

SPA MISSIONS TO ETHIOPIA, RWANDA AND SENEGAL

HARMONISATION OF SUPPORT FOR POVERTY REDUCTION STRATEGIES

SYNTHESIS REPORT

1 Purpose of the missions

- 1.1 The SPA's action-learning missions had the following objectives¹:
- to assess, and understand better, Governments' vision of a national process for implementing poverty reduction strategies
 - to examine whether, and how, completion of a PRSP was helping to alter donor practices and procedures in support of nationally-led processes
 - to consider prospects for harmonising donor policies, practices, and procedures with government PRS processes
 - to explore with in-country partners, including the World Bank and the IMF, the specific steps that might be taken in the near future for simplifying and harmonising external assistance in support of the PRS, particularly procedures for PRGF and budgetary assistance
 - to report findings and inform (a) the preparation of the SPA-6 agenda, and (b) the work of the OECD/DAC's Task Force on Donor Practices
- 1.2 The missions visited three African countries (Ethiopia, Rwanda, and Senegal) for roughly five days each between 16 September and 31 October 2002. In Ethiopia, and to a lesser extent in Senegal, work was done in conjunction with the World Bank's pilots on harmonisation. In Rwanda and Senegal, a presentation of the OECD-DAC Guidelines on Poverty Reduction was integrated into the mission².
- 1.3 The missions were co-led by representatives from the UK and the EC. SPA members representing Finland, France, Ireland, Japan, Sweden, the World Bank, and the OECD-DAC participated in at least one mission. In Rwanda, the mission team was joined by a Government official from Ethiopia.

2 Mission assumptions

- 2.1 The focus so far, both at international and at country level, has been on PRS preparation. Governments and donors need to explore in more depth the opportunities created for the implementation of PRSs, particularly through the Annual Review process. They also need to explore the constraints that stop these opportunities from being realised.
- 2.2 The main assumptions of the missions were that:
- The PRS-approach provides a unique opportunity for Governments to clarify their approach towards reducing poverty, to improve coherency across government departments and systems, and to improve the effectiveness of service delivery mechanisms.

¹ Detailed terms of reference for the missions are in the Annex to this report.

² For more details on each country mission, see aide-memoires in the annex (including a list of participants to the missions and the agenda for the meetings held).

- The finalisation and implementation of PRSPs provide an unprecedented opportunity for improving the way in which development assistance is delivered. External aid is likely to be more effective if donor policies, procedures and practices are aligned with government PRS-related processes. In particular, the alignment of budget support around the Government's own financial planning, budgeting and the annual PRSP review could improve aid co-ordination and cut transactions costs.

3 Main findings

3.1 **Poverty reduction strategies have yet to be turned into operational plans.**

In all of the three countries visited, there is evidence to suggest that PRSPs are credible national strategy statements that describe comprehensively the state of poverty. PRSPs define the poverty reduction priorities of Governments and they outline the set of results that could be achieved in the medium term. However, the particular role that PRSPs are to play in changing government systems and procedures has yet to be clarified. In particular, the precise links between the PRSP annual progress review and government planning and budget processes have yet to be elaborated. How existing (and planned) sector strategies will relate to PRSPs also remains unclear. Whilst the PRSP policy matrix identifies the set of performance indicators and related activities for the medium-to-long term, it is not sufficiently detailed to be operationally useful.

3.2 Partly as a consequence of this, and from inertia and a lack of commitment to change entrenched habits, progress in aligning donor procedures to support the implementation of poverty reduction strategies in African countries has not lived up to expectations³

3.3 In the three visited countries, there have been some benefits from increased alignment of donors behind the poverty reduction strategy, but there is a lack of clarity about the precise form that this might take. However, whilst recognising the early stage of PRSP implementation in the three countries visited, the missions noted that **progress towards simplifying and harmonising donor support for poverty reduction strategies has been generally disappointing**. There is some early evidence of business continuing as usual, and of the PRSP process being little more than additional conditionality.

For example:

- compared with the past, the number of donor conditions, undertakings, benchmarks, indicators, prior actions, etc. has not shown a tendency to decrease;
- the process for agreeing specific policy actions required by donors remains non-transparent, and is not based on the country's own policy-making process;
- the various reporting and information requirements of donors have neither been aligned with each other nor with the country's own information and monitoring systems – which would be desirable for monitoring the implementation of the PRSP more effectively;

³ For a review of the situation in countries which already have a full PRSP endorsed by the Boards of the BWIs, see "Donor Alignment with the PRSP – Progress with Programmatic Support", Alison Evans, 2002.

- donor funding remains unpredictable, which means that it cannot be taken in to account in the macroeconomic framework agreed with the IMF; **this in turn means that the Government is unable to plan increases in expenditure for implementing the poverty reduction strategy;**
- 3.4 The PRS process has succeeded in making modest gains, although the potential for improving a number of relationships and practices is still immense. The aspiration of a government-led process for implementing the PRS, with a nationally-led process for monitoring, review and renewal of objectives, has yet to be realised. Instead, donors have continued to focus on their own timetables, their missions, their conditions, and have demanded information to suit their requirements.
- 3.5 Nonetheless, the SPA missions have noted, from both donors and Governments, a **strong desire to change**, and for making the PRSP the main instrument for channelling external support.
- 3.6 Realising this potential implies introducing some changes. For Governments it will require:
- translating medium-term indicators, targets and policy commitments into annual goals against which progress could be measured;
 - clarifying the link between the PRS annual review and national budget and planning cycles, in terms of timing and content, and ensuring consistency between the MTEF and sector allocations.
 - clarifying the link between PRSs and sector strategies.
- 3.7 From donors a PRS-based approach would require:
- refraining from anticipating Government's work on operationalising the PRS, and instead supporting institutions of Government with capacity building and appropriate technical assistance;
 - notifying Government, in advance of the annual PRS review, the specific information they would like to see included in the annual review, and to stop making additional ad hoc requests for information. Information demands should be kept to a minimum, and to the extent possible, should be harmonised among donors. This would enable Government to build into the design of the PRS annual review the collection and publication of this information as part of a regular cycle of commitments.
- 3.8 Donors and Governments together need to clarify the role, content and calendar of PRS reviews. The PRS annual review would need to contain sufficient information for donors to use as the basis for reviewing progress, and would also serve as the framework for appraising country performance.

4 PRS Annual Review

- 4.1 The goal of the PRS annual review should be to assess progress on the implementation of the PRS, and provide Governments an opportunity to adjust priorities, strategies and targets for the coming year. In principle, this annual review should therefore also provide sufficient information for donors, in

particular budget support donors, to assess progress, and to engage in a policy dialogue with the government about targets for the coming year (see Annex 1).

- 4.2 The annual PRS review process should be an open exercise involving all stakeholders, and not be a privileged discussion between the Government and donors. This is an important principle, since the aim is to avoid the situation in some other countries in which the government's *de facto* policy priorities are agreed behind closed doors in meetings with donors. Governments should therefore give serious consideration to submitting the annual review report formally to Parliament.
- 4.3 For donors to be able to rely on the annual review of the PRS in order to discuss progress with the Government, it would mean that the review would have to take place at a time during the year when Government has had sufficient time to collate and publish information about the past year's performance, and to provide a commentary on the policy implications of the results. However, in order for it to be useful for Government, the annual review would need to take place early enough in the budget cycle for donors' financial commitments to be taken into account in setting the macroeconomic and fiscal framework. The IMF review of the macroeconomic and fiscal framework should also be integrated into this review.
- 4.4 So as not to make the annual PRS review excessively unwieldy, detailed sector reviews would need to take place earlier so that critical information can be fed through. Thus the annual review would not replace detailed attention to sector issues (inputs, outputs and outcomes), rather it would compel some rationalisation and improve co-ordination, not least in bringing about greater coherence between donor projects and sector programmes and government PRS processes. This would help to link budget, sector and project support more closely with government processes than has been the case in the past.
- 4.5 There was considerable support in all three countries visited, especially among government representatives, for making concrete the idea of mutual accountability; in particular for reviewing progress made by donors in harmonising their policies, procedures and practices. The review of the PRS is intended to be a comprehensive assessment of the policies and resources that contribute to the delivery of the country's development objectives. It would be appropriate therefore for donors to provide an independent review of the progress made in meeting their commitments to the PRS process. This would be considered alongside the Government's review of its implementation of the PRS.

5 Implications for budget support to poverty reduction strategies

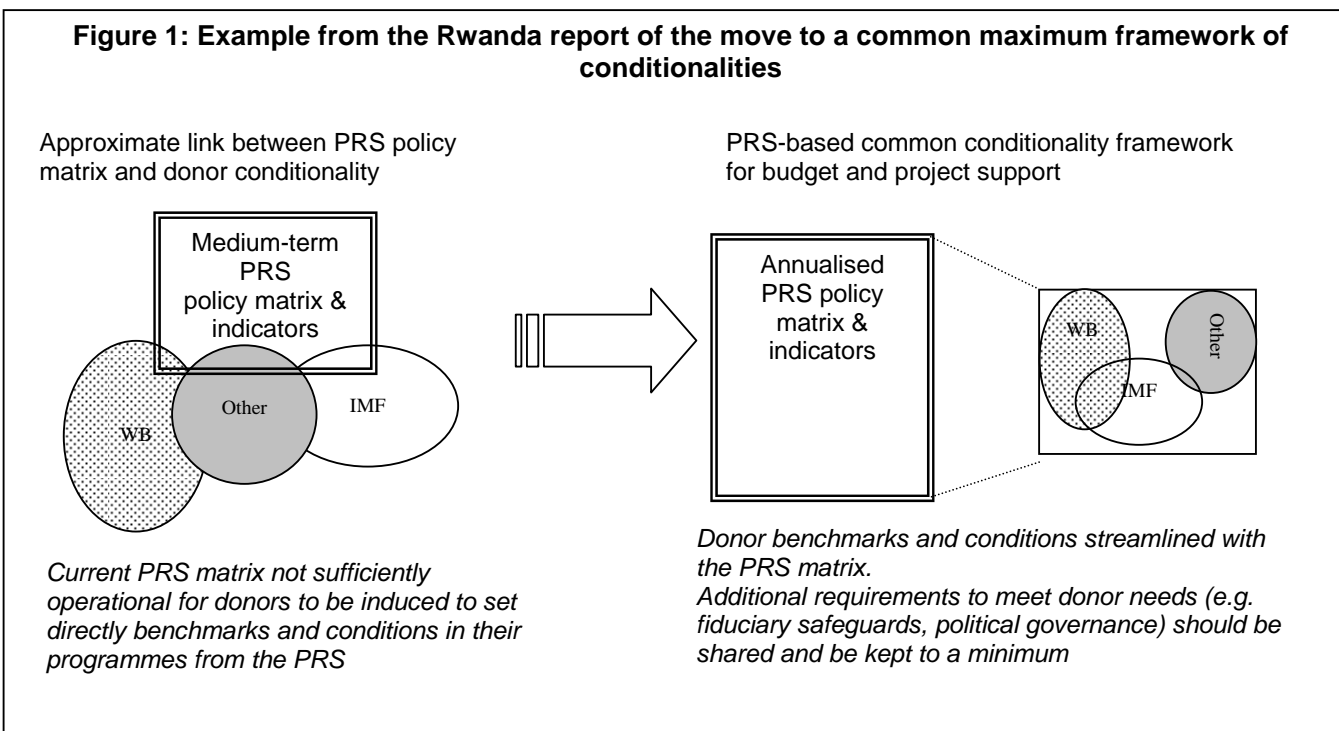
- 5.1 Our central proposition is that it is possible for all donors to align their budget support behind the Government's PRS process and budgetary cycle, drawing budget support-donors together into a single Government-led annual cycle for the agreement of targets and the monitoring of progress. We believe this would help to create an appropriate context for streamlining conditionality, for reducing reporting requirements, eliminating multiple missions, and increasing the predictability of donor intentions. This would allow a gradual move towards a shared policy analysis. It will also provide a sound basis for an effective

policy dialogue to take place between Government and its development partners, but in the context of Government's own policy-making cycle.

5.2 Important components of such a framework would be:

- Budget support donors should be able to limit their conditionality to a subset of the PRS indicators and policy commitments, which the Government has already committed itself to monitor and review annually. They should seek to agree a common framework of conditionality for their budget support operations, which should be kept as small as possible and should aim to limit itself to the indicators and policies already specified in the PRSP. This would be a maximum set of conditions. (see Figure 1)
- Upon conclusion of the annual review, and in order to provide greater predictability, donors would offer Governments an indication of their support for the coming financial year and the timing of their disbursements. These indications should be sufficiently firm to enable Governments to include them when establishing the macroeconomic and fiscal framework. Donors should agree, and stick to, a cycle of disbursement of donor funds during the fiscal year which meets the Government's funding requirements.

Figure 1: Example from the Rwanda report of the move to a common maximum framework of conditionalities

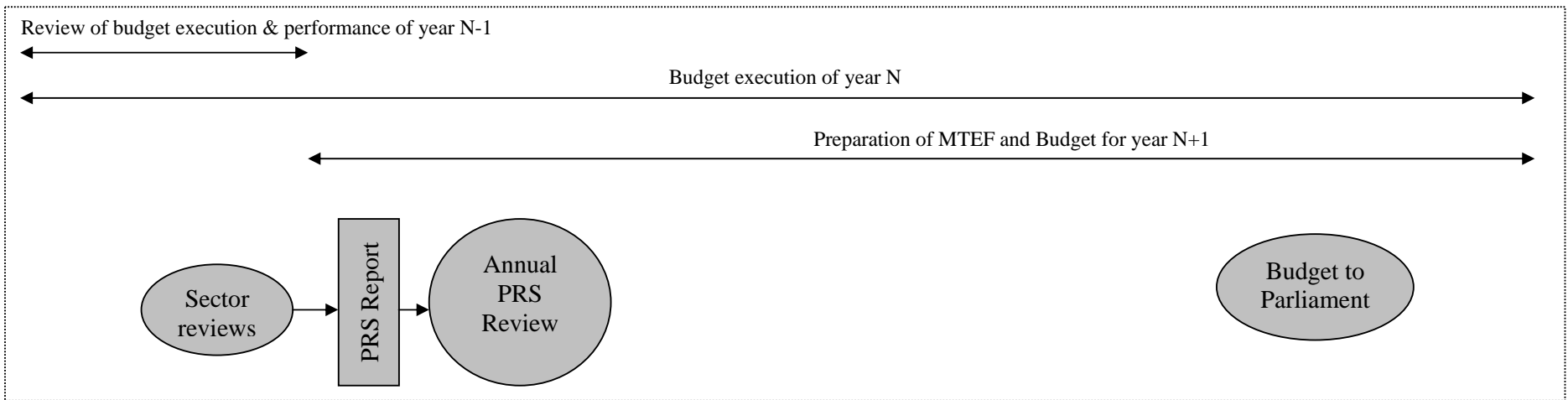


5.3 The mission teams believe that a budget support framework along these lines would go a long way towards tackling the Governments' concerns about the way in which development assistance is delivered. Government representatives in all countries indicated strong support for the above proposals.

6 Can SPA-6 help to address these issues?

- 6.1 The SPA in its sixth phase could play a critical role in assisting governments and donors to move forward and implement PRSs in the manner suggested above.
- 6.2 There is clearly a need to bring the discussions on the content and purpose of the PRS annual review at an international level. The SPA could work, along with the BWIs, on defining guidelines for these reviews.
- 6.3 The SPA could also continue working at country level with Governments and local donor representatives in providing an impetus for change. Experience from the missions demonstrates that more concrete and effective in-country dialogue on these issues has been fostered.
- 6.4 On the donor side, both at country and at HQ level, the SPA could help to:
 - identify, and resolve, operational difficulties in moving towards common budget support operations, especially in elaborating details about the common conditionality framework and disbursement mechanisms – thus allowing both adequate accountability and greater predictability of resource flows;
 - clarify transitional arrangements that can be set up while agreeing to move towards a common PRS and budget alignment mechanism;
 - begin cataloguing the range of policy, procedural and practical obstacles preventing agencies, at HQ-levels and in-country, from intensifying efforts towards increased alignment with national PRS processes;
 - increase coherence across conditions specified in documents associated with various aid instruments (projects, budget support, country strategy papers, memorandum of understanding, etc.);
 - strengthen the alignment of donor support with Government priorities and policies.
- 6.5 The above could be done through commissioning studies, carrying out country missions, or developing a monitoring and reporting framework for tracking changes in donor activities, to be implemented by a team of independent assessors.

Annex 1 : Example of PRS review cycle proposed in Rwanda



PRS Annual Review

Activities by:

GoR:

Review of **N-1** performance:

- against indicators,
- budget execution,
- policy measures

Give broad indication of priorities for preparing **N+1** budget

All donors:

Review programming documents, appraise new programmes, and inform GoR of intended support for **N+1**

Budget support donors:

Give indicative commitment for disbursement in **N+1**

Specify concerns to be addressed in preparing the budget as a basis for confirming commitments

Confirm framework for assessing year **N** performance in PRS review in year **N+1** (if GoR alters policy to take into account review of **N-1** performance)

Light review

Activities by:

GoR:

Review **N+1** budget

- Policy priorities,
- budget allocations,
- targets for indicators

Budget support donors:

Confirm commitment + decide on disbursement for year **N+1** considering how well concerns raised in March are addressed

Specification of the indicative framework for assessing performance of **N+1** (Review of year **N+1** performance done in Year **N+2**)