

**Working Paper 262**

**Politics and  
Poverty Reduction Strategies:  
Lessons from Latin American HIPC**

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The paper was completed before the results of the December 2005 Bolivian elections were known.

## List of Acronyms

|        |   |
|--------|---|
| AECI   | Agencia Española de Cooperación Internacional                                       |
| CAS    | Country Assistance Strategy (World Bank, etc.)                                      |
| CONPES | Consejo Nacional de Planificación Económica y Social (Nicaragua)                    |
| DAC    | Development Assistance Committee (OECD)   |
| EBRP   | Estrategia Boliviana de Reducción de Pobreza  |
| ERCERP | Estrategia Reforzada de Crecimiento Económico y de Reducción de Pobreza (Nicaragua) |
| H&A    | harmonisation and alignment   |
| HIPC   | Highly Indebted Poor Country (debt relief initiative)                               |
| HIPC2  | Enhanced HIPC Initiative (1999 –)   |
| IMF    | International Monetary Fund   |
| ISS    | Institute of Social Studies (The Hague)   |
| LAC    | Latin America and Caribbean   |
| MAS    | Movimiento al Socialismo (Bolivia)  |
| MDG    | Millennium Development Goal   |
| OAS    | Organisation of American States   |
| ODI    | Overseas Development Institute  |
| PAM    | Performance Assessment Matrix   |
| PND    | Plan Nacional de Desarrollo (Nicaragua)   |
| PRGF   | Poverty Reduction and Growth Facility (IMF)   |
| PRS    | poverty reduction strategy  |
| PRS2   | second poverty reduction strategy   |
| PRSC   | Poverty Reduction Support Credit (World Bank)                                       |
| PRSP   | Poverty Reduction Strategy Paper  |
| SECEP  | Secretaría de Coordinación y Estrategias de la Presidencia (Nicaragua)              |
| SWAp   | Sector-Wide Approach programme  |

# Executive Summary

## **The issues and the argument**

This paper addresses the perception that Poverty Reduction Strategy (PRS) processes in Latin America and the Caribbean have not grappled effectively with politics, and have not engaged successfully with political actors and institutions. Commissioned on behalf of the Latin American and Caribbean PRS Donor Network, it synthesises evidence from documents and interviews on how this situation has arisen and how it might be confronted. It is based on experience in three Latin American Highly Indebted Poor Countries (HIPC)s: Bolivia, Honduras and Nicaragua.

There is no clear consensus view among donors on how to respond to the PRS in the current situation in at least two of the focus countries (Bolivia and Nicaragua). We take the view that these disagreements reflect not just the particular difficulties of the current political situation in those countries, but also some issues arising out of the PRS concept itself. The PRS concept – reaffirmed in 2005 by the Paris Declaration on Aid Effectiveness – implies an ambitious agenda of change, with multiple objectives.

The paper’s overall argument is that the PRS approach has been compromised by the fact that a single instrument – preparation of a comprehensive plan document, with broad consultation – has been made to serve different purposes. In reality, these need to be met in different ways. As a consequence, it has served none particularly well, although some better than others. The function it has performed least well is that of getting genuine political buy-in to poverty reduction as an objective. A coordinated multi-pronged approach is the key to a more satisfactory relationship between political systems, donor actions and PRSs.

This analysis is developed in three substantive sections, beginning with the country political situations and ending with donor responses and options.

## **Political systems and political dynamics**

The core of the PRS agenda – the apex of the conceptual pyramid of the Paris Declaration – is the securing of country ownership of a policy agenda focused on development results. This, however, is an essentially political objective. It is, in fact, virtually identical to the challenge, set out in UNDP’s *Report on Democracy in Latin America*, of instituting more legitimate and effective states based on a concept of social citizenship. This challenge involves political institutions in a central way and will only be met by domestic political processes, processes of an inherently risky kind. Donors with a commitment to improving outcomes for poor people should regard these issues as central to their agenda, even though the linkage to results is indirect and long term.

Given this background, a consultative planning process of the PRS sort has its uses but it does not seem to be a solution to the problem of getting political buy-in to poverty reduction. Indeed it may be to some degree an obstacle, either because it provides ‘cover’ for the pursuit of socially conservative policies, or because it overcomplicates and obscures any political debate about poverty. We conclude that donors need to recognise the political nature of these issues, and be prepared to act more directly on the factors influencing country ownership of poverty reduction policies. There are few obvious ways of doing this, and many dangers to be avoided.

We suggest that the key thing is to be well-informed and strategic. Donors need to draw on an excellent understanding of how the central institutions of the state have evolved historically and therefore what specific medium-term institutional changes would help to meet the central challenges in the longer run. Projects that address particular incentive and capacity issues in the political system may be useful if they serve to reinforce endogenous improvements. More

importantly, donors should be influencing each other to ‘do no harm’ in respect of political change processes that may decisively influence the future character of the state, such as the current process in Bolivia. Contrary to the suggestion of Geske Dijkstra on the basis of the Institute of Social Studies’ evaluations for Sida, what is needed is more strategic vision, not a more sectoral approach to political dialogue.

### **PRS processes: what has gone wrong?**

The guidelines on PRS processes notwithstanding, the impacts of broad, participatory processes on public policy seem to be significant only when consultations are used to assist in implementing specific policy measures that are strongly supported from within government. This is clearest in the Bolivian experience, but experience in Nicaragua and Honduras is not inconsistent with it.

Nor does it seem to be the case that consultative processes directed in the first instance at civil society are helpful in generating political commitment to poverty reduction. Contrary to the naïve theory that informed the Poverty Reduction Strategy Paper (PRSP) initiative, PRS processes based on interactions between the executive branch and civil society do not seem to have the capacity to generate new political incentives that override those generated by the electoral and party systems.

Contrary to recent conventional wisdom, this is not just the result of ‘neglecting parliament’. It is not hard to show that those steering the PRS processes in Bolivia and Nicaragua have in different ways avoided too close an involvement with parliamentary politicians. However, the lack of engagement appears to have been mutual and reciprocal (except that some politicians do see the PRS as the key to a happy aid relationship, and are interested on that limited basis). Honduras may appear a more promising case of politicians’ engaging with donors than either Bolivia or Nicaragua. However, it may be the exception that proves the rule, in that the donor group (G16) has had quite a broad agenda, while Honduras has historically accepted a high degree of external involvement in state affairs.

### **Development cooperation: approaches and options**

Official donors stand accused of gross inconsistency in the court of civil society, because they insist on participatory PRS design processes but do not insist on respect for the outcomes of such processes. They are also open to the charge of defending the fiction that properly-constituted PRSPs exist, and that therefore aid programmes are supporting PRSPs, when this is objectively not the case. However, there are some genuine dilemmas arising from the present state of affairs in Bolivia and Nicaragua, to which there are no simple solutions. In handling these issues, it is important not to let the best become the enemy of the good.

For example, there is a basis for the claim by some agencies that it is possible to make headway on the harmonisation and alignment (H&A) (especially systems-alignment) agenda even under circumstances that are unsatisfactory from the point of view of the PRS approach as a whole. There is also some merit in the new international thinking that allows aid alignment to be organised on the basis of national development plans or budget-related systems, rather than documents formally designated as PRSPs. However, this legitimate pragmatism must not come to constitute the only donor response to the challenges of the present situation. The approach needs to be multi-pronged, with an equally substantial effort to engage with the big issues relating to the legitimacy and effectiveness of the state. Only in this way are the dilemmas manageable.

Donor staffs do not appear generally ill-informed about politics. They may well need some help in getting the quality of understanding of the institutional issues that is required for the multi-pronged approach to work well. However, the main problem is not lack of understanding. It is the technocratic orientation that dominates development cooperation. The biggest challenge will be to

stop relying on the essentially technocratic instrument of the PRS to solve essentially political problems.

## **Recommendations**

Our recommendations can be viewed as an effort to save the PRSP concept at the expense of some aspects of established PRSP practice. The overarching recommendation is that agencies should, individually and collectively, get into the habit of thinking about carrying forward the PRS *approach* in a country, rather than carrying forward the *PRS*.

The way forward is a more differentiated method of working, one that recognises that political goals have to be attained politically and technical ones technically. Among other things, this involves recognising that while aid alignment and harmonisation, and country ownership of a results agenda, are all parts of a single enterprise endorsed by the Paris Declaration, different parts of the agenda can be moved forward at different paces.

Specific recommendations are made under the three headings of the suggested, multi-pronged approach:

- Assisting the emergence of country policy ownership, by engaging on political terrain on the basis of a solid understanding of long-term processes of change;
- Accepting a new flexibility of approach in pursuing systems alignment and aid harmonisation;
- Using financing agreements, such as those for budget support, to focus selectively on short-term policy actions that are both useful and likely to be taken, given known political commitments.

Under the heading of talking to politicians about the big political issues, the following should be explored:

- Renewed efforts to stimulate and reinforce responsible debate within countries about the core issues of state effectiveness and legitimacy and social citizenship;
- Focusing major efforts on ‘doing no harm’ – ensuring that the donor influence as a whole is not unhelpful to the prospects of an eventual solution to the more fundamental challenges of state formation and national development;
- Where possible, the facilitation of political agreements or ‘compacts’ around specific institutional reforms that appear as strategic medium-term objectives in the context of an excellent understanding of the country’s history;
- Supporting capacity development in political institutions (parliaments, party systems etc.) if and when this is happening endogenously because political incentives are changing.

We recommend a judicious combination of informal, behind-the-scenes interaction with politicians with regular signed contributions to national debate (e.g. in newspaper columns) and occasional well-prepared, formal public position statements. Development cooperation agencies have a duty to play whatever part they can in ensuring that the overall incentive structure remains favourable to democracy and does not force Latin American politicians into blind alleys, as has happened with damaging consequences for the region as a whole in various past periods. It is, however, essential that this is informed by a deep understanding of the relevant issues, not ideological knee-jerks.

Donor assistance to capacity development in political institutions, or reforms of public administration, may have a role. But we recommend that this does not come to be regarded as a major part of the solution to the challenges of political development in the region. Successful capacity development is endogenous. Support to legal improvements that restructure political



incentives (e.g. by enfranchising new categories of voter) are more likely to be useful than training per se.

We are convinced there is a case for looking for quick wins in the areas of H&A, and not waiting for a PRS that meets current standards of acceptability before doing so. It seems clear that this can be done in more than one way. A flexible approach to ways of achieving systems alignment and aid harmonisation should be accompanied by a clear recognition that the apex of the Paris agenda is country ownership of poverty reduction policies.

Where appropriate, budget support and its policy matrix should be deployed purposely as one of a set of instruments for managing the aid relationship. By focusing attention on specific policy actions about which there is some consensus in the short term, the budget support financing agreement and its monitoring can play a part in a donor approach that as a whole is consistent with the PRS concept. As one avenue of approach among several others, it can contribute to a way of handling the difficult relationship between donors, PRSs and political systems in Latin America and the Caribbean (LAC) that is both principled and practical.



# 1 The Issues and the Argument

## 1.1 The problem

### *PRSs and politics*

This paper addresses a perceived problem in the way the PRS approach has worked out in low-income countries of the Latin American and Caribbean region. As our terms of reference put it,

‘PRS processes in Latin America and the Caribbean have not grappled effectively with formal and informal politics, and have not engaged successfully with a wide spectrum of political actors and institutions. PRSs have not been institutionalised; ownership has been limited to individual governments rather than wider state or country ownership. As a consequence, many PRSs ... are failing to make the transition from one government to the next’.

**It is not suggested that this is a specifically LAC problem.** Most surveys of PRS experience world-wide point to a lack of real buy-in beyond certain layers of officialdom. It is common for there to be limited involvement of the political classes of the country, and problems of continuity after political transitions are not unknown. So this paper is addressing a state of affairs that has been highlighted in unusually dramatic ways in some low-income Latin American countries but is not unique to them.<sup>1</sup>

Commissioned on behalf of the Latin American and Caribbean PRS Donor Network, the paper synthesises the evidence from documents and interviews. It is largely based on a review of evidence and interpretations relating to three Latin American HIPCs, Bolivia, Honduras and Nicaragua.

**This exercise is not meant to provide a comprehensive progress report on the PRS processes in the three focus countries** (Bolivia, Honduras and Nicaragua). That type of assessment is already provided by the established series of annual evaluations by the Institute of Social Studies (ISS), The Hague, for Swedish cooperation. Instead, the present study draws on these reports among other documentary sources and interviews in order to arrive at recommendations on a specific set of issues underlying the relationships between political systems, PRSs and donors.

As expressed in the terms of reference, the study responds to the interest among development cooperation agencies in the Network in exploring:

- How to better understand the political processes and drivers of change in partner countries;
- How to assist in building of constituencies for change in favour of poverty reduction;
- How to broaden ownership of PRSs by engaging with political parties and parliaments.<sup>2</sup>

The aim is to arrive at ‘clear practical recommendations to donors on ways they can strengthen country ownership and the effectiveness of PRSs by engaging with both formal and informal political processes and political actors’.

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1 Limits to political buy-in are acknowledged by the World Bank OED evaluation (2004) and the 2005 Review of the PRS Approach (World Bank and IMF, 2005) as well as by independent observers such as Driscoll with Evans (2005) and World Vision (2005). The problem has been dramatised in Latin America by the open rejection of previous PRS efforts by incoming governments following an election. However, comparable things have occurred in Africa (Ghana, Malawi). Their greater frequency in LAC may reflect the relative lack of dominant parties and resulting greater likelihood of regime change, along with the absence in most countries of the region of a permanent senior civil service.

2 These concerns were among those raised in a previous study of politics and the PRS approach by a team at ODI (Piron with Evans, 2004) whose recommendations were partly based on a review of the Bolivian experience (Booth with Piron, 2004).

**We believe that this task needs to be tackled in a critical and self-critical way.** The objective is to spell out how the PRS *approach* can be operationalised more successfully by paying closer attention to engagement with political actors and institutions. That implies reflecting on the way the approach has been operationalised up to now and whether this is the most effective of the feasible options. Not taking too much for granted about current operational practice is suggested by, among other things, the current state of debate among donor representatives in the focus countries.

### *The state of donor debate*

One of the general findings from our interviews is that **in at least two of the three focus countries – Bolivia and Nicaragua – there is no clear consensus view among donors on how to respond to the PRS as presently constituted.** There is in particular a divergence between what might be termed the ‘realist’ view and what may be called ‘aid pragmatism’.<sup>3</sup>

The first view emphasises the low degree of real country engagement in the process, and draws the conclusion that external actors can only bide their time until there is something more substantial with which to align external support. This point of view is illustrated by the World Bank’s posture in Bolivia and Nicaragua, and the decision to renew Country Assistance Strategies (CAS) one year at a time until positions are clarified (World Bank, 2005b, 2005c). The second emphasises the impossibility of proceeding with the H&A of aid, and with a country support programme linked to the Millennium Development Goals (MDGs), in the absence of an agreed plan benefiting from some degree of country ownership. This tends to be associated with a willingness to overlook the limitations of current processes and to seize on those elements that allow some headway to be made.

**We take the view that these disagreements reflect not just the particular difficulties of the current political situation in Bolivia and Nicaragua, but also some issues arising out of the PRS concept itself.** The PRS concept is an ambitious one, with multiple objectives. In our understanding, the different donor assessments reflect in part the relative emphasis placed by each agency on the different objectives, as modified and elaborated by the recent international consensus on the sources of aid effectiveness.

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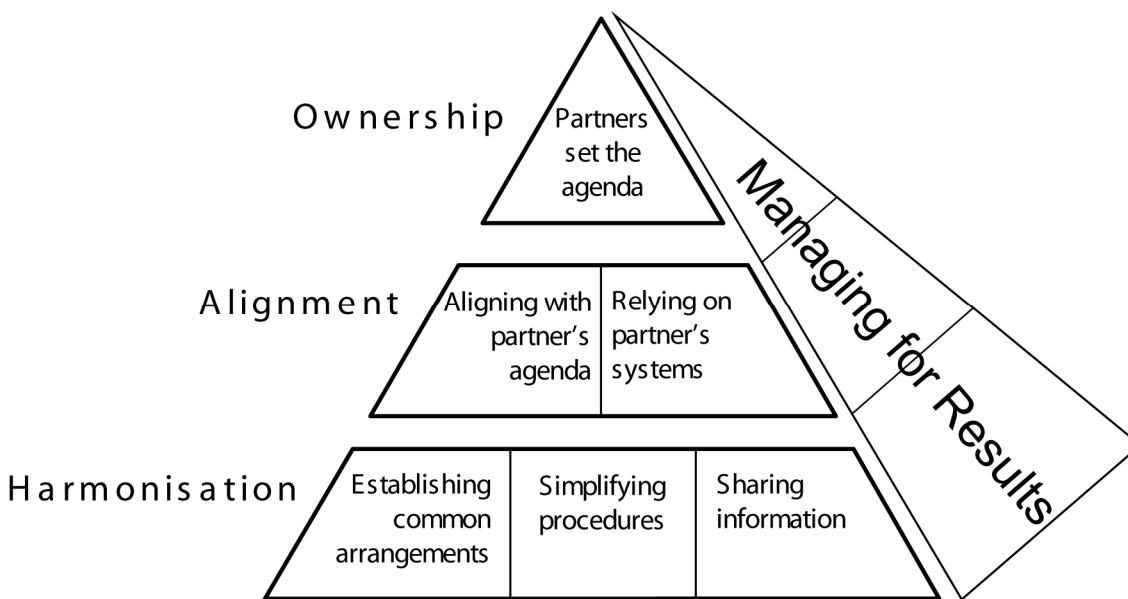
<sup>3</sup> In the third country, Honduras, there is currently much greater consensus, although differences of emphasis of the sort described below no doubt exist there too.

## 1.2 The PRS concept and the Paris agenda

### *Elements of the agenda*

The main points at issue concern the relationship between different components of current aid thinking, as reflected in the Paris Declaration on Aid Effectiveness of March 2005 (Development Assistance Committee (DAC), 2005). **In this thinking, aid harmonisation and aid alignment are part of a paradigm shift in the conceptualisation of development cooperation that centres upon country ownership of a results-oriented policy agenda.** In the DAC papers supporting the Declaration, this is nicely represented by the diagram in Figure 1.

**Figure 1: Aid effectiveness pyramid**



Source: DAC (2004: 11)

According to this concept, the effectiveness of aid in supporting the achievement of development results depends first on country partners' setting the results agenda (policy ownership); next on the aid community's aligning itself with that agenda and with country systems; and finally on changes in donor-to-donor relationships, to simplify, share and do things together (harmonisation). Country ownership of the results agenda is expected to be delivered by means of a PRS process or an equivalent set of sectoral and cross-cutting national development strategies.

### *New elements and enduring concerns*

The Paris Declaration contains some innovations with respect to the original guidelines on PRSP processes. Alignment and harmonisation efforts may be based on *any* government-led and country-owned national development plan or coherent set of partial strategies. There is also an increased stress on linkage to budgets and results-oriented reporting on implementation. In our understanding, these are adjustments intended to deal with difficulties that have arisen in the operationalisation of the PRS concept. But the rationale remains as set out in the foundational documents of the PRS approach in 1999/2000. That is, aid for poverty reduction cannot be highly effective unless there is commitment from a range of domestic stakeholders, including the government of the day, to a long-term, results-based plan.

**Nothing has happened to suggest that the link between country policy ownership and aid effectiveness has been broken.** There is, however, another strand in recent donor thinking which

needs to be recognised. In some programme countries in Latin America quite substantial advances have been made in aid coordination under government leadership in the last few years despite the difficulties encountered in the PRS process. If these claims are substantiated, what do they mean?

**We suggest that they imply that the DAC pyramid is a fairly loosely constructed edifice.** The concept of a new aid paradigm rightly emphasises the interdependence of the parts. In the long run you will not get H&A if you don't get country ownership (indeed, policy alignment makes no sense if there are no real country policies). On the other hand, in the short and medium term it may be possible to make worthwhile advances on certain levels without very substantial changes being achieved on other levels. We return to this theme throughout the paper.

### 1.3 Argument and structure of the paper

#### *The argument in outline*

**We propose to argue that the PRS approach has been compromised by the fact that a single instrument – preparation of a comprehensive plan document, with broad consultation – has been made to serve different purposes.** As a consequence, it has served none particularly well, although some better than others. The function it has performed least well is that of getting genuine political buy-in to poverty reduction as an objective.

If this can be documented, it has a direct bearing on the question to which this paper is addressed: how might donors strengthen the ownership and effectiveness of PRSs by engaging with political actors and processes. The answer suggested is that the reasons this engagement has been less than satisfactory in the past include over-reliance on the single instrument of the PRS document and process itself, and that what is needed to realise the promise of the PRS approach is an array of different instruments, each suited to a more specific purpose. **A coordinated multi-pronged approach is the key to a more satisfactory relationship between political systems, donor actions and PRSs.** This is the overarching theme of our recommendations.

#### *Structure of the paper*

This reasoning depends on evidence and analysis on three topics:

- political systems and political dynamics in the focus countries;
- what has gone wrong with PRS processes from the point of view of political engagement and buy-in; and
- what development cooperation agencies have been doing about this issue, and what other options are worth considering.

These topics are the concern of the three substantive sections that follow.

**Section 2 argues that there is an intimate connection between establishing country ownership of a development results agenda and building an effective and legitimate state.** We suggest this challenge will only be met through political change processes in which donors and donor-instigated, technocratic processes such as PRSs will play only a small role. If donors wish to play a part in advancing this agenda, they need to think less narrowly about instruments and ways of working.

Section 3 reconsiders the experience of PRS processes in the three countries in this light. It asks whether the processes could have done more to get poverty reduction, or equitable and efficient development, onto the agenda of the politicians. **We argue that broad consultation around a comprehensive and technical strategy document has not only served these purposes poorly, but may also be expected to serve them poorly under any likely circumstances.**

Section 4 draws on our interviews and other sources to address these issues as they appear from the donor end of the aid relationship. **We suggest that the desire to ‘get on with the job’ of H&A in the absence of a fully-fledged PRS can be legitimate.** But it must be clear that this is only one of the prongs of the donor effort required by the PRS approach. There also needs to be a strand of coordinated donor action that is more directly political.

Section 5 sets out specific recommendations based on the three-pronged approach. **We argue that pursuing the PRS approach effectively calls for three different sorts of instruments:** 1) well-informed, strategic contributions to national debates on the core institutional factors influencing country commitment to a development results agenda; 2) technocratic tools, including but not limited to PRSPs, which permit limited but useful gains in harmonisation and systems alignment; and 3) financing agreements that use country systems and capitalise upon partial agreements about useful policy actions in the short term.

## 2 Political Institutions and Political Dynamics

The central proposition of the PRS approach is that country-owned policies for obtaining development results are a necessary condition for aid effectiveness. But country ownership of policies is premised on the capacity to exercise it, and thus on the institutional and organisational framework that structures this capacity (Fukuyama, 2004; DAC Govnet, forthcoming). At the national level in Latin America, **this means that the ability to exercise country policy ownership is largely a function of the effectiveness and legitimacy of the state.** This section explores the implications of this observation and tests it against our findings about politicians and political systems in the focus countries. We conclude by suggesting why it is that politicians have not been more responsive to PRS processes, and what it would take to turn the situation around.

### 2.1 Policy ownership as a problem in state formation

The challenges facing national development in the low-income countries of the LAC region are obviously varied. Each country has its own distinctive set of problems and challenges arising from its history. However, there have been a number of reasonably successful attempts to describe these in a general way, including UNDP's *Report on Democracy in Latin America* (2004). This identifies a widely shared set of challenges centring on deficits of state legitimacy and state effectiveness. **These are seen as among the principal factors affecting the ability of countries to attain development results such as those set out in the MDGs.** This is because of the way they affect the capacity of states to define and manage policies that produce both economic growth and social inclusion.

#### *Social change and political response*

According to this analysis, the opening up of LAC economies since the 1980s has combined with the effects of globalisation and regional integration to accelerate socio-economic change, creating new degrees and kinds of inequality and exclusion. In some parts of the region, this has led to the creation of new, often ethnically-based, social movements demanding radical change, including the reversal of secular injustices. Almost everywhere, the combination of new socio-economic patterns, including urbanisation and international migration, with increasingly effective international communications has raised expectations and created a deepened sense of relative deprivation.

**Political systems have been responding to the new constituencies and their demands, but too slowly.** The effect is a rather general crisis of both the legitimacy and the effectiveness of the state and its institutions. A factor generally missing is a widespread sense of 'social citizenship', in which individuals and families feel they have both rights and obligations in relation to the state, in economic and social as well as civic and military terms. In the absence of social citizenship, people find private solutions: crime, emigration, etc. (UNDP, 2004; also IADB, 2002).

#### *The role of political parties*

There is general agreement that in democratic political systems, political parties are key institutions mediating between the citizenry and the state. **Whether parties, and the party system, are capable of responding to new social movements in ways that draw them fully into national politics by articulating their demands, is a key factor determining whether or not states remain legitimate and maintain their effectiveness in times of rapid change.**

**Historically, Latin American party systems have responded to change.** They have regularly incorporated new social groups, although not always in ways that enhanced the effectiveness of the state as an instrument of development (Burt and Mauceri, 2004; Mainwaring and Skully, 1995;



Mouzelis, 1986). However, the UNDP study agrees with much of the academic and donor-commissioned literature on LAC party systems by arguing that they are not responding fast and creatively enough in the present period, given the pace of globalisation-induced change. Opinion surveys routinely find political parties to be among the least respected institutions. There is a widespread belief that party leaders are not interested in the well-being of the masses, but only in getting and keeping power (Achard and Gonzalez, 2004).

**Once again, countries vary and even among our three focus countries there are big differences in the way this general problem is being manifested.** The severity of the current crisis of the state in Bolivia is largely attributable to the depth of the social protest movement, which in turn is partly explained by historic patterns of economic and social development (Albó, 2002; Crabtree, 2005; Crabtree and Whitehead, 2001). The country's party system *has* been responsive to change, and indeed the pace of change in public policies since the 1980s has been quite rapid, including notable reforms to the structure of government and the rules governing elections (Calderón and Gamarra, 2003; Mandaville, 2004).<sup>4</sup> The problem is that the changes have not yet been sufficiently far-reaching and imaginative to match the scale of the social protest movement.

In the Central American countries, the challenges in the present period are less dramatic. Concerns centre not on organised protest, but on the individual solutions – emigration and, in Honduras, criminal activity – which people are resorting to because of the shortage of opportunities to participate fully in a process of national development. On the other hand, party systems are changing only slowly. Despite recent electoral reforms, Honduras is still in the grip of a simple bipolar political competition between traditional elite-led parties, with a rapid turnover of individual political actors but a marked stability in patterns of behaviour and ideology. The legitimacy of the party system is widely questioned. Nicaragua's politics are somewhat more open to innovation and 'third way' ideological proposals, but there remains considerable doubt about the ability of new tendencies to prosper against the resistance of the two party apparatuses that have dominated the scene since the end of the Sandinista regime.

### *Political incentives*

**Cutting across the country differences are well-known common features of parties and their relationship with the state in the poorer Latin American countries.** To a greater or lesser extent, they remain personalistic, with patron-client relationships continuing to play an important part in the selection of candidates and the treatment of political ideas. Parties are not effective mechanisms for articulating interests beyond those of the *caudillos* that control them, or for formulating programmes in response to national problems with strategic vision. Given the absence of a permanent civil service, *prebendalism* prevails – that is, voting, party funding and policy-making are strongly influenced by the ability of the winning party or coalition to place its supporters in well-paid and otherwise attractive public-sector jobs (Montes, 2003; World Bank, 2000). The state is to a greater or lesser extent a 'booty state' (*estado de botín*).

**Given these features and the structure of interests they generate, politicians have not found durable and effective ways of 'doing politics with development'.** They have not been capable of elaborating policies that would promote both economic growth and equity, and programmes that could generate a wider sense of social citizenship. They have perhaps not been interested, and if they have, they have not seen how to turn ideas of this sort into votes. The political culture emphasises short-term solutions, with voters favouring candidates '*que resuelven*' – who solve people's immediate problems. As a result of these patterns, key reforms are often not undertaken,

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<sup>4</sup> The most recent changes, which allow citizen groups to present candidates in municipal, regional and national elections, are interestingly not showing any signs of displacing the party system. Rather, they are leading to the creation of new parties or proto-parties.

especially those that directly threaten party patronage, such as the modernisation of public administration (creation of a permanent civil service).<sup>5</sup> Others are launched at the personal initiative of the president of the day, but not sustained because political short-termism prevents a consensus on basic national issues across regimes.

### *What kind of political solution?*

To put the same thing differently, country ownership of a results agenda of the MDG type is systematically inhibited by the nature of the political system. This is a situation that cannot persist without producing sooner or later serious social consequences. On the other hand, **in view of all the historical precedents it seems clear that if a solution arrives it will inevitably be a political solution** – meaning the emergence from within or outside the current party framework of a new leadership that sees a way of getting votes and accumulating political capital by behaving politically in a new way, thus forcing other parties and leaders to come into line.

One possible form of such a process is that new political generations begin to emerge from the middle ranks of the existing parties, and they are somehow shocked into seeing ways of doing politics that contribute objectively to development and the modernisation of the state. Another is the emergence of a social movement that becomes a political party and assumes state power, using methods that are completely different from those of the traditional parties. A real example of the latter is firmly on the political horizon in Bolivia, in the form of Evo Morales and the Movimiento al Socialismo (MAS).

MAS may and may not be capable of transforming the way Bolivia's party system works. Nothing is certain. However, it is conceivable that, directly or indirectly, it could cause the transformations necessary to modernise the state along the dimensions emphasised in the UNDP democracy report: effectiveness, legitimacy and social citizenship. In other words, **MAS's accession to governmental power could result in a political process of inclusion and renewal that was capable of resolving at least some of the deep problems of state-society relations bequeathed by Bolivian history.** The powerful sense of social and ethnic injustice that would motivate a MAS regime would facilitate political buy-in to poverty reduction and other social goals. Serious dialogue about methods and means would undoubtedly be necessary before this commitment could be turned into sensible policies and actual improvements in outcomes. But a powerful starting point would have been reached.

### *High and low cost scenarios*

**There is unfortunately also another real possibility.** It cannot be excluded that a decisive MAS victory in the elections called by the current transitional regime would provoke a series of reactions nationally and internationally which would unleash a period of economic instability and social insecurity comparable with the last period of far-left rule in Bolivia in the late 1970s and early 1980s. This and its aftermath were very damaging in terms of poverty as well as harmful to the effectiveness and legitimacy of the state. It is hard to think of an issue that is more vital to the future of poverty reduction and the MDGs in Bolivia than whether or not this least favourable outcome from the political rise of MAS becomes reality.

The issues are not quite so stark in Central America. However, in Nicaragua quite a lot hinges on whether the honest, technocratic and powerless regime of Bolaños is replaced at the next election by one of the mainstream caudillos, Alemán or Ortega, or by a third political force reflecting a

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<sup>5</sup> In several cases, they have been agreed with the World Bank but have been subject to systematic backsliding in implementation on account the strong incentive that the parties have to carry out a clean sweep following each election, and to assume that the opposing side will do likewise (see e.g., World Bank, 2005a, on Bolivia's Institutional Reform Project). A reform of this sort has been made a HIPC trigger in Honduras. The effectiveness of this approach remains to be seen.

generational change. The contenders for the latter position, the Liberal Montealegre and the left-of-centre realignment around Lewites, both offer some prospect of a new politics in which policy commitments on poverty reduction could have a place. **Development cooperation agencies that recognise the primacy of political commitment in anti-poverty programming cannot be indifferent to the outcome of this process, and should not regard it as unrelated to their mandate.**

## 2.2 Politicians, poverty and donors

The above analysis is largely based on the literature on the region and on the focus countries. Compared with the documentary sources, our in-country interviews are a relatively slight type of evidence. However, we spoke to a number of senior politicians, including in Nicaragua leaders of three of the four major tendencies in contention, as well as well-placed political analysts and donor field staffs and regional experts. The general burden of this testimony, as interpreted by us, is entirely consistent with the account we have just given.

That is, **there is general recognition that the incentive for parties and party members to rise to the challenge of reforming the state and promoting fast, equitable economic growth is weak, especially in the traditional, personalist parties.** This is why poverty is not central to political agendas and election platforms. What it would take to change this situation is a fairly radical shift in the political landscape, with a new generation of politicians deciding to place an appeal to the poor and dispossessed at the centre of their political ‘project’.

### *Politicians’ views*

In this context, we asked both politicians themselves and knowledgeable commentators whether the PRS and PRS process as presently constituted were helpful in advancing this type of political option. In Nicaragua, the answers from the more right wing politicians showed awareness of the existence of a PRS. However, **they also indicated clearly that for them, the PRS was principally useful for managing the aid relationship.** At a second level, it was perhaps of benefit in allowing the more vociferous demands of the more radical civil society organisations and NGOs to be accommodated.

To these politicians, it was simply inconceivable that a planning document of this type could be a tool for building a political constituency. They were aware that the incumbent president had placed his personal stamp on the current version of the PRS, but despite this they did not rule out the possibility of a future government led by them making use of the same or a lightly modified document. This seemed to reflect their concept of the document as a donor-driven instrument and their awareness of the degree to which (as emphasised by several donor interviewees) the country is locked into it by a dense network of bilateral and multilateral agreements.

A rather less neutral position was taken by some more left-wing leaders. For them the technocratic content of the PRS and the discussion around it and the MDGs was positively unhelpful from the point of view of raising the political profile of poverty.

### *Technification as an obstacle to pro-poor political discourse*

This point was best expressed by one leading Nicaraguan politician who would be expected to be part of any feasible pro-poor, state-building coalition in that country. In her view, the PRS takes an excessively technical approach. **What used to be a subversive cause has been converted into a new ‘-ology’ (pobretología), a technocratic discourse to which even the most conservative politicians can sign up.** What is needed to raise the profile of poverty is political mobilisation, because without that most politicians will not be interested in the delivery of services to the poor.

Getting poverty recognised as a political goal is actually inhibited by the technical analysis, given the typical level of understanding of these matters. Technification of the issue immunises it against politicisation.

Other interviewees expressed independently **the fear that the current form of PRS is exactly what one would want to see if one wished to do nothing about poverty but wished to cover one's back against criticism from the left.** This worry is of course particularly acute where, as in most of the Latin American experiences to date, there is no mechanism for linking PRS priorities to the budget or some other mechanism driving what government actually does.

### *How to be more political*

The conclusion from these observations is not that the PRS approach is wrong, but that the central objective of the PRS approach – state commitment to coherent policies for reducing poverty – can only be approached politically. A technical discussion about the profile and causes of poverty and how to use limited resources more effectively to meet priorities has important uses. But its uses do not include creating an entry point for tackling fundamental, long-term issues in the relationship between the state and social interests.<sup>6</sup> **It follows that donors need to be persuaded to stop trying to intervene in politics using technocratic tools, and to develop a more specifically political approach.**

**What this might mean, and how far donors have to change their current practices to make it possible, is not obvious.** There are clearly several dangers to be avoided. To pre-empt a natural objection, it cannot mean abandoning all restraints based on respect for national sovereignty, and it should not mean arbitrary, wilful or partisan involvement in the process of political competition. On the other hand, there is general agreement that most bilateral and multilateral donors in the region are already involved in politics in one way or another. Some foreign embassies, indeed, make little effort to conceal their partisan preferences or to insulate the assistance provided by their country's cooperation agencies from its effects. Thus, the proposed alternative to a technocratic engagement with politicians is not 'becoming political' but doing better what is already done.

**Doing better is a matter of being both well-informed and strategic.** It involves ensuring that the influence on political events that donor agencies exercise, whether they recognise it or not, is exercised deliberately and with intelligence, based on an excellent understanding of long-term social and political change processes in the country. Donors need to draw on a good understanding of how the central institutions of the state have evolved historically and therefore what specific medium-term institutional changes would help to resolve the central issues in the longer run. That should be their focus.

**One of the reasons for saying this is precisely that other powerful actors in the region cannot be counted upon to be non-partisan or strategic in this sense.** Those cooperation agencies that recognise the transformation of the state as a key development process have a duty to articulate this vision as a counterweight to other external influences which are based on short-term, narrowly ideological or military-strategic calculations.

If those are the principles, what about specific instruments? We consider three types of activity in the political sphere that already benefit from some donor attention and might be considered for more. They are:

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<sup>6</sup> We agree with the experienced Bolivian observer who writes: 'there is still a tendency for the external actors to focus too much on promoting specific policies and to forget about the long-term processes of change ... It is striking how little discussion there is in international cooperation agencies about processes of change, even though these are at the heart of what they are trying to do' (Antezana, 2005: 5-7; our translation). Cf. also the conclusion of the World Vision report (2005: 53).

Programmes of support to **capacity development** for parliamentarians and/or political parties;

Initiatives to **broker dialogue** and promote specific, binding agreements among Parties in conflict;

Efforts to combine **political realism with intellectual openness** about political and policy options, particularly those that might improve the chances of an objectively pro-poor out-turn from a move to the left in one or more of the focus countries.

### *Developing political capacities*

If it is true that the functioning of political institutions, and especially party systems, is at the bottom of the problem of state weakness, the obvious solution is to focus on improving those institutions. This conclusion has already been drawn by a number of agencies. Although most are still hesitant about doing anything that might be construed as supporting parties, UNDP, USAID, the Netherlands and the UK are among those supporting capacity development in electoral authorities and parliaments (e.g. NDI/UNDP, 2004). DFID's programme in Peru was centred for some years on capacity development work in political parties geared particularly to the handling of issues of social exclusion and inclusion (DFID, 2005). A programme of studies and further capacity development with the assistance of the National Democratic Institute of the USA and the Institute for Multiparty Democracy of the Netherlands is being developed in Nicaragua and elsewhere (NDI, 2004, 2005; PNUD/IMD 2004).

Programmes of these types have shown their value in other parts of the world. However, they suffer from a potential weakness. As is now generally recognised (Lopes and Theisohn, 2003; DAC Govnet, forthcoming) **successful capacity development is a necessarily endogenous process. It also depends on changes in institutionalised incentive patterns, and not just a transfer of knowledge and skills.** Unless the political system itself is beginning to generate incentives to behavioural change, no amount of tutoring in good practices and alternative ways of doing things will help these institutions and organisations to change their character. Support to political party systems will be most effective if it focuses on changes – legislation on election rules, or voter registration efforts – that work on the incentive structure, with training in democratic practices or social inclusion following up rather than leading the process.

Support to capacity development is going to be at best, therefore, a partial solution to the problem of the slow transformation of political institutions. The decision whether or not to provide it at a particular moment should be based on a good analysis of medium-term political dynamics and the likely pattern of gains and losses to the different stakeholders, given this context.<sup>7</sup>

### *Brokering dialogue*

Among the more relevant suggestions we encountered in our interviews with donor staff was that of supporting more continuously the efforts currently made to broker dialogue between national actors who become locked in conflict. The Organization of American States (OAS) has undertaken a number of such initiatives in the focus countries and elsewhere, with mixed success.<sup>8</sup> It is not clear that the OAS is the right body for this task, given the widespread view in Latin America that it is an instrument of US policy, rather than a genuinely multilateral body. Nevertheless, these initiatives address what are generally recognised to be crucial stumbling blocks in attaining greater state legitimacy and effectiveness, including but not limited to building bridges between forces in open

<sup>7</sup> As Antezana (2005: 5) says about reforms in general, 'not all desirable reforms can be implemented simultaneously. What is needed is to choose those reforms that may incur least resistance and offer clear benefits quickly to those potential group interests that may promote further reforms'.

<sup>8</sup> For example, in Bolivia during the presidency of Sánchez de Lozada, and in Nicaragua during the paralysing standoff between President Bolaños and the organs of state controlled by the Liberal-Sandinista 'pact'.

conflict. They are therefore well targeted with respect to the PRS agenda in the broad definition we have suggested it should be given. Multilateral organisations have distinct advantages as brokers. Yet such efforts receive only sporadic support. Therefore, **a more substantial and long-term commitment by donors to suitable dialogue brokers would be consistent with donor aid priorities, including an orientation to ‘results’ and the MDGs.**

### *Combining political realism with intellectual modesty*

Finally, if the importance of political-process out-turns is as important as we are suggesting to poverty reduction outcomes, **donors must be actively interested in assisting political transformations that have low social costs and preventing those with the highest costs.** As well as being realistic about the political options, this implies being intellectually modest (or ideologically open) enough not to exclude policy options just because they do not appear to correspond to the current conventional wisdom in the donor community. It certainly means avoiding premature polarisation over policy issues that in the longer term may prove to be amenable to more than one approach (e.g. where bilaterals line up automatically with an International Monetary Fund (IMF) technical analysis, appearing to exclude other options that may prove, on closer inspection, to be technically defensible).

Where politicians’ policy proposals have a strong political logic and might deliver significant long-term benefits in terms of state legitimacy or social citizenship, they should surely not be opposed by donors as a bloc on the basis of a doctrinaire assessment of the policy content. **Heterodox policy ideas that offer solutions to long-standing problems should be actively supported and, where possible, refined, rather than excluded for the sake of maintaining a common front.**

## **2.3 Summing up**

This section has suggested that the core of the PRS agenda is virtually identical to the challenge of instituting more legitimate and effective states based on a concept of social citizenship. This challenge involves political institutions in a central way and will only be met by domestic political processes, processes of an inherently risky kind. Donors with a commitment to improving outcomes for poor people should regard these issues as central to their agenda, even though the linkage to results is indirect and long term.

**A consultative planning process of the PRS sort has its uses but it does not seem to be a solution to the problem of getting political buy-in to poverty reduction.** Indeed it may be to some degree an obstacle, either because it provides ‘cover’ for the pursuit of socially conservative policies, or because it overcomplicates and obscures any political debate about poverty. **Donors need to recognise the political nature of these issues, and work in a more directly political way.** That does not mean interfering more and becoming partisan. It means being more intelligent about the political influence that donors already exercise by **taking a more strategic and informed perspective on the institutional preconditions for poverty reduction.**

Relevant activities may include support to capacity development where endogenous changes are taking place; greater commitment to multilateral dialogue-brokering activities; and deliberate efforts to widen the policy options that leaders, especially radical ones, might choose to pursue with donor support.

### 3 PRS Processes: What Has Gone Wrong?

This section looks in more detail at the question why PRS processes in the focus countries have not engaged political actors in a more general and more profound way. **We have already suggested that the problem may be inherent in the rather technocratic character of the process, which puts off both politicians that give no particular priority to poverty reduction as a political objective, and those that do.** But to what extent is this confirmed when one looks closely at some particular processes? And is there scope for modifying the processes in certain specific respects as a means of engaging politicians more effectively?

**In addressing these questions, we have to take into account that in many ways the political situations in which the PRS processes were launched in the three countries have not been at all propitious.** The interesting questions in all cases are in the form: what might have been achieved if the situation in the country had been more ‘normal’?

We deal with two issues:

1. If circumstances had been different, would the approach have been effective in getting changes in public policy of a more or less significant sort?
2. Under more favourable conditions, might this sort of process and document have served the purpose of getting political buy-in to poverty reduction?

#### 3.1 Broad-based consultation and policy change

**So far, the PRSs in the three countries have had quite limited effects on public policy.** Quite simply, they have not been implemented, or have been effective only as a framework for allocating Enhanced HIPC Initiative (HIPC2) savings, with minimal effects on the rest of public policy. We need to know whether this just reflects the particular circumstances and timing of the initiative in each country, and whether there is more to be said on the basis of this experience about the prospects of doing better with this instrument in the future.

##### Bolivia 2000 and 2004

**Bolivia is the most useful test case on this point.** Bolivia has now had two experiences in which a broad-based stakeholder consultation was undertaken with a view to formulating a comprehensive strategy for poverty reduction benefiting from country ownership. In both cases, in mid-2000 and Nov 2003 to Dec 2004, the scale and quality of the participatory exercise was high by the prevailing international standards. A great wealth of analysis and policy ‘demands’ was exposed to public view and debate. However, the first exercise resulted in a significant innovation in public policy in just one area. The rest of the strategy was not implemented,<sup>9</sup> and indeed lacked any mechanism for getting itself carried through into policy (such as a link to the government budget; Antezana, 2005; Komives et al., 2003: 16). The second consultation, intended to generate a second poverty reduction strategy (PRS2), was not even written up in a form that could be used in the drafting of a policy document. No PRS2 based on consultation has been written, so there is no question of an impact on public policy.

**We have reflected on what these two experiences suggest, grosso modo, about the conditions under which a large consultative exercise is likely to contribute to changes in public policy.** There are obvious differences between the two cases. In the first, there were HIPC savings to be

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<sup>9</sup> The inside story is that the government was purposely completing the implementation of its governmental Plan de Emergencia, 2001/02 and was not interested in additional commitments.

allocated, while in the second there were not. And the degree of involvement in the proceedings of senior members of the government of the day was entirely different.

In 2000, there was political support from the Vice-President and later President, Jorge ‘Tuto’ Quiroga, for the key policy innovation of using the HIPC funds to empower and finance the *municipios* (rural local governments) created under the Ley de Participación Popular of 1994. This was the policy innovation that was both agreed and implemented – actually by legislation that was passed by the government-dominated Congress without a very direct link to the consultative *mesas* (working groups).

In 2004, government engagement in the process was almost entirely lacking. The first efforts at drafting a PRS2, in 2003, were influenced by the *Sánchez de Lozada* government’s interest in growth-based poverty reduction using the concept of *cadena productivas* (commodity chains). A draft of this document was rejected by the donors at the October 2003 Consultative Group meeting on the grounds that it had not been subjected to a participatory formulation process. Whether the government’s commitment to some of the core ideas in this more focused (i.e. not comprehensive) and quite production-oriented document would have made it more implementable was not able to be tested. *Sánchez de Lozada* was forced into resignation within the month, and the new non-party regime of Carlos Mesa had a much less coherent vision, both of the policy content and of the place of a PRSP in the government’s internal division of labour. Thus, nobody on the government side of the table had a clear responsibility for picking up the results of the consultation.<sup>10</sup> This was still the position when Mesa himself was overthrown in 2005, ushering in a transitional government with no mandate for substantive policy making.

The conclusions drawn from Bolivia’s experience by some of those most closely involved in the two processes are interesting. **They suggest (apart from the ‘HIPC factor’) two preconditions for participatory policy making of this sort to produce actual changes in public policy.**

First, given interest in promoting a policy change within the government of the day, and given a government majority in the legislature, a broad consultative exercise can help to provide extra momentum and even shape the details of the policy in useful ways.<sup>11</sup> But where there is little government interest, policy change is unlikely. Second, a consultation around a specific set of policy proposals is likely to be more powerful than one that comprehensively covers the whole range of factors relevant to poverty reduction in the country.

### *Honduras and Nicaragua*

**Experience so far in Honduras and Nicaragua does not allow a real test of these propositions.**

In Honduras, the PRS process is generally reckoned to have empowered a new type of civil society that emerged during the reconstruction efforts after Hurricane Mitch (Cuesta, 2003; Hunt, 2004b; Seppänen, 2003). Thus it has had significant effects. But it has not yet had a chance to affect public policies in any significant way because the lack of a Poverty Reduction and Growth Facility (PRGF) agreement until February 2004 delayed the whole process, with HIPC2 completion now not expected until 2006 (Hunt, 2004a, 2004b). Mechanisms for linking to the budget are in place but not yet tested.

In Nicaragua, the first PRS (Estrategia Reforzada de Crecimiento Económico y de Reducción de Pobreza (ERCERP)) was described as ‘a strategy that is really owned by nobody in Nicaragua, except maybe some donors’ (Guimaraes et al., 2003: 11). In contrast, there is real presidential

<sup>10</sup> Although some of the ideas remain in the public domain (Gray Molina, 2005).

<sup>11</sup> E.g., the formula used for consulting in the *municipios*, gave the small, usually rural, local governments a majority voice, which helped to ensure the adoption of a progressive distributional formula for the allocation of the HIPC funds (for further details, see Booth with Piron, 2004).



interest in some of the ideas, for example about promoting industrial clusters, that were in the initial drafts of the National Development Plan prepared under Bolaños. These survive in the PRS2 document finalised in mid-2005. However, in Nicaragua the Presidency is not effectively in charge of the state. Civil society consultations and regional planning initiatives have been part of his method of dealing with this situation (Guimaraes et al., 2004). Policy changes over and above those negotiated in detail with the donors have not been possible.

The experience of these two countries suggests an agnostic response to our question about change in public policy. **However, it is not inconsistent with what has been suggested on the basis of the Bolivian experience.**

### *Some conclusions on broad-based consultation and policy change*

We conclude, therefore, that three generalisations seem likely to apply generally to the impact of participatory PRS processes on public policies:

- In participatory policy processes, agreements on very concrete issues can and sometimes do become a basis for significant changes in public policy; but **agreements of a general type, covering all fields, sectors and issues – as required by the international expectation that PRSs should be ‘comprehensive’ – tend to be too diffuse for policy purposes. They have very little chance of being carried through into changes in public policy.**
- Broad participatory exercises tend to generate short-term demands on the government to ‘resolve’ different problems faced by the population. **They do not assist in finding solutions to complex problems in which there are interest conflicts and trade-offs.** The international doctrine that suggests that complex reforms become easier to carry out if they are participatory is not confirmed by experience.<sup>12</sup>
- **The breadth of the participation in a PRS process is not a strong predictor of the results of the process, whereas the position of the government definitely is.** Without the clear support of the state, including definite commitments and a clear sense of legitimacy and assignment of responsibilities on the government side, no amount of effort on the part of civil society actors and cooperation agencies will be sufficient to give the results of the participatory process an impact on public policy.

This suggests that **at least two of the PRS principles – the requirement of comprehensiveness, and the insistence on broad participation – may in actual practice be unfavourable to the chances of obtaining changes in public policies.** They will tend not be helpful in obtaining the objective of more results oriented and country owned public policies, unless the political forces in power in the country include some people who are committed to the objective and are in a position to use the consultation to advance their purposes.

**If true, this is a rather significant conclusion, with implications for the operationalisation of the PRS concept that well beyond the adjustments proposed by the 2005 Review report.** It is more significant if we are also bound to conclude that PRS processes as currently conceived do not help to *create* the political interest in formulating and carrying out pro-poor public policies.

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<sup>12</sup> It may reflect an inappropriate scaling up of the lessons of project experience where interest conflicts are simpler or easier to resolve. Cf. DiJohn et al. (2004), on Colombia.

### 3.2 PRSs and political incentives

It is customary these days to say that the PRSP approach has been neglectful of getting buy-in from parliamentarians and other political actors outside the ‘iron triangle’ (Gould and Ojanen, 2003) of government technocrats, internationally-linked NGOs and development organisations. This has been a finding of almost all the studies and reviews that have been done worldwide. The tendency of buy-in to be restricted in this particular way is undoubtedly a problem from several points of view, including that of continuity between regimes before and after elections. However, **it is important to understand how and why this apparent mistake was made.**

*How might a PRS process be expected to change political incentives?*

**It is not the case that the original PRS concept was innocent of the difficult politics of getting poverty reduction onto domestic agendas.** The insistence on consultative drafting of PRSPs was precisely an effort to address this problem. The notion was that pro-poor, pro-development policies had not arisen from the normal operation of electoral democracy and parliamentary debate (broadly, for the reasons outlined in Section 2), and that, therefore, something else was needed. The something else that was settled upon, influenced by the accumulated experience at the World Bank and elsewhere on the value of participation in project planning, was civil society participation.

**There was a theory behind this, a naïve theory but a theory nonetheless.** It said that if governments were obliged to debate the sources of poverty and options for reducing it with their citizens and their organisations, they would be compelled to take the matter more seriously and would enter into new bonds of accountability for policies and their results as a consequence. This would not only compensate for the generally anti-poor functioning of the formal political systems. It would also be a means of generating political interest, as parliamentarians, feeling excluded from the poverty debate, would sooner or later wish to join in.

In general, this theory has been found wanting, although no satisfactory alternative has yet taken its place (Booth, 2005). For better or worse, politicians in poor countries that have elections continue to respond primarily to voters, who have the indispensable power to throw them out of office (although this tends to happen on a basis that is not developmental or pro-poor). In countries like Bolivia, they respond to the politics of the streets and highways, which have also proven their ability to make and unmake presidents. But they do not respond to the demands of the typical civil society organisation, except to the extent that they see them as proxies for powerful donors. **For the purposes of this study, we have to ask whether the experience in LAC offers any comfort to the theory that it is possible to generate political commitment to poverty reduction by this mechanism.**

**We do not think that it does.** The participatory designs for the different PRS processes have invariably given some role to politicians from both the governing and the opposition benches, but have also fairly deliberately diluted this involvement with roles for other types of membership and non-membership organisations at different territorial levels. On the other hand, politicians have not usually responded to this by demanding a greater role.

*The political response in Bolivia*

In Bolivia in 2000, the PRS process secretariat took deliberate steps to give disproportionate weight to the opinions of the municipal authorities, especially the numerous rural ones, and a voice to civil society organisations at different levels, with the intention of avoiding giving a large role to national politicians. However, **the neglect was mutual. The politicians showed no great concern at their marginalisation.** It was unsurprising, therefore, that the next government to assume power was all but indifferent to the document and needed reminding even of its legal obligations to renew the

process of national dialogue in 2003. Then and since, in the 2003-4 process for example, the leaderships of both the traditional parties and the MAS had more important fish to fry than the PRS (Antezana, 2005; Booth with Piron, 2004; Toranzo, 2002).

At no point could it be said that new relationships of accountability had been created by the process. The monitoring arrangements set up to watch over the implementation of the HIPC agreement – the *Mecanismo de Control Social* – operated primarily as donor proxies. **There was never any sign of the politicians being attracted into the ideas and accountabilities generated by the PRS and its monitoring** (e.g. the Annual Progress Reports produced by UNDAPE) for fear of losing political support.

### *The political response in Nicaragua*

In Nicaragua, the non-involvement of the National Assembly and opposition politicians in the operationalisation of the original PRS and the formulation of PRS 2 was also deliberately sought by the government. This was inevitable, given the political standoff between President Bolaños and his former associates in the Liberal-Sandinista Pact.<sup>13</sup>

In principle, the Consejo Nacional de Planificación Económica y Social (CONPES) could have been used by Bolaños less as an alternative to parliamentary involvement in the process and more as a way in to wider political engagement. More could no doubt have been done to establish lines of communication between technical advisors on both sides of the divide between the executive and the Assembly. **However, again there is mutuality about the standoff that prevents any simple suggestion that X or Y ‘should have done more’ to engage the politicians.**

It is not obvious that the party leaderships in the Nicaraguan National Assembly would have shown great interest in the PRS, as anything other than an instrument for keeping the donors happy, even if they had been encouraged by the government to do so. This is the realistic perception behind the lack of enthusiasm of the Secretaría de Coordinación y Estrategias de la Presidencia (SECEP) for doing more to relate to members or advisers of the opposition benches. Donor efforts to engage the Assembly in discussion around the PRS have actually been quite considerable. Arising from these efforts, there is a *Comisión de Seguimiento* (monitoring committee) of the PRS in the Assembly, which ‘talks to SECEP from time to time’. However, the relationship is evidently somewhat strained on both sides, and enthusiasm in the Assembly about the substance of SECEP’s planning efforts is apparently rather muted.

**In one sense, these donor efforts have borne fruit.** It is now not at all certain that a future government would derecognise the Plan Nacional de Desarrollo (PND) in the way that Bolaños derecognised the original ERCERP on the morrow of his election. On the other hand, the meaning of this recognition seems to be largely limited to an acknowledgement of the serious costs to any government of rocking the boat of donor support and harmonisation. As one informant put it to us, PRS2 puts together in a single package a whole series of agreements with donors that it would be impossible to unravel. For example, it incorporates in full the policy matrix agreed with the budget support donors.

Cross-party commitment to this package is not unimportant. As emphasised in the next section, continuity of donor funding and its greater harmonisation are valuable in themselves. **However, there is no sense in which the PRS process can be said to have won politicians over politically**

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<sup>13</sup> The original design for the participatory process drawn up with UNDP support specified consultation with the leaderships of the parties, as stakeholders. However, from the beginning of his presidency, Bolaños pursued a policy of non-consultation with the legislature, and his officials were bound by this. Hence the PRS revision was largely a desk project, with consultations in sector working groups (*mesas*) and through the regional Departmental Development Councils, but not with apex political bodies, or even until the last minute with the now largely depoliticised CONPES.

**to the idea of taking poverty reduction seriously as a priority objective.** This could only have been done by the political process proper.

### *The political response in Honduras*

**The case of Honduras might seem to offer some support to the notion that political buy-in to poverty reduction can be generated by a participatory PRS process with heavy donor and civil society involvement.** The original PRS prepared under the Liberal President Flores was launched in 2001 with the support of all the candidates in the presidential primary elections of that year. Although the winning candidate, Maduro of the *Partido Nacional*, initially distanced himself from it, it was his failure to comply with the PRGF that was the principal barrier to its implementation. In the lead-up to the November 2005 elections, the donors made considerable efforts to gain cross-party support for continuity around the PRS and the MDGs, and these efforts seem to have borne fruit. As in Nicaragua, cross-party political engagement in the related regional strategy processes has been more impressive than what has happened at the national level.

**There are, however, two reasons for doubting whether the Honduran experience is really different.** In the first place, its unusual features are partly derived from the fact that the dialogue is somewhat broader and less technocratic than elsewhere.

The pre-election round of bilateral discussions with the five political parties was held in the framework of the Stockholm Declaration signed by the government, civil society groups and official donors after Hurricane Mitch in 1999. The G-16 or Stockholm Declaration Monitoring Group, currently chaired by the Canadian Ambassador, is interested in a set of issues of ‘national transformation’, including reduction of social and ecological vulnerability, good governance, decentralisation and human rights, as well as aid alignment around a PRS (G-16, 2005). The dialogue has covered this range of concerns. **Although squarely within the prevailing donor discourse, this engagement has affinities with the approach we suggested in the last section in respect of the emphasis placed on core issues in the relationship between the state and society.**<sup>14</sup>

The second reason for not regarding Honduras as a real exception is simpler. **For many decades, the Honduran political system has exhibited quite a high tolerance for involvement of external actors in national affairs.** The relative success of the donors in engaging Honduran politicians in dialogue may reflect, among other things, this historical legacy.

### *A conclusion on PRSs and political incentives*

A part of this diagnosis agrees strongly with the conclusion articulated by Dijkstra (2005) on the basis of the Institute of Social Studies’ monitoring studies for Sida. But another part calls for a more nuanced interpretation. It is true that **one of the things about PRSs that is unattractive to politicians, particularly when they are out of power, is that as a comprehensive and rather technical plan, it is not good to ‘make politics with’.** The reason is not that they are necessarily unwilling to be associated with ‘rational planning’ but that they probably correctly regard this as something to be left to specialists.<sup>15</sup>

The problem is not, perhaps, that *as planning documents*, PRSPs are too comprehensive or too technical. It is certainly not that they are too ‘macro’. Sector plans serve a different purpose from national plans; and national plans are not just the aggregate of the sector documents. Furthermore,

<sup>14</sup> A good additional reason for focusing coordinated donor influence on these issues is that there is disagreement among the official agencies on the content of the PRS, especially the way it relates to CAFTA and the reliance placed on employment generation in export-oriented industries.

<sup>15</sup> The Nicaraguan politicians tend to regard the style and content of SECEP’s proposals as rather ‘academic’.

sector strategies suffer from the same deficiencies from the point of view of politicians who might be interested in making politics with poverty. **The problem is that consensus-building at the political level needs to be based on a different type of instrument, coherent with the main PRS idea but with different characteristics** – not sectorally more specific but more concrete and suited to rhetorical treatment.

### 3.3 Summing up

This section has examined in detail why PRS processes have not engaged political actors in a more general and more profound way. We have taken the question in two parts. First, we have suggested that contrary to the standard prescriptions on the desirable features of a PRS design, **impacts on public policy only seem to be significant when consultations are used to assist in implementing a specific policy measure that is supported from within government.** Without this element, broad-based consultations do not lead to policy change, particularly if discussions are required to be ‘comprehensive’. Second, **PRS processes do not have the capacity to generate new political incentives that override those generated by the electoral and party systems.** It is not hard to show that those steering the PRS processes in Bolivia and Nicaragua have in different ways avoided too close an involvement with parliamentary politicians. However, the lack of engagement appears to have been mutual and reciprocal.

This analysis agrees in some respects with the diagnosis offered by Dijkstra of the Institute of Social Studies’ team, and differs in others. The problem with PRSPs as instruments for building political agreements will not be solved by relying on sectoral plan documents instead.

## 4 Development Cooperation: Approaches and Options

We have suggested that PRS processes as presently constituted are useful only in rather particular circumstances in securing the adoption of new public policies, and are not the right instrument for getting poverty or the building of development-oriented states onto political agendas. The PRS approach, with country policy ownership at its centre, calls for kinds of donor action that are distinct from, even if complementary to, support to PRS processes. Exclusive reliance on PRSs as means for advancing the ‘PRS concept’ will not suffice. **How does this relate to the current tendencies of donor thought and action in the LAC region?**

### 4.1 Harmonisation, alignment and ownership

#### *A digression on civil society*

In Sections 2 and 3 we concentrated on the relationship between PRSs and political systems proper, because that is the relationship that has been relatively neglected and is the focus of our terms of reference. At this point, however, it is relevant to add some observations about the relatively familiar theme of PRSs and civil society. If the relationship with mainstream politics has been troublesome, it may be added that **the record in at least two of the focus countries has not been particularly good, either, in respect of the relationship with civil society.**

In Honduras, the PRS process does seem to have empowered and engaged in the policy process a new ‘technical’ civil society that sees itself reflected quite fully in the PRS process. But in Bolivia, NGO judgements about the first Estrategia Boliviana de Reducción de Pobreza (EBRP) were quite damning – it avoided issues that had been prominent in the consultations, and generally reflected the government’s view of the problems and likely solutions, not that of civil society (Molenaers and Renard, 2002; World Vision, 2005). The consultation on the draft PRS was not even written up. Bolivia has no PRSP.

NGO judgements about the first Nicaraguan PRS, the ERCERP, were mixed. Civil society was probably empowered by the process. However, in the preparation of PRS2, the National Development Plan, the Bolaños government initially used the President’s civil society consultation body CONPES as a counterweight to the National Assembly. Yet the consultations on the later and more operational drafts were largely restricted to the Department (provincial) level. The document being put forward as Nicaragua’s PRS2 was brought to CONPES in July 2005 fully drafted, although after elaborate consultations with donors, especially those in the budget support group (the document actually incorporates the performance assessment matrix (PAM) agreed with the budget-support donors).

All of this is tangential to our main concerns. Too much of the literature on PRSPs has focused on the troubled relationship between PRS drafting teams and civil society. We do not want to add to that bias. However, **these observations help us in putting on the table a feature of official donor behaviour that puzzles many observers in the focus countries.**

### *'Donors speak with forked tongues'*

As Dijkstra (2005) observes, **official donors in the focus countries are extremely strongly committed to the view that the function of their aid programmes is to support the implementation of PRSs.** This is reflected in behaviour that maintains the illusion that a properly constituted PRSP exists even when it palpably does not. Everything possible is done to maintain the flow of funds despite the fact that, as in Bolivia, there is not even a draft document supported by the government, or, as in Nicaragua, the government's draft has no ownership in the country outside the presidency, except perhaps at regional level.

Dijkstra's article puts this forward politely as a puzzle to be explained. Others in Nicaragua and Bolivia would be less polite. It is said with feeling that donors typically 'speak with forked tongues'. On the one hand, they say they that they want country-owned policies and that PRSPs must be widely consulted about. On the other hand, **they do not insist that civil society and other national stakeholder views are taken into account by the executive branch of government.** They are happy to be complicit in governments' dealing directly with donors and cutting out the national stakeholders. In Nicaragua, this is said to apply to Sector-Wide Approach programmes (SWAps) and the sectoral *mesas*, as well as to the PRS.

One view of this matter, as explained by Dijkstra (2005), is that it arises from the operation of the disbursement 'imperative' that characterises the institutional setup of development cooperation agencies. It is part of the analytical explanation, fully developed in the research literature on policy-based lending and aid, of why conditionalities tend to lack credibility. This captures an important aspect of the reality, but we think it is an incomplete explanation. **It helps to understand the pattern of donor behaviour to recognise that official donors face real dilemmas based on the objective reality in the focus countries.** They have different ways of dealing with the situation, none of which free them entirely from charges of inconsistency.

### *Donor dilemmas when PRSs go wrong*

**As we said in Section 1, the World Bank appears to have a consistent position,** effectively putting its CAS process on hold in Bolivia and Nicaragua, because of the internal requirement that CASs in HIPC countries are based on PRSPs and the judgement that country conditions in 2005 offer little prospect of a PRSP that meets minimum conditions. This seems both principled and realistic, in view of the Bank's commitment to the PRS philosophy as a whole.

Of course, the Bank can afford to be principled because it can fall back on a large variety of lending instruments, including programme-based ones, which do not require a full CAS. There is a group of bilaterals, on the other hand, that are in the anguished position of having tied their country programming to World Bank/IMF endorsement of a PRS. They see the current state of affairs, especially in Bolivia, as one in which it is very hard to maintain a consistent stance. Those agencies are, so to speak, caught in the middle.

**At the other extreme are the agencies that just want to 'get on with the job'.** The job for them is not just delivering aid, but delivering on the aid H&A agenda as set out in the Rome and Paris declarations. Underlying this view is the belief that it is possible to make substantial progress in making the delivery of aid more efficient and effective by harmonising it and aligning it with country systems even when a PRS process is in deep trouble. A fairly light and technocratic form of country ownership, which is more about systems and procedures than about policy priorities, is sufficient to allow substantial gains to be made (starting from a low starting-point, perhaps) in building up the base of the DAC pyramid.

**A striking example supporting this point of view is the progress that has been made with the H&A agenda in Nicaragua.** The DAC mechanism known as the Joint Country Learning Assessment which was applied to Nicaragua in May-Dec 2004 yielded the judgement that ‘in Nicaragua substantial advances have been made in terms of high level commitments and tangible activities towards greater H&A’. As well as a long-term Action Plan for Harmonisation and Alignment, Nicaragua has a European Union ‘harmonisation roadmap’ to which both the European Commission and all the member states have signed up. In the view of the EC’s consultant on the subject, sustainable implementation remains a challenge, but the completion of the roadmap exercise makes Nicaragua one of the most advanced partner countries in relation to H&A policies (SOFRECO/NEI, 2005: 11 and Annex 1). **Similar claims are made, and are substantiated by an unpublished IADB report, regarding the progress of Honduras’ G-17 donors** (Hunt, 2004b).

### *The relative autonomy of H&A*

Despite all we have said about the importance of addressing the fundamental issues underlying state-society relations and the functioning of democracy in the focus countries, **‘getting on with the job’** has real attractions. **The DAC pyramid of aid effectiveness is a single structure but not a monolith.** In the end, there will no substitute for fully shared goals, articulated as country policies. However, it is important not to let the best become the enemy of the good. Aid *harmonisation*, and particularly the *systems* alignment part of the alignment agenda, may be able to be taken quite a long way despite weak country policy ownership.

In the Nicaraguan case, headway is being made with H&A by consolidating and extending what are considered to be reasonably successful SWAp experiences, and dealing with the systems-alignment and harmonisation issues arising in that context. This can occur independently of the condition of the PRS. Indeed, it is said that the constitution of the sectoral working groups in Nicaragua still reflects the CAS of the IADB much more than it does anything arising from the PRS process.

For the group of donors that is keen to press ahead with budget support, the lack of an endorsed PRS2 might appear more of a problem. However, it is not much more of a problem than in many other HIPC worldwide, where the relationship between the budget support agreement and its joint PAM on the one hand and the PRS and its monitoring arrangements is problematic and much debated (Lawson et al., 2005).

**For these reasons, a comprehensive, technical strategic plan document may serve the immediate needs of the donor community quite well even if it has not been the subject of a successful national consensus-building effort.** It can provide a framework for reconciling conflict and duplication between donors, and so long as there is a reasonably authoritative interlocutor on the government side, it can also ensure complementarity with current government efforts. In the Nicaragua case, government engagement with the donors has been good during the Bolaños regime, and this tends to override any reservations that donors have about the content and process of the PRS.



## *Implications*

**If these points are accepted, they raise two further issues.** First, if donors harmonise around a plan that has been elaborated behind closed doors by the executive branch of government, this poses the danger that the job will need to be redone after each election that results in a change of regime. Given the lack of continuity between regimes that characterises politics in the region and the understandable desire of any incoming governments to set an agenda reflecting its campaign promises, this might be seen as a serious problem. However, **if both the harmonisation agreements and the PRS are seen by the political elite as primarily matters to do with the aid relationship** (as we have suggested is the case in Nicaragua and, probably, Honduras), **continuity may not be a big problem.** This is the plus side of the situation we described earlier, where the politicians do not regard the PRS as a political matter.

Second, **if the primary focus of activity in the short run is on aligning aid delivery with national systems, it may be that the PRS is not the best instrument.** Consideration might be given to making more use of already institutionalised planning processes, where these exist. Thus, for example, there does not seem to be a good reason – from a systems-alignment perspective – for having a PRS process in Bolivia running parallel to the existing pyramid of municipal, departmental and national development plans (all of which have elements of participatory planning). Nor is it clear why it makes sense for Nicaragua’s PRSs to be prepared and monitored in the secretariat of the Presidency and to interface with a special commission of the Assembly, rather than being attached along with the budget to the Ministry of Hacienda and interface with the *Comisión Económica* (which scrutinises the budget, and in principle monitors its execution).

Opposition politicians in the leadership of the Liberal Constitutionalist and Sandinista parties have their own reasons, right now, for insisting – as they did to us – that this would be a better way of mainstreaming the PRS (they control the *Comisión Económica*). But it is not clear that they are not right. **It is worth noticing in this context that the Paris Declaration increases the scope donors have for treating country development plans, and even results-based medium-term expenditure plans, as de facto PRSPs.** If harmonisation of aid around country systems is the objective in view, we think this has relevance to the LAC countries.

These are topics that may be worth considering in the context of the belief that it is possible to ‘get on with the job’ of implementing the Rome-Paris commitments, even under the currently difficult circumstances of Nicaragua and Bolivia. We have said that we think this belief is well grounded. This allows us to put a more positive gloss on official donor willingness to live with inadequate or absent PRSPs than the one given by Dijkstra. However, it does not entirely dispose of the accusation from civil society that official donors fail to act in line with their declared principles. **To defend themselves against this charge, donors are going to have to do more to make clear that, as well as moving on H&A, they have several other weapons in their armoury for taking forward the PRS concept.**

## **4.2 Donors and national politics**

**The most important thing in accepting the argument for ‘getting on with the job’ is to express loudly and clearly that these useful activities are not, on their own, an adequate articulation of the PRS approach in the region.** We do not accept the proposition that the PRS approach has proven over-ambitious and that it is time for the international community to lower its sights and focus on a more limited set of more attainable goals. We think it would be a great pity if the Paris Declaration were to be taken as a mandate for reduced ambition in respect of the core PRS objective of getting poverty reduction and its principal preconditions onto country political agendas.

Thus, in our conception, **making all possible headway on H&A only makes sound sense as part of a multi-pronged approach which also includes donors' doing whatever they can to influence fundamental political processes in the ways suggested in Section 2.** An explicitly multi-pronged approach, as well as being the only one fully consistent with the essential ideas behind the PRS approach, would be the best way to dispel the impression that the donor community has double standards.

### *Can donors cut it?*

If the argument of this paper is accepted – that building national consensus to tackle poverty and the legitimacy and effectiveness of the state requires discussion and agreement beyond and outside the PRS – then donors are going to have to become more formally involved in discussions about the state; that is, about politics. What do our interviews and other sources tell us about the willingness and ability of donors to assume the type of more directly political role that is recommended?

**None of our research suggests that in-country staff and headquarters desk officers in the development cooperation agencies are ill-informed or unintelligent in their approach to politics and politicians in the countries considered.** Of course, we interviewed a selected, and to some extent self-selected, group. But, even allowing for this, the impression was of an informed and perceptive community doing its best in difficult circumstances. To an important extent, too, at least some of the bilateral and multilateral donor offices are plugged into the informal networks that matter, directly or indirectly. They are also in the habit of employing good local consultants to help them in tracking political developments. Even quite direct contacts have been made, in quite a formal way, with key opposition figures, including invitations to study tours abroad, with a view to a meeting of minds on key policy topics likely to be at the centre of future political agendas.

**We see the problem of donor-politician interactions not as arising from lack of capacity to engage, but rather one of perspective – arising from the framework that has been typically relied upon to structure the engagement.** It seems clear that the PRSP initiative as presently conceived encourages a technocratic way of thinking that blinkers the way donors typically view the country in which they are working and stultifies any engagement they have with the political class of the country. In order to be effective in taking forward the PRS approach, donors may well need to free themselves from the commitment to referring all the time to the PRSP.

**Instead they need to pay closer attention to understanding the long-term institutional trajectory of each country, and identifying the medium-term issues on which limited international resources or influence can make a difference for the better.** This is only likely to be obtained on the basis of an exposure to the country and regional reality that is longer than the typical in-country posting. Moreover, it is not just a question of time. Understanding well the factors and historical processes that affect the potential for constructing legitimate and effective states is a major challenge even for the best academic specialists.

The issues are typically contested in academic circles, for the very good reason that they are complex. Often, the actual realities of change fly in the face of both standard social science theories and current donor doctrines.<sup>16</sup> **For these reasons, there may be no substitute for commissioning exercises of the 'drivers of change', 'power analysis' or 'institutional assessments' type (COWI/IDS, 2005), where specialists are hired to undertake or facilitate a critical review of what is known and understood, and what is not, about the country reality.**

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<sup>16</sup> This is well illustrated by the previously cited Drivers of Change analysis of Colombia by DiJohn et al. (2004), which was commissioned by the UK Department for International Development (DFID) and Agencia Española de Cooperación Internacional (AECI).

### *Exercising limited influence when it matters*

New donor tools and ways of thinking will be helpful up to a point. However, the fundamental issues facing the focus countries will be settled, if they are settled at all, by political events, in elections, during legislative debates and in the streets and highways. **Donors should begin by recognising the limited influence they can exercise on the turn of events.** It may well be useful, for example, for an embattled leader to know that s/he can count on a sympathetic ear in the international cooperation agencies. That kind of messaging is potentially valuable and should continue. However, this is never likely to exercise a decisive influence on the type of issues and slogans that occupy the centre-stage in the political battles that count.

Against this background, there are two particular points that are worth stressing and are reflected in our recommendations. Firstly, **donor ability to do harm, by means of manipulative use of aid to achieve specific short-term political outcomes** (e.g. cancelling project funding in the support area of a particular presidential candidate) **cannot be discounted.** One way in which donors could exercise useful influence is by restraining each other from those political uses of aid that are not helpful in meeting the challenges identified in Section 2.

Secondly, donors might have a greater positive impact if they were prepared to become more formal and coordinated in taking positions on key issues at carefully chosen moments. **Joint position statements, delivered to the mass media, are not something that most agencies have been willing to undertake. This needs to be reconsidered.** If the dangers of a dramatic political and social retrogression are as great in some countries as suggested in Section 2, there will be moments when a clear expression of concern or offer of assistance on the part of a significant group of donors could help in averting a catastrophe.

### **4.3 Summing up**

**This section has explored donor views in the present, difficult circumstances for PRS processes in the region.** Official donors stand accused of inconsistency in the court of civil society. Some donors appear more worried than others about the absence of a properly conducted PRS process in Bolivia and Nicaragua. However, the dilemmas are real, and there is some basis for the claim that it is possible to make headway with H&A (especially systems alignment) even under circumstances that are unsatisfactory from the point of view of the PRS approach as a whole.

We have suggested that in this sort of context, continuity between regimes may not be so much of a problem. There is also merit in the new international thinking that allows alignment to be organised on the basis of national development plans or budget-related systems, rather than documents formally designated as PRSPs. **All this pragmatism must not, however, become the only donor response to the challenges of the present situation.** The approach needs to be genuinely multi-pronged, with a substantial effort to engage with the big issues relating to the long-term task of enhancing the legitimacy and effectiveness of the state, and putting poverty effectively onto the political agenda.

Donors can do this. But it will entail a deliberate effort to break with the technocratic language and style associated with PRSPs. It means thinking in more strategic ways about medium-term processes of change against the background of the individual history of each country. These are not easy issues. **Donor agencies will handle them better if they make full use of the guidance provided by expert country analysis of the ‘drivers of change’/‘power analysis’ sort.**

## 5 Recommendations

### 5.1 Introduction

Taking politics more seriously in supporting poverty reduction efforts in Latin American HIPC countries will not be achieved easily. It implies a more strategic way of thinking, and better appreciation of the range of different types of challenge implied by the application of contemporary aid thinking to poor Latin American countries. **There is a need for a clear collective decision to rely less on a single instrument and way of working, and to adopt a deliberately differentiated approach.**

This is the way to reconcile the donors' commitment to a PRS concept centred on the notion of country policy ownership with actual realities in the region. **We would suggest, indeed, that it is likely to be, for some bilaterals, the only basis on which they will be able to defend some country programmes to their parliaments at home.**

The discussion in the previous sections confirms the proposition with which we began, that PRS processes in Latin America and the Caribbean have not grappled effectively with formal and informal politics, and have not engaged successfully with a wide spectrum of political actors and institutions. It also suggests a definite conclusion about the source of this difficulty and the way forward. The source of the difficulty is that a single instrument (a PRSP document and PRS process) has been made to serve several different purposes, and has ended up serving them all more or less badly. Instead of trying to win politicians over to a specific policy instrument or process, **donors should be doing what they can – with a strong sense of history – to help countries to acquire effective and legitimate states, capable of exercising ownership of policies that would reduce poverty.**

**A more differentiated approach does not, however, mean one that is only concerned with progress in the long term.** Aid alignment and harmonisation, and country ownership of a results agenda, are all parts of a single enterprise. However, different parts of the agenda need to be allowed to proceed at different paces. We have seen that there are ample grounds for agreeing with the proposition that PRSs have not been institutionalised, with ownership remaining limited to individual governments and often, indeed, to a particular part of the executive branch. On the other hand, we have been struck by the evidence that, counter-intuitively, this type of ownership deficit is not necessarily an obstacle to making progress in aid H&A. Also, budget support programmes and their monitoring have been moving towards ways of handling the alignment challenge that are both realistic about the deficit of national ownership and reasonably consistent with the principles behind the PRS concept.

**These are the general ideas that inform our recommendations.** They involve, perhaps, an effort to save the PRSP principle at the expense of some aspects of established PRSP practice.

Recommendations are made under the three headings of the suggested three-pronged approach:

Assisting the emergence of country policy ownership by doing a better job of political engagement, drawing on a solid understanding of long-term processes of change;

Accepting a new flexibility of approach in pursuing systems alignment and aid harmonisation;

Using financing agreements, such as those for budget support, to focus selectively on short-term policy actions that are both useful and likely to be taken, given known political commitments.

## 5.2 Assisting ownership: engaging politically on political terrain

**The overarching recommendation we want to make is that agencies individually and collectively get into the habit of thinking about carrying forward the PRS approach in a country, rather than carrying forward the PRS.** What is needed is a change of mental framework that abandons the notion of the PRS and its process as a multi-purpose vehicle for advancing the new aid agenda at country level. While PRSs have shown that under the right circumstances they can serve certain of the purposes of the PRS concept reasonably well, they are not particularly helpful in securing political buy-in to poverty reduction, or in addressing the closely linked challenge of building effective and legitimate states.

**Therefore, the injunction the Network should be giving to its members is not: ‘talk more to politicians about the PRS to get more political buy-in’.** It is ‘talk to the politicians about the big issues of state formation on which country policy ownership ultimately depends, or support others who may be able to do this more effectively’.

### *What political engagement should mean*

Under the heading of talking to politicians about the big issues, the following should be explored:

- **Renewed efforts to stimulate and reinforce responsible debate within countries about the core issues of state effectiveness and legitimacy and social citizenship.**
- **Focusing major efforts on ‘doing no harm’ – ensuring that the donor influence as a whole is not unhelpful to the prospects of an eventual solution to the more fundamental challenges of state formation and national development.**
- **Where possible, the facilitation of political agreements or ‘compacts’ around specific institutional reforms that appear as strategic medium-term objectives in the context of an excellent understanding of the country’s history.**
- **Supporting capacity development in political institutions (parliaments, party systems etc.) if and when this is happening endogenously because political incentives are changing.**

Conceptually, the focus of the agreements mentioned in the third bullet point should be derived by ‘backward mapping’ from the goal of an effectively developmental and legitimate state. In this sense, the approach calls for strategic vision. But it should also be strongly informed by an awareness of the country’s history, and of the range of options for medium-term institutional change that this permits. Also, in its simplicity, practicality and selectivity of focus, it would have a very different flavour and scope from a PRS.

**The suggestion is not necessarily that all donor agencies should simultaneously adopt a fresh approach.** Different agencies operate under different rules and are governed by different internal accountabilities. Where these pose obstacles to the type of refocusing recommended here (e.g. by dividing development-cooperation from diplomatic functions in a very strict way), there may be a case for re-examining the rules. However, in the short term it may be more practical to propose that, collectively, the donors in a country take steps to ensure that distinct tasks are covered by some of their number on behalf of the group. This implies a division of labour in which some donors take a lead and devote considerable attention to issues of state legitimacy and effectiveness.

**There may well be a significant role for international and national NGOs, including think tanks, in these processes.** Rejection of the ‘naïve’ theory about the benefits of broad participation in a PRS process does not imply that civil society’s role is unimportant. NGOs, too, need to engage in a more differentiated way, and official agencies should encourage this – for example, by not pigeon-holing civil society engagement with government and politicians as a ‘PRS activity’.

Official agencies should consider using a judicious combination of 1) informal, behind-the-scenes interaction with politicians; 2) regular, signed contributions to national debate (e.g. in newspaper columns) and 3) occasional well-prepared, formal public position statements. These initiatives would be based on the principle that **making democracy work to deliver equitable development and poverty reduction is not a peripheral concern but the main purpose for which development cooperation is present in the country.**

The last type of intervention is something that both development cooperation agencies and diplomatic missions, with some exceptions, have been reluctant to do, for a combination of reasons. Some of these reasons are no doubt valid. **The possibility of assessing a situation wrongly and having effects other than those intended is real and to be taken seriously.** Also, some northern diplomatic missions are rightly concerned to avoid anything that could be construed as neo-colonial interference, and to restrain others who have fewer reservations about attempting to influence political outcomes in manipulative and non-transparent ways.

These are legitimate concerns. However, other objections to political engagement by donors are less defensible. Citizens of LAC countries tend to find laughable the notion that donors should not become involved in politics, with its implication that they are not involved at present. Latin Americans also have no difficulty in accepting that state-building is a development task, well within the sphere of interest, if not the competence, of cooperation agencies. **Donor agencies will handle this challenge better if they make full use of the guidance provided by expert country analysis of the ‘drivers of change’/‘power analysis’ sort.**

Development cooperation agencies do not have the power to bring about the desired political end of a legitimate and developmentally effective state. They should constantly remind themselves and each other of this fact. On the other hand, the major international actors in the region, with the USA in the lead, undoubtedly exercise a major influence on the incentive structure and range of options available to country leaders and political movements. **Development cooperation agencies have a duty to play whatever part they can in ensuring that the overall incentive structure remains favourable to democracy and does not force Latin American politicians into blind alleys, as has happened with damaging consequences for the region as a whole in various past periods.**

This is especially important where, as in Bolivia, it is recognised that a period of radicalism is not just likely but even necessary to resolve the deficit of social integration at the root of the state and its lack of legitimacy. **The principle of ‘doing no harm’ – highlighted in the second bulleted recommendation above -- is highly relevant in this type of situation.** Donors should constantly be reminding themselves and each other of the need to look to the long term, and moderate any reactions in the short term that could harm the prospects of social peace, state legitimacy and effectiveness, social citizenship and reduced poverty.

**It is possible that greater and more continuous donor support to multilateral initiatives to broker political agreements and ‘compacts’ is the best way of carrying forward this recommendation.** This does not imply giving any less priority to informing the donor community as a whole with tools of institutional analysis such as those provided by ‘drivers of change’ and power analysis. Donors need to understand better why institutional improvements that look as if they are in everybody’s long-term interest are so often blocked by ‘collective action’ problems and

failures of trust. Once understood, however, these problems may be able to be addressed more effectively by the painstaking negotiation of political agreements than by conventional forms of project support. And this may be best done multilaterally.

Is there a role for capacity development initiatives focused on political institutions or on the public administration? Definitely, but **we would recommend that this does not come to be regarded as a major part of the solution to the challenges of political development in the region.** The possibilities for capacity development and institutional reform depend on the political dynamics, not the other way round. The initial impetus has to be endogenous and arise from a change in incentive patterns in the political system. Donor efforts that assist changes in political incentive structures – e.g. by altering the legal framework determining who votes and under what conditions – are, for this reason, preferable to those that rely mainly on training.

This connects again with the proposal on facilitating high-level compacts. The conditions that might enable political or administrative capacity development to occur are a particularly suitable focus for such agreements.

### 5.3 Systems alignment and aid harmonisation: a new flexibility

We are convinced there is a case for looking for quick wins in the areas of H&A, and not waiting for a PRS that meets current standards of acceptability before doing so. **It seems clear that this can be done in more than one way.** We recommend:

- If the best approach seems to be to use the current PRS document, overlooking its major limitations, then it should be stated that the PRS is only expected to play this more modest role and that donors will be pursuing the ‘higher’ objectives of the PRS approach by other means.
- In general, the focus for aid H&A efforts should be the most institutionalised and generally recognised ‘country system’, and if this is not the PRS, then this should be recognised, with the same proviso about the donors’ intention to pursue a coherent overall agenda by multiple means.

**So long as they are not seen as vehicles for building consensus on high-profile and highly conflictive national issues, PRSPs can probably afford to become more technical and more rigorous in their analytical content.** Better analytical content might make them more useful for aid harmonisation, suggesting where individual donors could more effectively focus their efforts, leaving other responsibilities for others to pick up.<sup>17</sup>

**In a pre-election period, a good analytical document commanding general respect at the technical level might even be seen as useful by all parties as an input to their thinking** (as was suggested by the Liberals in Nicaragua). This suggestion is to be distinguished from the idea of promoting agreement to respect the PRS from all election candidates, a venture that seems likely in practice to further underline the conception of the PRS as a platform for the aid relationship, weakening further the chances of poverty reduction and related objectives becoming the subject of political commitment.

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<sup>17</sup> An illustration of the meaning of better quality is the shift that took place between the first Bolivian PRS and the 2003 draft of the ill-fated PRS2. The former centred on the effects of different rates of aggregate economic growth on poverty. The latter focused on structural obstacles to improving the poverty elasticity of growth, providing a much more powerful tool for thinking about policy options (Antezana, 2005: 85).

**The role of NGOs may continue to be important in this perspective.** But the approach suggested would distinguish clearly between NGOs as repositories of expertise and experience on particular sectors (e.g. agriculture) and topics (e.g. budget execution), and the type of role that was assumed by them during and after the HIPC2 initiative, where they were seen as representing or as organising civil society in its dialogue with the state. In some sectors, the local expertise employed by NGOs can be better informed than the international consultants hired to advise multilaterals or the government on particular topics. But it is not clear that this expertise is particularly well harnessed in the context of a dialogue process that aims to be highly inclusive.

This is not to say that there is no place for advocacy and for NGOs whose principal role is to mount campaigns. Both types of ‘policy dialogue’ have a place, but both donors and the NGOs themselves would do well to distinguish them more clearly.

## 5.4 Action-oriented financing agreements

In countries where the overall situation appears to make general budget support a worthwhile gamble, the question arises: what should be the relationship between the monitoring matrix governing the budget-support agreement and the PRS, given whatever uncertainties there may be about the latter’s status and credibility. We recommend that in these circumstances the budget support group negotiates a policy matrix with the current government, **recognising the difficulty of achieving policy alignment in the present period, but the usefulness of marking out a limited agenda of steps to which both the government and the donors are committed.**

The suggestion here is that the budget support or Poverty Reduction Support Credit (PRSC) matrix should be deployed purposely as one of a multiple set of instruments for managing the aid relationship, none of these instruments pretending to play the highly political role of contributing to a national consensus on fundamentals. **Depending on the content of the agreed actions, and on the precise constitutional position, the budget support matrix may need to be negotiated and reviewed with key parliamentary bodies and/or the parties controlling the majority in the legislature.** This would be complex and cumbersome no doubt, but would be preferable to committing the executive to measures, such as the passage of legislation, over which it has little or no control.

**A discussion should be undertaken of the possibility and desirability of removing any linkage of GBS disbursement conditions or (in the case of World Bank PRSCs) annual approval processes to IMF PRGF agreements or staff monitoring decisions.** A greater degree of independent technical assessment by the budget support group would have several advantages. It would provide an escape option in cases where the IMF was plausibly accused of going beyond its technical mandate and/or interpreting its technical mandate in excessively conservative terms.<sup>18</sup> It would provide relief to the IMF to make technical decisions objectively without unleashing the damaging macroeconomic consequences of a simultaneous withdrawal of balance of payments and budget support. Finally, it might moderate somewhat the tendency of politicians and civil society representatives to absolve themselves of responsibility for making tough decisions by blaming the need to make choices on the IMF.

## 5.5 Final comments

This package of recommendations may seem a complicated way of proceeding compared with an approach centred on a single document and process. In several respects, however, the aid relationship in the focus countries already runs on several parallel tracks – sector and cross-cutting

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<sup>18</sup> Both types of accusation are currently made by technical advisers of NGOs in Nicaragua.



programme support, projects, budget support, assistance to the PRS process, and occasional diplomatic initiatives with some linkage to the development cooperation effort. This paper is not recommending a further diversification of activities. What it proposes is **a sharper conceptual distinction between the different purposes or levels of the PRS approach, so that political goals are attained politically and technical ones technically.**

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