turn plans will then be implemented. This, however, is not the way policymaking proceeds in any country (Gunsteren 1976; Dijkstra 2005). Politics is central to the making of policies and their implementation. And politics is the opposite of rational planning, consensus and long-term commitments. It is full of diverging views and conflicting values, partial interests, bargaining, compromises, short-term commitments, and incremental ways of solving complex issues.

## **5. Poverty reduction**

Isolating the effect of PRSPs or the PRS process on poverty reduction is a virtually impossible task. Nonetheless, we conclude for a number of reasons that it is unlikely that the PRSPs or the PRS process had any significant impact on poverty levels in Bolivia, Nicaragua, and Honduras.

A first important point is that, despite all the attention and energy spent on their creation, original PRSPs represented more continuity than change in government policy. The first poverty reduction strategies incorporated efforts that were already underway (many of which had begun in the 1990s and/or were financed by donors). These policies and programs were organized into strategies, in some cases with proposals for improving or expanding the programs (Komives and Dijkstra 2006). Even revised plans brought in relatively few changes in implemented policies. Macroeconomic policy has also not changed, despite calls for wider discussion and more flexibility.

Once freed of the HIPC noose, governments in the three countries did set out to propose some changes in policy direction. In Honduras, the draft currently circulating aims to refocus the strategy more on production, integrated multi-sector actions, and access to assets. Some elements of it have started to be implemented, for example a safety net program (*Red Solidaria*) that regroups existing programs into coordinated aid packages for priority municipalities. In Nicaragua, President Bolaños' NDP also focused more on conditions for growth. Without officially altering the PRS, President Ortega has initiated some new programs including free primary and secondary education; a literacy program based on the Cuban model; the provision of free medicines; and credits and capital transfers for small producers and women workers. In Bolivia, the government of President Morales has introduced major changes in revenue collection and distribution from the country's mineral

and gas resources and pushed for a new constitution, which grants greater autonomy to indigenous groups. He also introduced a Cuban-inspired literacy program, a grant for children in public school children, and a transfer of monetary resources to priority municipalities (paid for with Venezuelan resources), as well as a literacy program.

The implementation of these new programs has suffered, however, under excessive staff turnover following changes in government (Dijkstra and Komives 2008). This is a normal problem in all three countries, but it has been especially intense in recent years. Presidents Ortega and Morales reduced the nominal wages of public employees in Nicaragua and in Bolivia, and this has led part of the governments' qualified technical staff to leave and find work elsewhere. In both countries, a limit on remunerations to external consultants was also introduced, which also makes it difficult for the government to hire sufficiently qualified temporary technical assistance from consultants. Apart from turnover in government technical staff, Bolivia, Honduras, and Nicaragua have also had many changes of ministers and vice-ministers during current the administrations, complicating policy development and implementation enormously.

Other problems have hampered implementation as well. In Bolivia, regional strikes and the focus on the constituent assembly have absorbed much of the governments' scope for action. Bolivia and Nicaragua have also had problems with budget execution (Komives and Dijkstra 2006). All three countries now have more resources to spend on poverty reduction than before, thanks to debt relief and improved tax collection. Nonetheless, not all the resources or the implementation authority are held in the central governments. In recent years, all three countries have made commitments to increasing the amount of resources (and of responsibilities in Nicaragua) transferred to lower levels of government. None of the PRSPs, nor the development strategies that took their place, have been able to fully articulate a vision for poverty reduction that marries central government action and resources with the activities and resources of municipalities and departments. Nicaragua has made some progress in that direction with the creation of regional development plans, and, in Bolivia, there are some guidelines provided to municipalities on the sectoral distribution of additional spending. But, for the most part, poverty reduction strategies and national development plans (and efforts to monitor their implementation) still focus on national government.

If one looks at national spending patterns during the PRS period, "pro-poor" spending (as defined in each country) and social spending have increased in the three countries, both in real terms and relative to other sectors (Komives 2006). This is consistent with what has been observed in Sub-Saharan Africa. In Nicaragua, for example, per-capita US\$ spending on education increased by 50 per cent between 2000 and 2005 and on health by 30 per cent in the same period. It is important to note, however, that the increases in social spending partly also pre-date the PRS process. In Honduras, public social expenditures were approximately 35 per cent of total public expenditures (7 per cent of GDP) in the 1990s, 49 per cent in 2002 (9.9 per cent of GDP), and 51 per cent in 2004 (11.8 per cent of GDP). Between 1995 and 2006 in Bolivia, the share of GDP dedicated to "pro-poor social spending" has grown from 9.1 per cent to 13.3 per cent.

Budget data from the three countries provide some reasons to worry about the quality and effectiveness of this additional social expenditure. In Nicaragua, the category of poverty reduction expenditures that has a direct redistributive impact on the poor has decreased from 56.2 per cent in 2004 to 51.6 per cent in 2006, even as total spending has increased, which indicates the new spending may be poorly targeted (Guimarães and Avendaño 2007). In

Honduras, the richest 40 per cent of households together still receive more than 30 per cent of PRS expenditures (Dijkstra and Komives 2008). All three countries have experienced decreases in capital expenditure for the social sectors. While spending in many sectors has increased, the budgets of some important sectors have fallen (rural development in Honduras, and water and sanitation in Bolivia). Despite recent calls for more attention to production and growth in second generation strategies, there has not yet been an increase in productive spending.

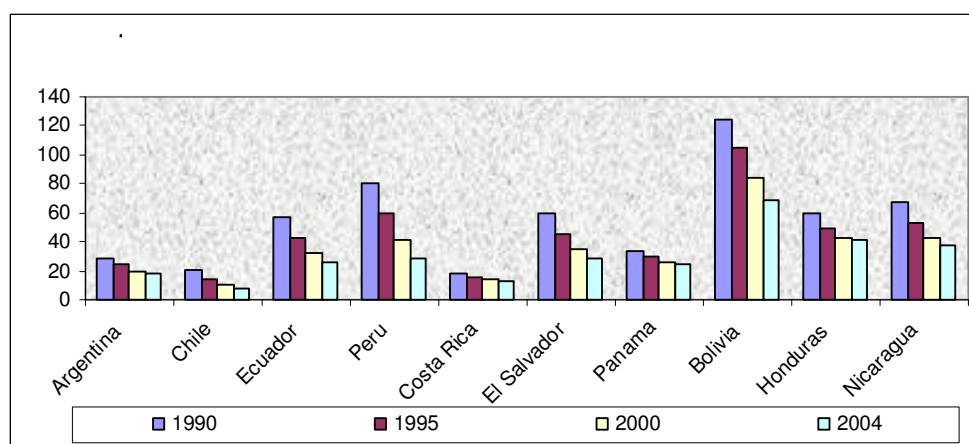
Progress in growth, poverty reduction, and social indicators has been mixed. In Honduras, after some very volatile years in the 1990s and slow growth at the beginning of the new century, GDP grew by 6 per cent in 2006 and projections for 2007 are similar. In Bolivia, after some 8 years of 4-5 per cent annual growth rates, the first Asian crisis (1998) and its collateral effects in Chile, Brazil, and Argentina reduced both economic growth (to a rate of less than 2 per cent) and tax revenue at the same time. Since then, the growth rate has risen again, reaching more than 4 per cent in 2006. Importantly, improved growth in Honduras and Bolivia has more to do with a favourable international context than to having found a strategy to deal with shocks to the economy. In Nicaragua, the average GDP growth rate has been lower in the last six years than in the final years of the 1990s. In 2006, the growth rate was 3.7 per cent (and 2.4 per cent in per-capita GDP) and a lower rate is expected in 2007. The relatively poor growth performance in Nicaragua is ironic given that Nicaragua's second PRSP was a growth-focused strategy, too focused on plain growth at the expense of poverty reduction according to many critics.

In Latin America in general, the new millennium has not seen significant reductions in monetary poverty rates (IDB 2004), and from available data, it appears that Bolivia, Honduras, and Nicaragua are no exceptions. In Honduras, statistics published by the SIERP (System of PRS Indicators) indicate that the monetary poverty rate remained practically unchanged between 2001 and 2005 before dropping in 2006 and 2007 to just over 60 per cent. Extreme poverty decreased, from 48.4 per cent to 37 per cent. At the same time, inequality has actually increased since the beginning of the PRS process. In Bolivia, the National Statistics Institute (INE) reports that the monetary poverty rate rose from 62.6 per cent in 1999 to 67.3 per cent in 2003. Rates are falling again, down to near 60 per cent in 2006. The incidence of extreme poverty fell between 2000 and 2004 but rose again to 38 per cent in 2005. In Nicaragua, there were long delays in publishing updated poverty statistics, but figures now indicate that between 2001 and 2005 poverty conditions worsened to the point where current poverty and extreme poverty levels are similar to those of 1998. Better news is the fact that inequality has decreased slightly between 1998 and 2005.

As in sub-Saharan Africa and other parts of Latin America, most social indicators are generally improving. The three countries have had success, both before and after the beginning of the PRS process, in extending basic services to the population. Bolivia, Nicaragua, and Honduras do not stand out either for their good or poor results in social indicators as compared to the rest of Latin America (see for example Figures 1 and 2, and Table 5)

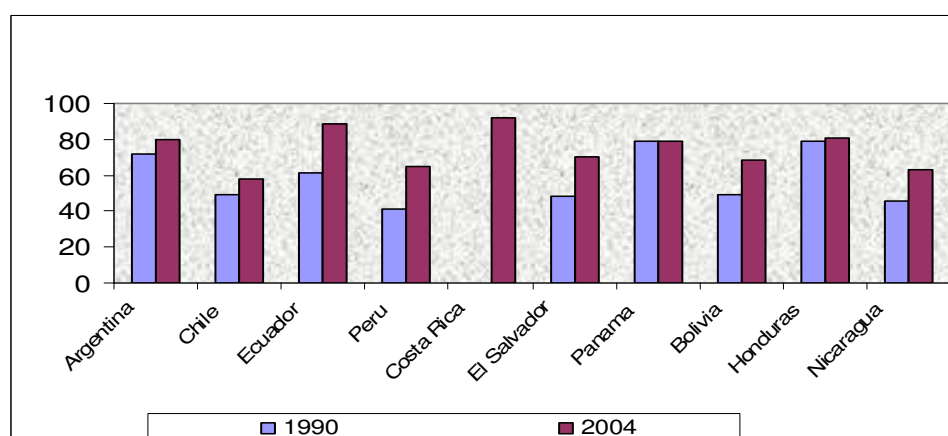


Figure 1. Infant Mortality Rate for Children Under Five, Per 1000 Births



Source: UNDP 2006

Figure2. Percentage of Population with Potable Water in Rural Areas



Source: UNDP 2006

Table 5. Social indicators

	<i>Bolivia</i>		<i>Nicaragua</i>		<i>Honduras</i>		<i>Sub-Sahara Africa</i>	
	<i>2000</i>	<i>2006</i>	<i>2000</i>	<i>2006</i>	<i>2000</i>	<i>2006</i>	<i>2000</i>	<i>2006</i>
Primary enrollment, gross	115	109	101	116	107	118	78	94
Ratio of female to male primary enrollment	99	100	101	98	101	99	85	89
Primary completion rate	99	101	66	73		89	49	60
Primary completion rate, female	94	100	70	77		91	44	55
Infant mortality rate	63	50	34	29	32	23	100	94
Improved water source	82	86	77	79	80	84	55	58

Source: World Bank, Poverty data: Supplement to WDI 2008.

## 5. Conclusions

It is hard to compare this Latin American experience with the African experience, as there are of course many differences between countries of the same region. Yet, some general similarities and differences can be observed. It seems that ownership of the first PRSPs, written to access the HIPC relief, was limited in all countries of all regions. In Africa there were usually no government changes after the first PRSP, and governments, dependent as they were on donor-financing, wrote APRs and usually also elaborated a second PRSP. Ownership of these second or third strategies seems to have varied. But full ownership can be doubted, as there was usually a wide split between the strategies on paper, and actual policies and government spending. In Latin America, the government changes were accompanied by new strategies that were much more owned by incumbent governments. But these owned plans were not always accepted by donors, leading to an unclear situation in which both governments and donors practiced “business as usual” - with limited implementation of whatever strategy. The frequent government changes forced donors to recognize that there was not a one-to-one relationship between the existence of a PRSP and government commitment with poverty reduction - while this was not the case in Africa.

While a general conclusion for both regions can be that participatory processes had limited influence on actual national strategies, the Latin American experience shows that participation can have an important impact in itself. In all countries civil society organizations were strengthened by the donor funding that accompanied participatory processes. In Bolivia some of these organizations became capable of expelling several Presidents, and ultimately in bringing their leader to the Presidency during regular elections. In Honduras the participatory process led to some institutionalized policy space for civil society representatives, and in Nicaragua civil society could exert influence on some of the regional, sector or local plans - which higher chances of being implemented than the national strategies. All this seems to go beyond the effects of participatory processes in Sub-Sahara Africa. One important explanation may be that there was already a more independent and active civil society movement at the start of the PRS process. Donor support for this movement did have effects - though these effects were not always as intended.

In the area of partnership, there *is* an essential difference between the two regions. In Sub-Sahara Africa there has been a larger shift from project aid to general and sector budget support - although the share of the latter modalities is still small in relation to the total. The slower progress in Latin America is partly related to frequent government changes, which destroyed the illusion of government ownership and commitment to the strategies. It also made stable working relations with governments more difficult, both at national and at sector level. But the slower progress in Latin America was also due to the larger presence of donors that are less in favour of this modality.

In terms of results, there do not seem to be large differences between the poor countries in the two regions. All countries register small improvements in social indicators and most (Nicaragua is an exception) also reductions in poverty. But this may as well have been in spite of, and not due to the PRS process. At least in Latin America it is clear that during this whole period, much time and effort has been invested in negotiating (between donors, civil society and governments) the content of the plans, but much less attention has been given to their implementation. This is due to a combination of several factors, including lack of national ownership over the strategies, weak execution capacity, the low priority given to poverty

reduction in some cases, and political instability in other cases. But there has also been a clash between two mindsets: that of donors with an emphasis on scientific, comprehensive, and long-term planning; and the national mindset of formulating short-term political priorities and trying to achieve them with the political and economic alliances that are available.

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