

Part 2

Aid, Governance and ‘Ownership’

The PRSP Approach and the Illusion of Improved Aid Effectiveness: Lessons from Bolivia, Honduras and Nicaragua

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Since 1999, poor countries that want to qualify for concessionary IMF loans and debt relief must elaborate and implement Poverty Reduction Strategy Papers. Donors claim that the PRSP approach will increase aid effectiveness since PRSPs will enhance broad country ownership and lead to better 'partnership' with donors, implying more donor co-ordination under government leadership. By examining the experiences of Bolivia, Honduras and Nicaragua, this article finds that the results are disappointing. The article also shows that, by emphasising rational planning and ignoring politics, the PRSP approach has unintended and sometimes harmful consequences. This leads to recommendations for changes of the approach.

Key words: Poverty, strategy papers, aid effectiveness, Bolivia, Honduras, Nicaragua

1 Introduction

Since 1999, poor countries that want to qualify for debt relief according to the enhanced initiative for the Heavily Indebted Poor Countries (HIPC) initiative must draw up Poverty Reduction Strategy Papers (PRSPs), and they must do so with the participation of civil society. The formulation and then implementation of PRSPs were expected to lead to more effective poverty reduction strategies in recipient countries, and also better use of aid resources and thus to enhanced aid effectiveness.

Apart from being stipulated as a condition for the enhanced HIPC initiative, PRSPs have become a condition for the IMF facility for low-income countries. In addition, the World Bank and several bilateral donors such as the UK, the Netherlands, Norway, and Sweden, use PRSPs as the basis for their aid.

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The PRSP approach should embody five principles (IMF and IDA, 1999). It should be:

- (i) country-driven, involving broad-based participation;
- (ii) comprehensive, in recognition that poverty is a multidimensional phenomenon;
- (iii) results-oriented, with emphasis on concrete results for the poor;
- (iv) partnership-oriented, leading to better donor co-ordination under government leadership; and
- (v) based on a long-term perspective.

The first and the fourth of these principles are particularly important for the hypothesis of enhanced aid effectiveness. To what extent is the process of creating PRSPs country-driven and nationally owned, what is the extent of recipient ownership of the actual strategies, and to what extent has there been broad-based participation? And to what extent are donors changing their aid policies in response to PRSPs, in the direction of more co-ordination under government leadership?

This article examines the experiences of three Latin American countries, Bolivia, Honduras and Nicaragua, three of the four countries in the Latin American and Caribbean region that qualify for the enhanced HIPC initiative.¹ On the whole, the results prove to be disappointing, implying that it is doubtful whether the PRSP process will improve aid effectiveness. By digging deeper into the characteristics of the PRSP process, the article analyses *why* the results fall short of expectations. In addition, it examines what other negative consequences the approach may bring about and what lessons donors can draw from these experiences.

The article begins by setting out the objectives of the PRSP approach, while also outlining some contradictions and tensions as already identified in other studies. The empirical part of the article comprises three sections, the first and longest of which analyses the first principle, regarding the extent of country ownership in the elaboration of the strategy and the quality of the participation process. In Section 4, ownership of the PRSP is assessed in the years following the first elaboration and approval of the strategies, when all three countries had held elections. Section 5 examines whether the PRSPs have changed donor behaviour in the direction of more partnership. Section 6 then analyses how the central features of the PRSP approach cause it to resemble orthodox planning, and how this not only undermines local ownership and aid effectiveness but also has harmful consequences for national political processes. This leads to recommendations in the final section.

2 Objectives and tensions of the PRSP process

The PRSP process was expected to increase aid effectiveness by correcting two problems of the donor-recipient relationship that became increasingly evident in the 1990s. First, many studies had concluded that the practice of setting conditions for policies was not very effective. Countries only implement what they are planning to

1. Guyana is the fourth, but it is not a Sida programme country and was not included in the study for this research.

undertake anyway, and domestic political-economy factors determine the extent of the implementation of conditions (Dollar and Svensson, 1998; Killick et al., 1998; World Bank, 1998; Dijkstra, 2002). This led to a consensus that policies cannot be imposed from outside and that ownership, not only by some high-level government officers but more broadly among the population, is necessary. As PRSPs were supposed to be drafted by the countries themselves and in consultation with their populations, they were expected to lead to much more local ownership.

Second, many aid donors saw the need for more co-ordination of donor efforts. A stop should be put to the practice of each donor implementing its own project according to its own implementation and reporting requirements, often establishing its own implementation and supervisory units, bypassing local and national government authorities and undermining domestic institutional-capacity development. Aid dependency and the lack of donor co-ordination had resulted in high transaction costs, and in institutional fragmentation and weakening of state capacities (Wuyts, 1996; UNCTAD, 2000). This was considered to be the result of project aid, in particular (Booth, 2003). PRSPs were seen as an instrument for better donor co-ordination and for more recipient-government leadership in the allocation of aid monies. Once Poverty Reduction Strategies were in place, donors could provide general budget support which the governments would spend in accordance with these strategies.

A scrutiny of the PRSP process as intended reveals a number of contradictions. First, the fact that countries were required to draw up a PRSP in order to qualify for aid and debt relief in itself implied that conditionality had been increased. Despite the broad consensus among both academic and policy-making circles that setting conditions for policies was not effective, the HIPC initiative with its requirement to elaborate PRSPs implied more, not less, policy conditionality. The PRSP came on top of other conditions for IMF programmes. Fiscal and monetary policies, together with microeconomic and institutional reforms, were still required for the Completion Point of the HIPC Initiative and for IMF programmes in general.

Some have argued that the PRSP approach implies conditionality of a very different nature. It is 'process' and not 'content' conditionality. The donors should monitor only whether a PRSP exists and whether it has been designed in a participatory manner (Booth, 2003). However, why should this process conditionality be more effective than earlier content conditionality? If a government is unwilling to increase participation, it is doubtful whether this can be imposed by donors (Molenaers and Renard, 2003). Donor attempts to influence domestic political processes have been shown to be particularly ineffective.²

The notion of process conditionality also conflicts with the idea that PRSPs should constitute the basis for lending operations by the international financial institutions (IFIs) and for bilateral grants, since the latter implies that the *content* of PRSPs must be assessed. In fact, IFI staff do assess the content of PRSPs, which reduces the chances for domestic ownership of the strategies, and also the possibilities for effective domestic participation (IOB, 2003). Although this tension is now broadly recognised, in recent

2. Crawford (1997) showed that, out of 29 countries examined, donor pressure was significant in bringing about political change in only two cases.

PRSP evaluations by the IFIs themselves (IEO, 2004; OED, 2004), its consequences have not (yet) been drawn.

Furthermore, a clear definition of what participation means, and how it relates to the existing political system, is missing. The World Bank's *PRSP Sourcebook* only suggests that meetings should be held with representatives of civil society and preferably with representatives of the poor themselves. Consultation and participation are used intermittently, while they mean very different things (Molenaers and Renard, 2003). Participation implies joint elaboration of strategies together with the government. Such participation of civil society in elaborating comprehensive, nationwide, long-run strategies does not take place in any developed country. It immediately raises questions about the representation and accountability of these civil society organisations themselves. In addition, one can ask oneself how this civil society participation relates to the role of democratically elected parliaments.

Questions can also be raised about the possibility for improved partnership with donors, the fifth principle. The idea was that the existence of a national plan to reduce poverty would allow donors to support these strategies with general budget support. A common framework would be established, and there would be no need for additional policy conditions or for designing separate projects. However, this would require a national plan that reflected a long-term strategic vision of how to reduce poverty, while at the same time being sufficiently operational to provide the basis for the supply of donor money (IEO, 2004). This is a difficult requirement and puts a heavy burden on governments. In addition, one can ask oneself whether all donors are willing to move in the direction of budget support and will be so flexible as to harmonise their procedures under the leadership of the recipient government.

3 Ownership and participation in the elaboration of PRSPs

The main questions for this section include: what was the extent of national ownership of the strategy, and what was the nature and what were the results of the participation process? These will be examined for each of the three countries, for each of which the political context is briefly set out.

3.1 Bolivia

Since 1986, when Bolivia embarked on its stabilisation and adjustment programmes, donors have been supporting the country on a large scale. By the end of the 1990s, Bolivia had an excellent 'track record' in following the structural adjustment programmes of the international financial institutions (the IMF and the World Bank), often complying with more than the donors demanded. For example, during the first Sánchez de Lozada government (1992-7), the country initiated the privatisation of strategic public enterprises, carried out pension reform following the Chilean example, began educational reform focused on improving primary education, and implemented an administrative decentralisation process that involved the transfer of 20% of fiscal revenues to the municipalities. All these reforms were institutionalised in legislation and

supported by policy-based loans from the World Bank and the Inter-American Development Bank (IDB).

A basic problem in Bolivia was that stabilisation and reform had led to some economic growth, but had not diminished poverty. This led to dissatisfaction among the population. The Banzer/Quiroga government (1997-2002) won the election with an anti-structural adjustment agenda. Since it did not have alternative plans prepared, it organised a 'national dialogue' in 1997, resulting in the formulation of the *Propuesta contra la Pobreza* (Proposal against Poverty). However, the dialogue and the resultant plan failed to produce concrete improvements for the poor. Although social spending increased from 12% to 16% of GDP during 1995-9, and non-income poverty decreased, income poverty persisted at the same level (Komives et al., 2003). The Banzer/Quiroga government quickly lost credibility, and was also increasingly accused of corruption. From 1998 onwards, social unrest began to spread around the country, temporarily culminating in the 'water war' in Cochabamba (protest against the privatisation of water) in August 2000.

At the same time, many donors were of the opinion that the reform agenda was stagnating and that the government showed insufficient willingness to implement reforms. The World Bank, on the other hand, continued to have confidence in the willingness of the government to carry out reforms and ascribed the disappointing results in poverty reduction to a lack of donor co-ordination and an absence of government leadership in foreign aid, which made aid efforts less effective. Bolivia became a pilot country for the Bank's 'Comprehensive Development Framework', which stresses domestic ownership.

In this context, Bolivia was one of the first countries to begin work on a PRSP in 1999. The process of formulating the PRSP and organising the dialogue was split up into different phases that had little connection with each other. It was also characterised by heavy donor influence (Komives et al., 2003).

A unit in the Treasury Ministry, the UDAPE, prepared an Interim PRSP (I-PRSP) on the basis of the earlier Proposal against Poverty and with advice from the head of the World Bank's Poverty Group in Washington. This I-PRSP was approved by the Boards of the IMF and the World Bank in January 2000, when the country achieved the Decision Point of the HIPC Initiative. The idea was to use this I-PRSP as the basis for a broad dialogue later on, but the paper itself was not circulated in the country nor did it play a role in the dialogue. During 2000 the 'national dialogue' was held, organised by the Secretaría Técnica del Diálogo (STD), installed by the Vice-President and consisting of independent experts, many of whom had worked before with donor agencies; the salaries of STD staff were financed by the donors, and UNDP gave important technical assistance. The STD organised a country-wide dialogue at the municipal level. However, the main question discussed was whether the money released through the HIPC initiative should be transferred to the municipalities; not surprisingly, the answer was yes. In addition, social policies were discussed. Following this social dialogue, economic and political dialogues were also planned, especially at departmental and national levels, but they never took off. Parallel to this official dialogue, other consultation processes were undertaken, organised by the Catholic church and other civil society organisations; these processes were also financed by donors. The STD was supposed to include the results of these parallel processes in its

final report. The concrete result of these dialogues was the Parliament's approval of the 'National Dialogue Law', which stipulated, among other things, that HIPC funds should be transferred to the municipalities and that a national dialogue should be held every three years.

The actual elaboration of the (full) PRSP was then again assigned to UDAPE, the Treasury Ministry's unit. This meant another break in the process, and implied that the strategy did not take the results of the dialogue into account. At this stage, sectoral ministries influenced the contents of the strategy, while donors were also important. The World Bank provided a format for the strategy, and World Bank staff were involved in the poverty diagnosis and advised on the strategy itself. The IMF heavily influenced the macroeconomic framework. In addition to this, several drafts of the strategy were intensively discussed with all the bilateral and multilateral donors, who lobbied successfully for the inclusion of certain themes such as gender and corruption, and they managed to have their own programmes and projects included. The government then organised workshops to discuss the final draft with representatives of civil society, but they effected no changes in it. The resulting *Estrategia Boliviana de Reducción de la Pobreza* (EBRP) was approved by the IMF and the World Bank Boards in Washington in May 2001.

When interviewed in April 2003, many donor representatives considered that the EBRP suffered from a number of limitations, such as a lack of prioritisation, with a heavy focus on the social sectors and a lack of attention to growth, it was too technocratic, with no attention being paid to political feasibility, and there was a lack of domestic ownership. However, given the process as described above, these weaknesses can to a large extent be ascribed to excessive donor influence. Donors wanted to include all their existing projects, they focused heavily on the social sectors, and they preferred to work at a technical level and tended to disregard politics. The result was clearly a lack of ownership.

With respect to participation, Bolivia again seemed to undertake more than the donors were demanding, at least at first sight. Consultations had been extensive, and the resulting law called for dialogue processes every three years. Obviously, domestic political interests favoured the holding of an extensive national dialogue, which was seen as a means of reducing social and political tensions in the country. The social unrest in general and the complaints from both donors and the population at large about the increasing corruption made it beneficial for the government to divert attention from what it was actually doing to discussing plans for what it *could* do in the future.

However, the participation and consultation processes also suffered from weaknesses. First, and as already mentioned, there was only a weak link between the consultation processes and the actual writing of the strategy. This may point to the conclusion that although the government had an interest in the dialogue as *process*, it was not particularly interested in including the *results* of that process in its actual policies (Komives et al., 2003). Second, the dialogue process had a limited agenda. It was concerned with social policies, but did not include topics about which people felt strongly, such as access to land, employment, control of natural resources such as gas, macroeconomic policies, regional trade agreements and structural reforms. A third limitation was the absence of Parliament and the political parties from the dialogue

process. Parliament only became involved in the PRSP when it discussed the National Dialogue Law.

3.2 Nicaragua

When the enhanced HIPC initiative was announced in 1999, Nicaragua had a much worse track record with the IFIs than Bolivia. During the 1990s, IMF programmes usually broke down after only a year (White and Dijkstra, 2003). The 1998 Enhanced Structural Adjustment Facility was still on track in 1999, but mainly because of the large amount of foreign aid flowing into the country in the aftermath of hurricane Mitch in November 1998. Yet, while relations between donors and the Chamorro government (1990-6) had been good, they deteriorated quickly during the government of President Alemán (1997-2002). The government did not seem interested in co-operating with the donors, and the donors were concerned about the rapidly increasing corruption, including abuses of foreign aid to the advantage of Alemán and his clan.

Nevertheless, and not surprisingly given the high debt burden of the country, the government began work on a PRSP. This task was assigned to the Secretaría Técnica de la Presidencia (SETEC), a small group of high-level experts whose salaries were paid by the IDB. The SETEC director held regular meetings with the donors on the process. The donors pressed for the participation of civil society, and as a result the National Council for Economic and Social Planning (CONPES), in which many civil society organisations were represented, became co-ordinator for the consultation process. In fact, while the establishment of CONPES was foreseen in the 1995 reforms to the Constitution, it was donor pressure that led to its first meeting, in 1999.

A first draft of what later became the I-PRSP was presented to a donor meeting in May 2000, before it was discussed in CONPES and with other civil society groups in Managua. But the discussions with civil society did not lead to changes. The I-PRSP was approved by the Boards of the IMF and the World Bank in August 2000. SETEC then began to discuss with CONPES and with certain donors, in particular the UNDP and the UK's Department for International Development, the setting up of a more extensive dialogue process that would also include departmental meetings and the participation of the poor. Several donors were willing to finance it. However, the government delayed the process, fearing that it would lead to a strong demand for services that it would be unable to deliver (Dijkstra and Evans, 2003). As a consequence, civil society groups began to organise their own consultation processes in the rural areas, while Denmark financed separate consultations in four municipalities. So, as in Bolivia, there were parallel consultation processes going on. In February 2001, SETEC finally appointed a co-ordinator for the government-led participation process. Consultations were held between February and August in eight departments. However, since the government wanted to present a full PRSP to the IMF and World Bank Boards in August, the results of the consultations held after May could not be included. Civil society organisations complained about the rush (especially after the earlier delay), since Nicaragua was not on track at the time with the IMF and would therefore not be able to reach the Completion Point of the HIPC Initiative anyway. Furthermore, they complained that certain fundamental criticisms of the strategy had not been taken into

account. These concerned, for example, the definition of poverty, and the ten social programmes and projects defined as priorities in the strategy.

On the other hand, the donors were quite influential. SETEC started its work on the basis of World Bank directives, and the World Bank also provided the poverty diagnosis. More importantly, the ten priority programmes and projects were included in the strategy because the donors, and especially the multilateral development banks, wanted them to be included. Most of these had been *their* programmes and projects. Bilateral donors managed to have certain themes included that they considered important, such as gender equity, environmental issues and decentralisation.

While SETEC was working hard to write the Strengthened Economic Growth and Poverty Reduction Strategy (ERCERP) in accordance with the wishes of the donors, President Alemán and his ministers were doing the exact opposite. Rumours of corruption were ever more abundant, and it was clear that the government was more concerned with doing favours to its constituency than with alleviating poverty. With presidential and parliamentary elections due in November 2001, fiscal spending also ran out of control. The third annual review of the 1998 ESAF was never completed.

In this climate of lack of compliance with IMF targets and increasing donor complaints about corruption and bad governance, the government presented its full PRSP to the Boards of the Bank and the IMF. Despite the fact that most donor representatives in Managua, including those with influence on the Executive Boards of the IFIs such as the US and the UK, considered it 'giving a seal of approval to a corrupt government', the PRSP was approved. This was mainly due to pressure from US high-level foreign policy officials, who argued that failure to endorse the PRSP in the months before the elections would have destabilised Nicaragua and made a Sandinista victory more likely – something the US government wanted to prevent at all costs. However, other donors apparently feared a Sandinista victory for other reasons: a new PRSP would have had to be elaborated and all the earlier efforts would have been in vain (Dijkstra and Evans, 2003).

In sum, the Nicaraguan PRSP was elaborated by technocrats according to donor directives. Ownership even among the government was limited. Although donor pressure helped to install CONPES, and consultations – with financial support from donors – were actually held, these consultations barely changed the strategy. The technocrats working on it proved to be not really interested in the opinions of civil society, and listened more carefully to the instructions of the donors. The strategy was then approved in Washington despite strong evidence that it was only a piece of paper, and that the government did not take poverty reduction seriously.

3.3 Honduras

Like Nicaragua, Honduras had little experience of participation of civil society organisations. After hurricane Mitch in October 1998, donors expanded their presence in the country and pressed for the participation of civil society, for example, in the Master Plan for Reconstruction and National Transformation that the government elaborated in 1999. As a result, the government set up the National Commission for the Participation of Civil Society, in which several umbrella organisations were represented as well as the private sector.

Since 1990, Honduras has followed stabilisation and reform programmes with the World Bank and the IMF, but, like Nicaragua, its track record with the IMF is not very good. National elections are held every four years, and each election year is usually accompanied by increases in fiscal spending that cause the country to go off track. For new governments, an agreement with the IMF is not always the first priority. The Maduro government (1998-2002, elected at the end of 1997) signed a three-year ESAF in March 1999. It also took on the task of writing a PRSP in order to qualify for much needed HIPC assistance.

The organisation of the consultation process and the writing of the strategy were assigned to UNAT, the technical office of the Ministry of the Presidency. In January 2000, a draft interim PRSP was ready that was discussed during six months with representatives of civil society in Tegucigalpa and in seven other cities (Cuesta and del Cid, 2004). The I-PRSP was approved in April 2000. In 2001, a more extensive consultation process was set up with many more different meetings in which several successive drafts of the strategy were discussed. Despite the large number of meetings and persons involved, doubts were expressed about the actual influence of civil society on the strategy. In addition, the agenda for the consultations was totally determined by the government and topics such as agrarian reform were missing. The final version of the PRSP was approved by the Boards of the IMF and World Bank in September 2001.

The role of the donors in this process was extensive. They demanded more space for civil society participation. When civil society representation in the National Participation Commission did not work well, the donors under the leadership of UNDP created a new platform for this, the 'Democratic Forum' (Foro Democrático), in which more non-governmental organisations (NGOs) were able to participate and they could elect their own representatives. Furthermore, donors (united at the time in the Group of 15) participated in all meetings that the government organised with civil society to discuss draft strategies. On the initiative of the donors, the strategy was also presented to Parliament, and towards the end of the process the donors organised a session with the five presidential candidates in order to guarantee their commitment to the strategy following the November 2001 elections. In order to institutionalise the dialogue with civil society, the World Bank's idea of adopting a Poverty Reduction Fund Law was carried out. This Law set up an Advisory Council to oversee the use of HIPC funds and other donor contributions for poverty reduction, composed of representatives of government, donors and civil society.

With respect to contents, the donors' influence was also strong. Donor presence at all meetings, supposedly to monitor the participation process, also gave them the opportunity to include their own programmes and projects in the priorities of the strategy. USAID hired consultants to write the poverty diagnosis on the basis of earlier World Bank studies, and the final version was taken to USAID in Washington where a consultant 'checked the consistency of the document'. However, the most controversial instance of donor influence was the sudden inclusion of a macroeconomic framework in the draft strategy in April 2001. This framework was taken straight from the earlier 1999 ESAF and had never been discussed at any meeting with civil society. Its sudden inclusion at the instigation of the IMF and World Bank even seemed to come as a surprise to the government and UNAT. It led to a boycott by part of civil society during the remainder of the consultations (Cuesta and Del Cid, 2003).

Contrary to what many observers expected, the PRSP process was finalised in election year 2001. One factor in this was that the President himself had a strong desire to leave office with an approved strategy, probably in order to accelerate qualification for the Completion Point of the HIPC initiative. In this sense, some ownership rested with the incumbent government. However, ownership was not broadly shared. Although the consultation process was seen as an improvement in comparison with earlier governance practices in Honduras, the agenda had been limited and the civil society organisations did not consider that their concerns were sufficiently reflected in the strategy. Donor conditionality was the decisive factor in elaborating the strategy, and donor influence on both process and contents of the strategy had been strong.

3.4 Conclusion

The conclusion for all three countries must be that the writing of PRSPs was not only a donor-driven process, but that there was also limited country ownership with respect to the contents of the strategies. Although extensive consultations were held in all three countries, these had little influence on the strategies themselves. Governments were willing to go along with the donors in so far as organising participation was concerned (and as long as the donors financed it), a cosmetic process, but were not so willing to include the results of this process in actual strategies. A partial exception to this is Bolivia, where the dialogue had a concrete result, namely, the transfer of all 'HIPC funds' to the municipalities – much to the regret of the central government later on.

One can also wonder whether the donors themselves were serious in their efforts to promote broad-based participation. Although the intention was to discuss and create poverty reduction strategies, the area for debate was in fact limited to government spending on the social sectors. Governments and donors alike had no interest in broadening the debate towards macroeconomic policies, or to issues like land reform and privatisation of public utilities – policy areas in which the IFIs prefer to deal directly with governments. Furthermore, the whole set-up with respect to how actual decisions would have to be made had remained unclear. How can broad consultations about virtually everything lead to comprehensive strategies in which clear priorities are set?

Given that the donors intend to use the strategies as the basis for their aid programmes, the neglect of the role of parliaments can also be seen as a conscious decision, and not as an unfortunate omission, as is now commonly claimed. As long as one talks about 'participation' by 'civil society', it is not necessary to define or formalise the actual influence of this participation process, which means that the donors can insert their own priorities into the strategy. As soon as parliaments are involved, donor influence may be curtailed.

4 Ownership and the political process after the creation of PRSPs

In all three countries, national elections were held shortly after the endorsement of the full PRSPs by the IMF and the World Bank. In Honduras and Nicaragua, these elections

were held in November 2001, just two months after PRSP approval, and in Bolivia in early 2002, some nine months later. In all three countries, the elections led to a change of government – although the new Nicaraguan President, Bolaños, was from the same political party as his predecessor. This raises the question of how committed these new executives are to the PRSPs established earlier.

At first sight, there are remarkable similarities between the situations in the three countries. All three elected Presidents came to power on the basis of a new national development plan, and announced that they did not recognise the ‘old’ PRSP as their own strategy. This in itself is a clear indication that the PRSPs have been imposed from outside and do not constitute part of national political traditions.

The outright rejection of the recently adopted PRSP was perhaps most surprising in *Honduras*, in view of the fact that all five presidential candidates had committed themselves to the PRSP during a meeting set up by the donors in the period leading up to the elections. Nevertheless, the new government presented its *Plan Nacional 2002-2006* as a replacement of the PRSP, confirming the results of earlier studies that donor attempts to influence politics are seldom successful (Crawford, 1997). In addition, the newly elected President fired all higher and middle-level public servants and replaced them with people from his own political party. This is common procedure in the country, but it is not particularly helpful for the implementation of long-term development plans. Whatever ownership and commitment to implement the PRSP had existed within ministries before the elections, was now lost.

The new government was fully occupied with domestic political issues, in particular with fulfilling politically sensitive promises made before the elections with respect to the salaries of teachers and health workers. This was the main reason that the IMF programme went off track in 2002, and that it took a long time, until February 2004, before a new Poverty Reduction and Growth Facility was signed. In the meantime, the government did not have access to interim HIPC debt relief and virtually nothing happened with respect to the implementation of the PRSP. However, it did comply with another condition for the PRGF, namely, the writing of Progress Reports on the implementation of the PRSP. These reports, written by UNAT, contained proposals for prioritisation and redirecting the PRSP. The writing of these reports meant that formally, and through UNAT, the government recognised the existence of the PRSP. The Progress Reports were approved by the staff and Boards of the IMF and the World Bank.

The Bolaños government in *Nicaragua* presented its *Plan Nacional de Desarrollo*, making it clear that the PRSP had been written only because of and in line with donor wishes, and that it could not be considered as the country’s own plan. The main concern of the new government was promoting economic growth and investment, rather than poverty reduction or social expenditure (Guimaraes and Avendaño, 2003). However, it gave much greater priority than its predecessor to maintaining good relationships with the donor community. Although Bolaños had been vice-president under Alemán and came from the same party, he immediately began investigating and prosecuting the corrupt practices of the former government, and Alemán himself was put in prison in August 2002, creating a fair amount of goodwill among the donor community. Negotiations with the IMF were also soon started up, and the country signed a new PRGF in November 2002.

Signing a PRGF, and then maintaining it for at least a year, was a first condition for reaching the Completion Point of the HIPC initiative. A second one was having or accepting a PRSP and writing Progress Reports on its implementation. A Progress Report was written by the technical unit responsible for the PRSP, SETEC, and accepted by the staff and Boards of the IMF and World Bank. As in Honduras, despite official rejection of the (old) PRSP, the appearance was maintained that the PRSP was accepted by having SETEC writing this progress report. The government also began to talk about the PRSP as still being relevant to the poverty reduction policies of the government, calling the *Plan Nacional de Desarrollo* the 'operationalisation of the PRS's first pillar', namely, promoting economic growth. Although effectively not much had happened in terms of implementing the (original) PRSP, the donors accepted a revised version of the *Plan Nacional de Desarrollo* as a 'draft PRSP 2' at the October 2003 Consultative Group meeting. This beneficial attitude was also induced by the government's promise to draw up a real 'PRSP 2' in which the two documents would be combined and several other donor wishes would be included. Another Progress Report was written and approved by the Boards at the end of 2003. Nicaragua reached Completion Point in February 2004 (after one year of compliance with the PRGF), although the PRSP 2 was not yet ready.³

In *Bolivia*, the donors had looked forward to a change of government, as they were not satisfied with the reform efforts and increasing corruption of the Banzer/Quiroga tandem. In 2002, Sánchez de Lozada took office for a second term. During his first term (1993-7), he had set up all the reforms that the donors had applauded enthusiastically; this time, however, his power was much more limited, based as it was on a diverse and unstable coalition in parliament.

The Sánchez de Lozada government came to power on the basis of the *Plan Bolivia*, and it rejected the EBRP. Like the Nicaraguan *Plan de Desarrollo*, *Plan Bolivia* focused on economic growth, rather than on poverty reduction and social expenditure. In particular, the government wanted to stimulate production chains in line with Michael Porter's ideas of competitiveness (Porter, 1990). The donors were not unwilling to support these ideas, but were less happy about the rejection of the PRSP as the government plan. They required the government to write a revised PRSP. As in Honduras and Nicaragua, the government modified its statements on the old PRSP and presented a first Progress Report on the PRSP in December 2002. However, this report was judged 'insufficient' by World Bank and IMF staff, and was not sent to the respective Boards, the stated reasons being, *inter alia*, that it did not present specific targets and their extent of fulfilment, nor did it draw implementation lessons.

In the meantime, the government faced many difficulties, both financial and political. All HIPC resources were transferred to the municipalities as stipulated in the National Dialogue Law. However, complicated rules and lack of implementation capacity at the local level meant that more than half of these funds were not spent. This added to the dissatisfaction and frustration among the poor majority of the population, leading to new protests including demonstrations, strikes and road blocks. The transfer of HIPC resources to the municipalities also meant that the central government had even less income at its disposal than before the enhanced HIPC initiative: it lost the earlier

3. After many delays this was finally accomplished in November 2004.

debt relief that was granted in the form of the bilateral donors taking over multilateral debt service (via the Multilateral Debt Fund). The fiscal situation of the central government was already weak because of the implementation of a number of reforms started in the mid-1990s at the instigation of the donors: namely, the privatisation of public utility companies, the pension reform, and the earlier decentralisation whereby 20% of fiscal revenues were transferred to the municipalities. All this meant an expansion of the fiscal gap, and that it was difficult to reach a new agreement with the IMF.

In February 2003, severe protests in the streets of La Paz and a harsh military response led to tens of deaths. Fears of further destabilisation caused the IMF to soften its requirements regarding the fiscal deficit. Bilateral donors were then willing to finance part of the remaining deficit with unconditional budget grants. An IMF agreement was achieved in April. However, the IMF did not offer the concessionary PRGF, but instead concluded a stand-by agreement with a much higher interest rate, the main reason being that there was no PRSP, as the government had rejected the 'original' one (the EBRP). This raises questions about the apparently different treatment of Bolivia in comparison with the other two countries: in all three countries, the original PRSP had been first rejected and then accepted *de facto* by writing a PRSP progress report.

The government, and in particular UDAPE, began work on a revised PRSP in 2003. As three years had passed since the previous dialogue was held, the National Dialogue Law required a consultation process, which was also stimulated by the donors. The political tensions in the country complicated the setting up of a dialogue, however. At the October 2003 Consultative Group meeting in Paris, the government presented a revised PRSP, which the donors rejected on the grounds that there had not been sufficient consultation. When government officers and donor representatives returned to Bolivia, they found the country in political crisis. As a result of substantial protests in which about sixty people were killed by the security forces, President Sánchez de Lozada was forced to resign, and his vice-president Carlos Mesa took over. The delicate political situation forced the government to give priority to domestic pacification and stabilisation. Donors, and in particular the multilateral development banks, provided financial support on a large scale to solve acute balance-of-payments and fiscal problems, in order to prevent further destabilisation.

It is clear that both before February 2003 and again before October 2003, donors underestimated the importance of local domestic political processes in Bolivia. They maintained many different formal conditions, but when they finally recognised the crisis situation, these conditions were dropped easily – albeit temporarily (see the support for the stand-by agreement in April 2003 and again the support by the end of 2003). However, as soon as the situation appears to be more stable, conditions are put back on the agenda.

5 PRSPs and partnership

This section analyses whether PRSPs have led to greater partnership, and in particular whether they have led to more donor co-ordination in the form of budget support under government leadership. It also examines what the conditions for this support are, in the

form of both preconditions (selection criteria) and conditions attached to the grants or loans.

In practice, there is a clear drive towards more budget support among donor agencies, but it is a somewhat autonomous process and is not particularly related to whether or not PRSPs are in existence. Some donors have favoured budget support for a number of years (Netherlands, Norway, Sweden, Denmark, United Kingdom, Switzerland); others have moved towards it recently or are moving towards it (Finland, Germany (KfW), Ireland, the European Commission), and yet others are considering it only in very exceptional cases (Canada and Japan, for example). Southern European donors and the United States are still providing project aid only, although the latter does take over debt service to the multilateral institutions, which is in fact a kind of budget support. One factor that determines whether budget support is increasing is therefore the group of donors that happens to be active in a particular recipient country. In the three countries examined here, project donors like the US, Spain, Canada and Japan are relatively large donors. But in Bolivia and Nicaragua there is also a fair group of 'like-minded' donors which has already been willing to consider programme aid for some time. Honduras has not had experience of programme aid or budget support since there were very few donors with a preference for it.

A condition that must always be met before donors consider budget support is that the country has an agreement with the IMF. For this reason, all three countries have missed out on budget support for a number of years. Bolivia received budget support from bilateral donors after the stand-by agreement in April 2003 and after the October 2003 violence, but had had none before these events. Nicaragua received no budget support between 2000 and 2002, but began receiving some in 2003, after the new PRGF was concluded in November 2002. Honduras received no budget support before 2004, when a PRGF was finally concluded.

Many bilateral donors also require that conditions related to good governance are met before they give budget support, such as guarantees of adequate public financial management and a transparent use of resources. In practice, these conditions are much less rigorous, and cannot be easily dichotomised. If there is some basic confidence in a particular government, as is now the case in Nicaragua as a result of Bolaños' activities in fighting the corruption of his predecessor, many donors are satisfied with the government showing some willingness (often in the form of plans) to improve certain financial management practices. In 2004, this also held in Bolivia, albeit for other reasons: donors were willing to support the Mesa government out of fear of further destabilisation.

The multilateral development banks have always required an agreement with the IMF as a precondition for structural adjustment loans, now often called policy-based loans. For the World Bank to provide a Poverty Reduction Support Credit (PRSC), there must be a PRSP as well. Nicaragua and Honduras have recently obtained a PRSC, based on the old (pre-election) PRSP. Bolivia does not have a PRSC since it 'does not have a PRSP' but instead has a Social Sector Programmatic Structural Adjustment Credit (SSPSAC). In all cases, the money comes into the Treasury but there are a huge number of policy conditions and outcome indicators for a wide variety of sectors (see Table 1). The scope of the SSPSAC is slightly more limited than that of the PRSCs. The latter include conditions for practically all sectors (including macroeconomic stability and

protection of poverty spending, Public institutions and governance, Education, Health, Population, Water and Sanitation, Social Protection, Improving the business climate, and Improving access to infrastructure by privatisation). The SSPSAC includes ‘only’ six sectors: Macroeconomic stability, Health, Education, Water and Sanitation, Social Protection and Monitoring and Evaluation of social indicators.

The policy matrix that forms part of the different loan documents contains not only outcome or impact indicators, but also many conditions for specific government actions or policies, for the first, second and third years or tranches (Table 1). These include, for example, that the Nicaraguan Parliament has ‘approved a Financial Administration Law satisfactory to the World Bank’, that the Honduran Ministry of Education ‘has approved a Regulation for Departmental Education Directions which assigns key responsibilities for planning, resource management and technical/pedagogical supervision to the departmental level’ or that in Honduras a ‘consultant contract has been issued by CPME for the design of a Universal Access Telecommunications Fund to expand services to rural areas’, or in Bolivia that ‘an intercultural policy in health is being implemented at the national level’. In sum, most conditions refer to policy processes or actions, not to outcomes. Among the outcome indicators, there are certain concrete ones such as that in Bolivia after the 3-year credit ‘7.4 million people receive sustainable potable water supply services’; but others are vaguer, such as that in Nicaragua ‘citizens’ access to public administration increases transparency in public management’.

Table 1: Number of conditions of World Bank credits supporting PRSPs

Country	Conditions				
	first year	second year ^a	third year ^b	total	of which outcome or impact indicators
Bolivia (SSPSAC)	45	41	29	115	27
Honduras (PRSC)	76	80	57	213	56
Nicaragua (PRSC)	37	62	42	141	56

Notes: a) For Nicaragua, this is the second tranche of PRSC 1; for the other countries, it is PRSC/SSPSAC 2; b) In Nicaragua, this is PRSC 2, for the other countries, it is PRSC/SSPSAC 3.

Source: Policy matrices attached to PRSCs and SSPSAC loan documents (available at www.worldbank.org).

The IDB has provided policy-based loans in all three countries as soon as an agreement with the IMF has been signed. These loans also mean that the money is received by the Ministry of Finance, while the conditions and indicators are attached to one or a number of sectors. In Nicaragua and Honduras, the European Commission started budget support in 2004. The EC prefers to call the conditions attached to these grants ‘targets’ or ‘indicators’. They are linked to a certain sector (education in Nicaragua) or theme (decentralisation in Honduras). Some 30 targets or indicators have been set in each case. The money is provided in tranches, with a fixed tranche conditional on the existence of an IMF programme only, and a variable tranche depending on the degree of fulfilment of the targets.

In Bolivia and Nicaragua, a group of donors (11 and 10, respectively) produced in 2004 a Joint Financing Agreement with a view to harmonising procedures for budget support in the near future. They are also preparing yet another policy matrix containing the targets and indicators to be monitored. It is not yet clear, however, to what extent all donors will stick to this common agreement, as the Joint Financing Agreements stipulate that bilateral contracts take precedence over the joint one. It also remains to be seen to what extent donors are able and willing to align themselves to budget processes in the recipient countries and to provide multi-year commitments, especially given the political instability and uncertain electoral outcomes in these countries.

As yet, many different efforts exist alongside each other, all with their different conditions, policy matrices, and indicators, and with different disbursement and reporting procedures. The efforts to harmonise procedures in Bolivia and Nicaragua have not yet materialised, and even if they do, it is not clear that this will eliminate specific additional conditions and procedures of the individual donors.

At the same time, the amount of policy conditions attached to budget support is huge. The World Bank credits in particular stand out for their large number of conditions. Although all donors say that they have picked the conditions and indicators from the PRSPs, implying that these are the countries' own targets, this is clearly not the whole truth. First, as shown above, PRSPs can hardly be considered as 'owned' by the countries and even less by the current governments, since donor influence on their content has been so strong. Second, even if they were owned, one of the criticisms of all PRSPs is that they lack prioritisation. Picking targets from the PRSP therefore means that donors are setting priorities from among the broad objectives of the PRSP. Third, donors are also relating targets to a timeframe, which implies further prioritisation. And fourth, the World Bank and the IDB in particular include many conditions that are not really targets (output indicators) but are detailed institutional and political conditions (process indicators). In this respect, they are practising 'business as usual', and do not seem to have learnt from the many earlier studies showing that these conditions are not effectual.

Another issue is the relative ease with which it is assumed that governance and transparency are sufficiently guaranteed. The drive towards budget support proceeding from headquarters seems to be so strong that donor representatives are tempted to believe that all prior conditions are fulfilled. In Nicaragua, for example, the Joint Financing Agreement group of donors was discussing the policy matrix for budget support, and they do it ('for the time being') only with donors, so without the government.⁴ They expected the government to come up quickly with a PRSP 2 based on the *Plan Nacional de Desarrollo* (PND) and the old PRSP, and that the government would then begin working on the donor-defined targets. However, the Bolaños administration is engaged in a struggle for political survival, since it lacks political support in Parliament and among the political parties. Even from prison, Alemán controls most parliamentarians of the Liberal Party so that Bolaños can count on only a handful of supporters in Parliament.⁵ In the period before reaching the Completion Point

4. Interviews with donor representatives in Managua, end August, 2004.

5. The other big party, the Sandinistas, was the opposition party but this party had earlier concluded a *Pacto* with Alemán. This Pact implied, among other things, that they divided all seats in the Supreme Court, the

of HIPC, Parliament supported all the necessary reform measures that were stipulated as Completion Point conditions. However, since February 2004 when the Completion Point was reached, Parliament has been in outright opposition and has not approved any of the six laws that are part of the IMF agreement, including those necessary as follow-up measures to earlier parliamentary decisions. This means that the earlier approvals are merely cosmetic. The clear lack of political support for the current administration also means it is hardly possible for it to make the political decisions necessary for writing and implementing a PRSP 2 – at least, if this PRSP 2 is to be more than just a piece of paper. Meanwhile, the donors are still living in their ‘virtual reality’, not taking into account the actual political situation. They assume a powerful government that is willing and able to make the policy choices that the donors would like to see, and that can also implement these policies. In practice, real power still rests with the same elites that are not greatly interested in poverty reduction (see Everingham, 1998), no matter what some technocrats in the executive may write or say.

Four conclusions can be drawn in this area. First, there is no relationship between the PRSP and increased budget support: the existence of an approved PRSP proved neither a sufficient nor a necessary condition for the provision of budget support. Secondly, several other conditions are attached to budget support. In practice, an agreement with the IMF proves to be very important. In addition, some confidence in ‘good governance’ is required. This is assessed, however, in a highly contextual way, for example in relation to the political instability that would result in the case of withholding donor support, or in relation to the outright corruption and abuses of the government’s predecessor. Thirdly, in countries where the conditions are met, as yet many different systems for budget support are set up and exist alongside each other. The lack of co-ordination and harmonisation increases transaction costs for the recipient governments. Fourth, actual budget support is accompanied by quantitative and qualitative targets to be achieved but also by detailed policy conditions and institutional ‘micromanagement’ of recipient policies, especially in the case of the multilateral development banks, which practise business as usual. This conditionality is probably not effective, and is certainly not in keeping with the objective of enhancing ownership.

6 Why such disappointing results?

When comparing the results in the three countries with the earlier formulated tensions and contradictions, the latter are found to prevail to a large extent. The question now becomes: why is it that the PRSP approach falls so far short of expectations with respect to the objectives of ownership and partnership?

First, it is good to acknowledge that the two weaknesses encountered in the donor-recipient relationship by the end of the 1990s – the lack of country ownership and the lack of donor co-ordination – were by no means new. Easterly shows that these ideas on what is ‘good aid’ have been with us approximately since the ‘Stone Age’ of modern foreign aid, namely the 1960s (Easterly, 2002). After so many failed attempts at

Electoral Council and other public bodies between them, and that they would not accuse each other of corruption or other malpractices (in which both parties had been engaged). Bolaños could therefore not count on support from the Sandinistas in his anti-corruption campaign.

improving country ownership and donor co-ordination, the PRSP approach and the move towards budget support can be seen as a desperate ‘flight forward’. However, in order to make this leap forward work – for the donors – too many demands were attached to the PRSPs. The PRSP approach was not only expected to increase national ownership and enhance partnership, but the strategies themselves would be comprehensive, oriented towards quantifiable results and with a medium or long-term perspective on poverty reduction – the other three principles of the approach. At the same time, they had to include detailed costings of plans that would be reflected in national budgets and could provide the basis for the supply of foreign aid.

This attempt at comprehensive long-term planning is very similar to ‘orthodox government planning’ or the system that was applied in many industrialised countries in the 1960s and 1970s. Van Gunsteren (1976) was one of the first to analyse this way of planning thoroughly and critically, calling it the ‘rational-central-rule’ approach. I use his analysis in order to understand the PRSP approach and to examine possible consequences.

A first feature of orthodox planning is that it is based on scientific rationality (van Gunsteren, 1976). Scientific knowledge determines what the means are to achieve the given ends. Indeed, the *PRSP Sourcebook* of the World Bank states that the strategies should begin with an assessment of poverty and its key determinants. Then, after the targets have been set, the PRSP should identify and prioritise public actions to reduce poverty on the basis of the poverty diagnostics (World Bank, 2004).

A second feature of orthodox government planning is that it subordinates politics. The planning rationality is anti-political. Planning requires ‘...uniformity, ... consistent goals, values and perspectives, a total view of the public interest, long-term commitments and comprehensive ways of dealing with highly interdependent and complex systems of human interaction’. Politics, on the other hand, is characterised by ‘... plurality, the search for practical compromises, bargaining, conflicting goals, values and perspectives, partial views of the public interest, short-term commitments and incremental and sequential ways of dealing with highly interdependent and complex systems of human interaction’ (van Gunsteren, 1976: 12). It is clear that the donor requirement for countries to elaborate and implement long-term, comprehensive and result-oriented PRSPs reflects a planning rationality. As a result, donors attempt to subordinate politics.

A third feature of orthodox planning is that it assumes that implementation will automatically move forward. However, organisations and the people working in them are not machines that will adjust their behaviour automatically to whatever plan is formulated. In addition, circumstances will vary across situations and in time, so that plans have to be adapted. Good implementation requires flexibility and learning, but orthodox planning is not compatible with flexibility (van Gunsteren, 1976).⁶ Implementation is indeed a difficult issue for donors. Donors require ‘Progress Reports’

6. Interestingly, van Gunsteren argues that this incompatibility is particularly visible in the impossibility of reconciling long-term plans with short-term budgets. Contrary to what donor agencies often seem to think about the lack of linkages between PRSPs and budgets, this is not due to lack of willingness or of capacity on the part of people working on the budgets, but to the unrealistic nature of the long-term commitments.

but these are again pieces of paper, often more akin to plans than reflecting actual commitment or implementation.

While orthodox planners attempt to ignore or subordinate politics, they sometimes talk about 'new politics' or emphasise 'democracy'. But these terms are misleading, since planners are not interested in real democracy (van Gunsteren, 1976). In a similar way, donors can be said to employ the 'rhetoric of participation'. PRSPs had to be elaborated with participation, but this participation proved to be in no way linked to existing political processes, while at the same time the agenda for participation was limited to technical issues. Participation was not extended to discussions on macroeconomic policies, trade agreements, land rights or access to natural resources – all very important issues in relation to poverty reduction. As a result, the 'PRSP approach' as promoted by donors is effectively depoliticising the debate on poverty reduction, just as the earlier structural adjustment programmes have in most cases successfully depoliticised debates on macroeconomic policies.⁷

Van Gunsteren (1976: 24) argues that orthodox planning can only work under specific conditions: 'a reliable basis of knowledge, a solid basis of power and co-operation that serve clear and consistent goals, and a stable and controllable field of application.' As this combination of conditions is seldom fulfilled, planners will often assume a pseudo-world in which these conditions are met. This may have harmful consequences, however. One of these is that planners tend to prioritise the means – the planning itself – over the ultimate goals. Another is that they emphasise rigidity and procedures in order to save the plan in the face of unforeseen realities that make the achievement of its targets impossible. In turn, more controls and more rigidity will lead to more undesirable outcomes if changed realities are not taken into account.

The three cases analysed in this article provide ample examples of donor responses similar to those of orthodox planners. Over the years, donors in Bolivia focused on the elaboration of *plans* and on *procedures*, while showing little interest in policy implementation. They required a new national dialogue and a PRSP in 1999, while the population was already complaining about the lack of concrete results from the earlier national dialogue held in 1997. The new dialogue was likely to raise expectations further, but at the same time would feed dissatisfaction and unrest, as it distracted government attention from actually combating poverty. In practice, social unrest and violence did increase, leading to two serious outbreaks of violence in February and November 2003. The donors do not seem to have learnt from this, however, as they demanded another PRSP and another dialogue in 2003, even after the events of February that year. In October, they were dissatisfied with the revised PRSP because there had been 'insufficient consultation'. But political processes cannot be orchestrated by donors, and donor attempts to do so can be dangerous, in this case exacerbating the political instability.

In Nicaragua in 2001 all the donor agencies were agreed that the incumbent government was corrupt and was not at all committed to poverty reduction. Yet, the PRSP was approved, partly out of fear that a new strategy would have to be developed

7. Donor agencies in general have an existential need to define development as a technical problem that can be solved by rational means (Uvin, 1998). As long as development and the reduction of poverty are defined as technical problems, donors can provide the technical and financial assistance to resolve them.

if the liberal party were to lose the elections. In 2004, the donors discussed policy matrices and priorities for budget support as if the Bolaños government was fully in control and able and willing to implement whatever would be agreed with the donors, whereas the government was struggling for its political survival and real power was as always in the hands of the same elites. The donors operated in a self-created virtual, or pseudo, reality.

In Honduras, the donors accepted the PRSP Progress Report, whereas it only implied some extensions of the earlier PRSP and lacked signs of advance in the implementation of the strategy. In all countries, donors, and especially the World Bank, pushed for the institutionalisation of PRSP-related procedures in legislation (National Dialogue Law, Poverty Reduction Fund Law). The laws then proved either not to be executed or their execution led only to cosmetic processes, with dubious consequences for the population's trust in domestic political processes.

Other authors have also shown that the tendency of donors to neglect politics may have dangerous consequences. In Lesotho, aid was found to be strengthening bureaucratic state power at the expense of the poor peasants for whom it was originally intended (Ferguson, 1990). In Rwanda, aid in the early 1990s proved to be reinforcing existing socio-economic and ethnic inequalities (Uvin, 1998). This contributed to the 'structural violence' that erupted later as real racial violence, leading to one of the most brutal explosions of violence in history in 1994. These examples also show that, although aid interventions may ignore politics, they do have political effects and these effects are not always positive.

7 Conclusions

Aid can only be effective if the donors are serious about enhancing ownership and promoting partnership. The PRSP approach and the accompanying drive towards budget support can be seen as a desperate flight forward on the part of donor agencies in order to achieve both ownership and more donor co-ordination under recipient government leadership. However, this article has shown that the results are disappointing. PRSPs are written because donors want them to be written, and domestic ownership of the strategies is limited. Participation processes are held because the donors want them to be held, but the elected Parliaments are barely involved, the agenda is restricted to technical issues and the participation process exercises hardly any actual influence. There is a drive among donors to increase budget support relative to project aid, but the existence of PRSPs is not necessary or sufficient. Donors and in particular the World Bank engage in 'business as usual' in their programme loans, implying that they attach many detailed policy conditions to budget support, making a fool of the ownership idea. All this means that aid effectiveness has not increased as a result of PRSPs.

This article has also shown that donors are creating virtual realities in which planning via PRSPs is dominant, but which bear little resemblance to the actual realities in which politics dominate. Recipient governments know how to play the game in order to receive donor money, but alongside these donor-induced processes the real domestic political processes continue. This donor-induced neglect of politics is not only leading to limited aid effectiveness; it is also harmful. The interference of the virtual with the actual reality has unintended and often undesired consequences, such as a reduced

legitimacy of formal laws, a weakening of the domestic accountability of government actions, a reduced legitimacy of formally elected legislative and executive bodies, the capture of donor money by self-interested elites that dominate state power behind a technocratic facade, and (in Bolivia) increased political instability.

Limitations of the PRSP approach and in particular the lack of ownership have also been revealed by other studies. However, most studies seem to be based on the tacit assumption that the 'PRSP approach' must be saved. The stakes are high in terms of invested resources and prestige. As a result, criticisms have so far led to the usual donor responses of investing more resources and efforts in the approach, for example by requiring and financing more extensive participation processes and by commissioning more studies and more reports. However, from an economic point of view the invested resources are sunk costs. Given the importance of ownership not only for aid effectiveness but also for avoiding the negative political effects of donor interventions, the weaknesses of the approach should be addressed in a more fundamental way. If the crunch of the PRSP approach is wrong, the sooner donors change course, the better.

What, then, can donors do to improve aid effectiveness and to avoid the negative consequences of aid interventions? At the minimum, three lessons can be drawn from the above analysis:

- (i) Donors should take domestic political processes seriously and should not ignore them. This means, among other things, that *if* governments have elaborated their strategies or plans to win elections, no other poverty reduction strategy should be required from them. These existing plans can be assessed instead, along with other indicators of commitment to poverty reduction and of actual implementation of poverty reduction policies. Donors can also support, and if necessary provide, platforms for debate with political parties, academics and civil society representatives on all issues of national policy.
- (ii) To the extent that donors need some plans as the basis for aid delivery, they should search for less comprehensive and less long-term ones, for example (sub)sectoral plans for a limited number of years, or local and regional plans. Consultation of relevant stakeholders in the elaboration of these plans can be a useful thing to recommend to government, but should not be a substitute for discussion and approval of these plans by elected bodies. Donors can propose 'loose couplings' (Papadopoulos, 2003) between elected bodies and other forms of participation, for example by getting Parliaments to organise hearings on certain topics, or involving the municipal council in organising local participation.
- (iii) Donor agencies and also the Parliaments in donor countries should accept that the results of aid are uncertain. The current pressure from donor headquarters for planning and results of aid efforts is exaggerating the possibilities of rational planning and can have harmful political consequences in recipient countries by ignoring domestic political processes, while at the same time interfering with them in unintended ways.

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