While the adoption of the PRSP process by World Bank and IMF in 1999 has led to some opening of space for national policy dialogue, and various critical World Bank/IMF studies of PRSPs have made useful recommendations for improvement, to date the PRSP process has not fulfilled its promises. Progress with regard to both the PRSP content and the PRSP process has been disappointing. In most countries the PRSP has not led to a truly participatory development process in which country ownership is central, while it is also still insufficiently poverty-focused.

**Policy space and country ownership**

- **Reduce donor dominance and revise conditionality**

In many countries donors, including World Bank and IMF, are still dominating the PRSP content. Policy conditions imposed by donors, the lack of debate about policy reforms and their impact on poverty reduction, and intransparent negotiation processes, all limit countries’ policy space, national decision making power, and country ownership.

It is important that the PRS Review, conditionality review and review of PRGF programme design, which all take place in 2005, are strongly linked. The PRS Review should examine the full impact of conditionality on the PRSP process, content and outcome. It should assess how much scope is left for countries to determine their own development.

Oxfam International calls for a substantial revision of the current conditionality system, in order to allow governments and populations of poor countries to determine their own development path and allow aid to contribute to poverty reduction. Aggregate conditionality needs to be streamlined. All structural adjustment-type conditionality, such as fiscal austerity measures, privatisation, deregulation and trade liberalisation, should be abolished. Conditionality should be restricted to requirements for financial accountability measures and broadly agreed poverty reduction and gender equity goals only. To ensure national ownership, any conditionality should be based on nationally developed programmes, and should be open to public debate involving inputs from parliament, civil society groups and other relevant actors in the policy making arena. We call for a change in donor behaviour: not imposing policy entails respecting domestic political processes.
As the 2004 OED and IEO evaluations of the PRSP and other reviews have pointed out, a tension exists between country ownership and the endorsement of the PRSP by World Bank and IMF. The conversion of the PRSP Joint Staff Assessments into Joint Staff Advisory Notes, and the abolishment of the need for Board scrutiny of annual PRSP progress reports are important steps towards strengthening national control over policy making processes. However, it is unlikely to prevent continued dominant donor involvement in national policy decision making.

- **Ensure a more pro-poor macro-framework**

While the IMF has acknowledged that more flexibility on fiscal targets could help policies to become more pro-poor, to date this has not sufficiently been put into practice. The gap between the rhetoric and reality of IMF programmes continues to be big. Macro-economic conditionality continues to undermine the achievement of poverty reduction goals. An open debate on what macro-economic framework is most suited to reduce poverty is still lacking as a systematic part of the PRSP process. The IMF continues to determine the macro-framework on the basis of conservative and inflexible spending and aid projections. As a result, most PRSPs still contain a uniform prescription of belt-tightening policies and other structural adjustment-type conditionality. Targets for budget deficits and inflation continue to block progress towards achieving the MDGs. The IMF should allow more flexibility to governments in determining their own macro-framework, in order for it to become more pro-poor. It should stop focusing on short-term exclusive macro-economic stability. It must instead demonstrate a longer-term focus on poverty reduction, and analyse the trade-offs for short-term economic policy that flow from it.

The IMF’s automatic conservative attitude to aid increases and the Dutch disease effect stands in the way of increases in aid flows into low-income countries. The IMF needs to end its aid pessimism towards increasing aid flows to poor countries and stop designing economic policy and financial frameworks around this view. The PRSP should be used as a forum where these macro-economic issues are discussed and where analysis of the trade-offs specific to the country situation is undertaken. This will make national policy makers aware of the potential trade-offs and will allow them to make informed decisions. Any decision to reject aid should be based on a fully informed national debate.

It is still more the rule than the exception that the PRGF is negotiated before or outside the PRSP process. The resulting macro-framework with its tight fiscal and monetary policies limits the country’s policy space for poverty reduction. To counter this development, we recommend that the PRGF be negotiated simultaneously with the whole national poverty reduction strategy, making it an integral part of it. This will allow longer-term poverty needs to drive the macro-economic framework, instead of the other way around as has been the case in the past.
• Ensure independent ex-ante poverty and social impact assessment

Independent ex-ante poverty and social impact assessments (PSIA) are crucial in developing pro-poor policies. PSIAs should be carried out on all key reforms with potentially large distributional effects, and should consider the impact on poverty of a range of alternative policy options. This applies not only to structural reforms but also to the macro-economic policy framework, such as PRGF targets. Especially in the area of macro-reforms the implementation of PSIA is still severely lacking and needs to be stepped up. Based on PSIA the macro-economic policy scenario with the best long-term poverty reducing results should be the basis for the IMF’s programme. The World Bank has an important role in scrutinising macro-economic policies on their poverty reducing effects, aided by PSIAs. As much as possible PSIAs should be led and carried out by national organisations.

• Assess the effects of World Bank decentralisation

The World Bank’s decentralisation process provides an opportunity for the Bank to engage in deeper and broader in-country policy dialogue, allow more ownership by government and other national stakeholders, and arrive at more country-specific policies which support poverty reduction and achievement of the MDGs. We recommend that the PRS Review assesses the extent to which this decentralisation is indeed leading to increased decision making by the World Bank country office as opposed to Washington, to changes in the attitude of Bank staff on the ground, and whether the national policy process has become more open, transparent and poverty-focused.

Participation, transparency and mutual accountability

• Strengthen and institutionalise participation

Participation in the PRSP development and implementation process needs to be improved. Participation is still insufficient and not well institutionalised. While new space for policy dialogue has opened up, it is still small and not guaranteed. The participation process continues to be undermined by the dominant influence of donors in setting the development agenda. Within government, it is too often the Finance and Planning Ministries who engage in policy dialogue with donors, with insufficient involvement from line ministries. Outside government, national stakeholders such as parliament and civil society organisations still have a very limited say in policy making. Especially the voices of those representing the poorest segments of society are little heard. In addition, where civil society organisations have participated, their inputs are often not taken on board. This has led to mounting frustration with the PRSP process among civil society organisations, fuelling the risk that they will increasingly disengage from the process.

We recommend that the policy dialogue is opened up further to allow civil society and parliamentary inputs and ensure that these inputs are incorporated in the resulting strategies. This includes participation in determining the macro-economic framework and
in conducting PSIAs. Participation needs to be properly anchored in the policy making process, to prevent that the policy dialogue remains too dependent on the willingness of donors to provide space for it.

- **Ensure greater transparency**

In order to allow effective participation, the policy making process also needs to become more transparent. The recent increased availability of key documents is an important step in the right direction. Nevertheless, further improvement is necessary. Draft policy documents including proposed conditionalities should be available in time to allow parliaments and civil society to vet the proposals and provide their inputs. Documents should be published in the native language, allowing access to them by all stakeholders. IMF and World Bank need to commit themselves to a transparent and participatory dialogue on policies, and to releasing relevant documentation (such as PRGF, PRSC and other key documentation on stabilisation and structural analysis and lending) on a timely basis and in a form that is appropriate for use by local constituencies. They need to issue clear guidelines for their staff on participation and transparency.

- **Develop mutual accountability frameworks**

Donors need to be made accountable where it concerns their commitment to ownership, alignment and harmonisation. We recommend the development of mutual accountability frameworks in line with the Paris donor harmonisation agenda, which should support domestic accountability systems. Monitoring should take place on the basis of national reporting systems, with indicators derived from the PRSP. At the international level, a mechanism could be established in the form of a UN ombudsman on aid effectiveness, which operates on the basis of internationally agreed targets. Civil society should play a role in the monitoring of these targets. Transparent and public reporting of progress on these indicators should take place.

**Link between PRSP and MDG processes**

PRSPs are the operational framework for meeting the MDGs. Too often PRSPs tend to be resource-based plans. The PRS Review should examine the tensions with the need to establish needs-based PRSPs. To allow achievement of the MDGs, PRSPs must be ambitious with regard to the availability of financing. PRSPs must be costed on the basis of the financing needs required for meeting the MDGs. The negative effects on poverty of lower financing inputs should be made explicit. The Bank must work with the Fund to develop fiscal frameworks that allow the substantial rise in spending that is required to meet the MDGs.

In many countries MDG plans are different documents than the PRSPs, often with different costings. This leads to major confusion. We therefore call for a much better synthesis between the two. A single set of plans is needed, with better coordination between the actors involved.
**Action-oriented PRS Review recommendations**

Many studies by World Bank and IMF on PRSPs have provided useful policy recommendations. However, in practice these often do not get implemented. Therefore, in order to ensure impact of the 2005 PRS Review, the Review’s recommendations must be strongly action-oriented. They should be focused on operational reforms that World Bank and IMF can undertake in order to improve the PRSP content and process, and should include a timetable for implementation. Finally, an arrangement must be put in place to monitor the implementation of the recommendations of this Review, with the involvement of civil society.