Oxfam International

Making PRSPs Work: The role of poverty assessments

The Poverty Reduction Strategy Paper framework has not yet delivered better pro-poor economic policies in poor countries. The World Bank and IMF have failed to carry out poverty impact assessments as part of economic reform design. Poverty assessments would underpin a broader debate around economic policies, and help hold the World Bank and IMF to their commitments to make poverty reduction their priority.

April 2001

Making PRSPs work: The role of poverty assessments

Summary

In 1999 Oxfam welcomed the IMF and World Bank's new Poverty Reduction Strategy Paper (PRSP) framework as a step towards developing economic policies which are country-owned, and which focus squarely on poverty reduction. 18 months later, civil society world-wide has little confidence in the PRSP process. There has been no visible reorientation of IMF and World Bank programs towards poverty reduction, and there is no evidence that PRSPs are determining the nature of Bank and Fund programs. Economic policies within Interim PRSPs and PRSPs are simply being copied from policy recommendations within Bank and Fund lending instruments. In no country has there been a broad debate about alternative economic policies and their impact on poverty.

By making prior assessments of the likely impact of economic reforms on poverty reduction, the Bank and Fund could go some way towards delivering on their commitment to support rather than dictate the priorities within a country's PRSP. Such ex-ante assessments should underpin a debate on economic policies tailored to a specific country's needs, and build wide support for pro-poor economic reforms required to meet the 2015 International Development Goals. The Bank and Fund have made public commitments to carry out assessments, but as yet none have taken place.

The World Bank and IMF could immediately go forward with pragmatic approaches that explain the rationale for their policy advice, and explain how policies are derived from a consideration of what is required for poverty reduction. In the second round of PRSPs, countries could take more leadership in these areas, building on capacity developed within the Bank, Fund, and other donors. Impact assessments would improve in quality as data and methodologies improve, and more detailed analysis of specific proposed economic policy reforms would be carried out.

Oxfam hopes that the IMF and World Bank will agree at the Spring Meetings to the following:

- **The PRGF, PRSC (including SECALs and other new lending) should clearly show links to the PRSP and immediate efforts must be made to make program logic rationale explicit**

- **All PRGFs and PRSCs developed following the Spring Meetings must include ex-ante impact assessments of key reforms – pragmatically this can start immediately with simple analysis and economic reasoning for the existing program, and move to more complex assessments with time**

- **The IMF and World Bank should provide a timetable for these assessments including a lead time for public engagement in the discussion around reforms and impacts**

- **The World Bank should provide assistance to the IMF in assessing the impact of key reforms within the PRGF, for example on the impact of devaluation, but the IMF should retain the lead role in this analysis**

- **Operational guidelines within the institutions, starting with the guidelines for PRSCs and the new Operational Policy on Adjustment, should include a requirement to carry out ex-ante poverty impact assessments**

- **The World Bank should achieve at least minimum parity with the IMF in terms of transparency. The Bank should commit to disclosing the Country Letter of Development Policy**

A history of poorly designed policies

Too often in the past economic policies for poor countries have been worked out in Washington or between a small group in a country's finance ministry and IMF and World Bank staff. In such discussions, Bank and Fund staff have a tremendous amount of leverage because of countries' dependence on Bank and Fund loans and the conditionality associated with such lending.

This process resulted in the adoption of one-size-fits-all economic policies, which were often poorly adapted to a country's specific needs, which lacked broad popular support, and which failed to make poverty reduction a priority.

The new PRSP framework

In September 1999 the IMF and World Bank, recognising and learning from past failings, announced a new way of doing business in poor countries. Countries would develop a poverty reduction strategy in consultation with civil society and other stakeholders, and put this forward to the IMF and World Bank in the form of a Poverty Reduction Strategy Paper (PRSP). According to the IMF "…The PRSP approach is intended to bring about substantive changes in the way countries' programs are formulated. The core objective is to arrive at policies that are more clearly focused on growth and poverty reduction, in which the poverty reduction and macro-economic elements of the program are fully integrated..."[1]

Oxfam welcomed this new approach as an opportunity to develop economic policies which are genuinely country-owned, and which have poverty reduction as their central aim. However, 18 months later, evidence from low-income countries reveals some progress, but also a number of problems in developing PRSPs. In some countries, space has been opened up for a discussion on the extent of poverty, where the views of civil society and religious groups, community leaders and others, have for the first time been sought in an open way. However, in the majority of countries the time-frame and organisation of such consultation have been extremely poor. In Cambodia the IMF/World Bank and the Asia Development Bank, are promoting different national planning processes, the PRSP and the Socio-Economic Development Plan, wasting scarce government resources, and with rushed timetables that are undermining government ownership. In Malawi, the government planned to move from Interim to Full PRSP in less than four months. Thankfully, after civil society pressure, the timetable has been extended.

[1] 'Key Features of IMF Poverty Reduction and Growth Facility Supported Programs' prepared by the IMF Policy Development and Review department, 16th August 2000"

Heavily Indebted Poor Countries (HIPCs) face extreme budget pressures because debt relief initiatives are failing to deliver. Of the 22 countries receiving HIPC debt relief, 16 still spend more on debt than they do on health. Countries like Niger and Zambia will spend over a quarter of their revenue on debt this year. Such budget pressure means that HIPCs have a major incentive to complete a full PRSP and reach the Completion Point of the HIPC debt initiative as quickly as possible. Even non-HIPCs, such as Armenia or Cambodia, are under the impression that the faster they complete a full PRSP, the quicker they will have access to increased IMF and World Bank resources. The IMF and World Bank need to reiterate that this is not the case. The aim should be a good quality pro-poor strategy, and to take the time required to do this properly.

While timeframes are one problem, the development and implementation of pro-poor policy-making leaves much to be desired. The PRSP should be derived from a country's development strategy, and should determine the nature of Bank and Fund programs. As the IMF has stated "…we should be in a position to demonstrate that…the main features of the PRGF[2]-supported programs can be seen to be drawn from the country's PRSP"[3]. At present the process in many countries is working in the opposite direction, with the economic policies within a PRSP being drawn from policy recommendations within Bank and Fund lending instruments. It seems to be 'business as usual' with regards to policy design.

Civil society world-wide has little confidence in the PRSP process. If this is not to become a backlash against the IMF and World Bank, the IMF and World Bank must show how their programs contribute towards poverty reduction, and show how the design of such programs have taken into account potential impacts on poor people. One of the failings of the IMF and World Bank within the PRSP approach has been that neither has undertaken an analysis of the impact of reforms on poverty. This is bad for policy design. It also means there can be no well-informed discussion in a country of realistic economic policy choices and trade-offs. If poverty reduction is the priority, then assessing the impact of proposed reforms on poor people must be a priority too.

The role of ex-ante poverty impact assessments

By making prior impact assessments of the likely consequences of economic reforms on poverty reduction and on the poor, the Bank and Fund could go some way towards delivering on their commitment to support rather than dictate the priorities within a country's PRSP. Such ex-ante assessments should underpin a debate on economic policies tailored to a specific country's needs, and build wide support for pro-poor economic reforms.

---

[2] The PRGF is the IMF's new lending facility. The Poverty Reduction and Growth Facility

[3] 'Key Features of IMF Poverty Reduction and Growth Facility Supported Programs' , 16th August 2000

Poverty impact assessments are about ensuring that economic reform design properly assesses the impact of reforms on poverty reduction goals and on poor people. Poverty is multi-dimensional, and the economic, social and environmental consequences of reforms have to be addressed in design, in implementation, and in monitoring. As such, social impact assessments (SIAs) are only one part of a wider approach, that must be multidisciplinary, and which must leave behind World Bank institutional boxes, where economic, social, and human development remain separated. Overall, poverty impact assessments should be a pro-active approach intended to ensure that program design delivers on the challenge of achieving the 2015 International Development Goals, and other goals specific to individual countries.

This process should ensure discussion of at least two reasonable reform options, looking at trade-offs around such choices. The IMF and the World Bank should, where possible, provide a timetable for these assessments including a lead-time for public engagement in the discussion around reforms and impacts. Where there are potential negative effects of proposed reforms on poor people, reforms should be re-designed, sequenced differently, delayed or even halted. The range of options considered must go further than the development of compensatory measures and safety nets. There is an urgent need to open up the debate about how Bank and Fund programs can contribute towards achieving the 2015 international development goals in low income countries, many of which will fail to reach these goals unless extraordinary measures are taken.

The World Bank and IMF have set up a joint working group to follow up on the issue of impact assessments. They are setting up pilots in about ten countries to take stock of existing analysis and consider how assessments might be carried out. Oxfam urges the Bank and Fund to take this forward more quickly. Pragmatic approaches should be undertaken immediately. The Bank and Fund should make explicit the rationale for their policy advice, and explain exactly how policies are derived from a consideration of what is required for poverty reduction. Steps could be taken immediately towards the creation of a culture of openness around impacts of IMF and World Bank programs. The practice of explaining program rationale in poverty terms, and supporting early debate around policy trade-offs, should be mainstreamed.

In the Second round of PRSPs, countries could take more leadership in these areas, building on capacity developed with the bank, Fund, and other donors in early stages. Impact assessments would improve in quality as data and methodologies improve, and more detailed analysis of specific proposed economic policy reforms would be carried out.

A key related issue is that of information disclosure. The new emphasis on participatory processes is meaningless if information is not available. The World Bank is currently reviewing its information disclosure policy. At a minimum World Bank information disclosure policies should achieve parity with IMF policies with respect to the disclosure of information about macroeconomic and structural reforms (this would mean for example the disclosure of the Country Letter of Development Policy, the equivalent of the IMF letter of intent).

Oxfam hopes that the IMF and World Bank will agree at the Spring Meetings to the following:

- **The PRGF, PRSC (including SECALs and other new lending) should clearly show links to the PRSP and immediate efforts must be made to make program logic rationale explicit**

- **All PRGFs and PRSCs developed following the Spring Meetings must include ex-ante impact assessments of key reforms – pragmatically this can start immediately with simple analysis and economic reasoning for the existing program, and move to more complex assessments with time**

- **The IMF and World Bank should provide a timetable for these assessments including a lead time for public engagement in the discussion around reforms and impacts**

- **The World Bank should provide assistance to the IMF in assessing the impact of key reforms within the PRGF, for example on the impact of devaluation, but the IMF should retain the lead role in this analysis**

- **Operational guidelines within the institutions, starting with the guidelines for PRSCs and the new Operational Policy on Adjustment, should include a requirement to carry out ex-ante poverty impact assessments**

- **The World Bank should achieve at least minimum parity with the IMF in terms of transparency. The Bank should commit to disclosing the Country Letter of Development Policy**

Oxfam International is a network of eleven aid agencies that work in 120 countries throughout the developing world: Oxfam America, Oxfam in Belgium, Oxfam Canada, Oxfam Community Aid Abroad (Australia), Oxfam GB, Oxfam Hong Kong, Intermon Oxfam (Spain), Oxfam Ireland, Novib, Oxfam New Zealand, and Oxfam Quebec. Please call or write to any of the agencies for further information.

Oxfam International Advocacy Office
1112 16th St. NW, Suite 600
Wahsington, DC 20036
1.202.496.1170 (ph)
1.202.496.0128
www.oxfam.org

Oxfam America
26 West St.
Boston, MA 02111-1206
1.617.482.1211 (ph)
1.617.728.2595 (fax)
www.oxfamamerica.org

Oxfam-in-Belgium
Rue des Quatre Vents 60
1080 Burxelles
Belgium
32.2.501.6700 (ph)
32 2 511.8919 (fax)
www.oxfamsol.be

Oxfam Canada
Suite 300-294 Albert St.
Ottawa, Ontario
Canada K1P 6E6
1.613.237.5236 (ph)
1.613.237.0524 (fax)
www.oxfam.ca

Oxfam Community Aid Abroad
National & Victorian Offices
156 George St. (Corner Webb Street)
Fitzroy, Victoria
Australia 3065
61.3.9289.9444 (ph)
61.3.9419.5318 (fax)
www.caa.org.au

Oxfam Hong Kong
17/F, China United Centre
28 Marble Road
North Point
Hong Kong
852.2520.2525 (ph)
852.2527.6307 (fax)
www.oxfam.org.hk

Oxfam GB
274 Banbury road
Oxford
England OX2 7DZ
44.1865.311.311 (ph)
44.1865.312.600 (fax)
www.oxfam.org.uk

Oxfam Quebec
2330 rue Notre-Dame Quest
Bureau 200
Montreal, Quebec
Canada H3J 2Y2
1.514.937.1614 (ph)
1.514.937.9452 (fax)
www.oxfam.qc.ca

Oxfam New Zealand
Level 1, 62 Aitken Terrace
Kingsland, Auckland
New Zealand
PO Box for all Mail: PO Box 68 357
Auckland 1032
New Zealand
64.9.358.180 (ph)
64.9.358.1481(fax)
www.oxfam.org.nz

Oxfam Ireland
Dublin Office:
9 Burgh Quay, Dublin 2, Ireland
353.1.672.7662 (ph)
353.1.672.7680 (fax)
Belfast Office:
52-54 Dublin Road, Belfast BT2 7HN
44.289.0023.0220 (ph)
44.289.0023.7771 (fax)
www.oxfamireland.org

Intermon Oxfam
Roger de Lluria 15
08010
Barcelona, Spain
34.3.482.0700 (ph)
34.3.482.0707 (fax)
www.intermon.org

Novib
Mauritskade 9
2514 HD
The Hague, The Netherlands
31.70.342.1621 (ph)
31.70.361.4461 (fax)
www.novib.nl