



DET KONGELIGE
UTENRIKSDEPARTEMENT

Royal Norwegian Ministry of Foreign Affairs

Evaluation Report 4/2001

The International Monetary Fund and the World Bank Cooperation on Poverty Reduction



**Information from the
Royal Norwegian Ministry of Foreign Affairs**

The Ministry's Information Section provides information with regard to current foreign policy, trade policy, and development cooperation policy.

Material can be ordered from
fax no. + 47 22 24 27 87

Foreign Ministry switchboard
Tel. + 47 22 24 36 00
Fax + 47 22 24 95 80 or + 47 22 24 95 81

Information is available on the Internet at
<http://odin.dep.no/ud>

Information to the media:

The Ministry's Press Spokesperson and the Senior Information Officer on Development Cooperation can be contacted through the Foreign Ministry switchboard

Foreign journalists:

The Norway International Press Centre, NIPS, is the Foreign Ministry' service centre for foreign journalists in Norway,
tel. + 47 22 83 83 10

In countries outside of Norway, information on the Ministry of Foreign Affairs may be obtained from Norwegian embassies or consulates

The International Monetary Fund and the World Bank Cooperation on Poverty Reduction

A report prepared by

Per Schreiner and Olav Kjørven
ECON Centre for Economic Analysis, Norway

Responsibility for the contents and presentation of findings and recommendations rests with the evaluation team. The views and opinions expressed in the report do not necessarily correspond with the views of the Ministry of Foreign Affairs.

Table of Contents

Abbreviations	5
Executive Summary	7
1 The Bretton Woods Institutions	11
1.1 The conference in Bretton Woods	11
1.2 The World Bank	11
1.3 The International Monetary Fund	13
1.4 Poverty orientation	14
1.5 The highly indebted poor countries (HIPC) Initiative	16
1.6 Bank-Fund cooperation	17
2 Implementing the new approach to poverty reduction	20
2.1 The Comprehensive Development Framework/ Poverty Reduction Strategy Paper (CDF/PRSP) approach	20
2.2 Achievements	21
3 Assessing the CDF/PRSP approach	23
3.1 The CDFs/PRSPs have brought about important changes, but implementation is a demanding task	23
3.2 A risk of oversell	23
3.3 The tyranny of the HIPC timetable	24
3.4 Limited success with creating ownership	25
3.5 Monitoring and evaluation is important, but it can overload recipient governments ..	26
3.6 Insufficient recognition of the interdependence between financial management and budgeting	26
3.7 Too dominant position of the World Bank and the Monetary Fund in setting the development agenda	27
3.8 Bilateral donors are not fully involved in the PRSP process	27
3.9 The PRS approach will set the terms for all aid to countries involved	28
3.10 Poverty relief is rightly seen in the perspective of economic growth	28
3.11 Trade is more important for development than aid	29
4 Recommendations	30
4.1 Support the Monetary Fund and the World Bank as they have an increasingly important role to play	30
4.2 Support the Poverty Reduction Strategy as a continuous process	32
4.3 The Poverty Reduction Strategy should be better integrated with national planning efforts	33
4.4 The bilateral donors should be more active in the PRS process	34
4.5 Reward good governance, but search for ways to help the poor in countries with poor policies (the “drop-outs”)	35
Annex 1 A brief review of development theory	37
A1.1 Aid and development – a dismal record	37
A1.2 Evolvement of development theory	37
A1.3 The Washington Consensus	38

A1.4	Recent emphasis on good governance	39
A1.5	Economic growth is necessary for poverty reduction, but ...	39
A1.6	Tradeoff between growth and poverty relief?	40
A1.7	Why lending for public spending?	40
A1.8	Poverty reduction in middle-income countries	41
Annex 2	Some developmental challenges	43
A2.1	Good governance	43
A2.2	The balance between macroeconomic and social and structural issues	44
Annex 3	Case studies	47
A3.1	Introduction	47
A3.2	Bangladesh – donor behavior	47
A3.3	Ethiopia – a complicated situation	47
A3.4	Malawi – strongly donor influenced	48
A3.5	Mozambique – strong ownership	49
A3.6	Nicaragua – a new attitude	50
A3.7	Tanzania – good partnership	50
A3.8	Uganda – need for broader participation	51
A3.9	Vietnam – the Bank is very active	51
Annex 4	Sources	53
Annex 5	Terms of reference	57

Abbreviations

ADB	Asian Development Bank
ATTAC	Association pour une Taxation des Transactions financières pour l'Aide aux Citoyens
BIS	Bank for International Settlements
BWIs	Bretton Woods Institutions
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CPIA	Country Policy and Institutional Assessment
CSR	Country Status Report
DAG	Donor Assistance Group
DC	Development Committee
DFID	Department for International Development (UK)
ECON	Centre for Economic Analysis (Oslo)
ECOSOC	Economic and Social Council
EFF	Extended Fund Facility
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic and Sector Work
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
GEF	Global Environment Facility
GNP	Gross National Product
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
ITC	International Trade Centre
IDA	International Development Association
IDB	Inter-American Development Bank
IDG	International Development Goals
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Finance Institution
JSA	Joint Staff Assessments
ILO	International Labour Organization
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
I-PRSP	Interim Poverty Reduction Strategy Paper
JITAP	Joint Integrated Technical Assistance Programme (WTO)
LDCs	Least Developed Countries
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency

MoF	Ministry of Finance
MTEF	Medium Term Economic Framework
MTFF	Medium Term Fiscal Framework
NEAP	National Environmental Action Plan
NORAD	Norwegian Agency for Development
NPES	National Poverty Eradication Strategy
OECD/DAC	Organisation for Economic Co-operation and Development/Development Assistance Committee
PEM	Public Expenditure Management
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit
SAC	Structural Adjustment Credit
SAF	Structural Adjustment Facility
SAP	Social Action Program
SAL	Structural Adjustment Loans
SDR	Special Drawing Right
Sida	Swedish International Development Agency
TAS	Tanzania Assistance Strategy
UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial and Development Organization
UNFPA	United Nations Population Fund
Utstein group	Four Development Ministers who are women and also members of the Development Committee
WFP	World Food Program
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

Background

The Ministry of Foreign Affairs has commissioned ECON to make an assessment of the extent to which the World Bank and the International Monetary Fund (the *Bretton Woods Institutions* – BWIs) have followed up on the intentions to integrate a stronger poverty-reduction focus in their activities. The assessment should serve as input into the policy discussion of the Nordic-Baltic caucuses in the boards of the two organizations. At the same time it is intended as information on the issues to a wider circle of interested persons inside and outside of government. The interest at this stage is in the processes of implementation and the cooperation between the organizations and in the client countries, not in the final results of their activities.

ECON's report is based on contributions to the debate from official meetings, newspapers and journals, and interviews with officials in Norway and Washington, D.C. The sources are quoted and copied freely without referencing in each case, since we have edited and modified the texts to express our own views. Thus, this report is not a comprehensive review of the debate but a discussion of the issues and a presentation of conclusions and recommendations based on selected contributions to the debate.

Description

Over the last several years the heads of both the World Bank and the International Monetary Fund have pushed the two institutions to making poverty reduction a central and joint mission – particularly in the least developed countries. The current president of the World Bank, James D. Wolfensohn, has been particularly forceful in this regard, but both the previous Managing Director of the IMF, Michel Camdessus, and his successor Horst Köhler have contributed to the move in this direction. This approach has been both welcomed and met

with resistance. Some support the effort but fear that capacities may be over-stretched, others want to restrict the role for both the Bank and the Fund.

The *Poverty Reduction Strategy* (PRS) approach is the clearest attempt to depart from past practices and to institute a new approach of joint action on poverty.

Therefore, this report focuses mainly on the progress to date in implementing the Poverty Reduction Strategy approach, within and between the two institutions.

The PRS approach represents a coordinated move of the Bank and the Fund towards establishing comprehensive and strategic frameworks at the country level for tackling poverty. It seeks a better balance in policy-making by highlighting the interdependence of all elements of development, and perhaps most important, the country is supposed to be in the lead, both “owning” and directing the development agenda. The PRS should result in a specific written output: the *Poverty Reduction Strategy Paper* (PRSP).

The PRS approach is largely consistent with an earlier initiative launched by the World Bank: the *Comprehensive Development Framework* (CDF). It was launched jointly by the World Bank and the Monetary Fund in connection with the implementation of the initiative to reduce the debt of *Highly Indebted Poor Countries* (HIPC), whereas the CDF was introduced by the Bank and has involved the Fund more on a case-by-case basis.

Assessments

Bank–Fund cooperation: A new cooperative spirit?

The Bank and the Fund appear, for the most part, to be cooperating constructively in implementing the new approach to poverty

reduction. The convergence of focus on poverty, at least for the least developed countries, between the two central policy setting bodies – the *Development Committee* (DC) and the *International Monetary and Financial Committee* (IMFC) – is in itself unprecedented and sends a clear signal to the two organizations. This is commendable, considering their very different corporate cultures.

Still, there are many examples of considerable friction both at headquarters and in the field. This relates in part to the fact that Fund and Bank staffs still tend to view the world in rather different ways and that policy changes at the top have not always penetrated deeply. However, many staff members of both institutions claim that there is a certain new cooperative spirit growing out of the early experiences with many PRSPs.

The emphasis on poverty reduction has translated into changes in the work program at country level, but a risk of oversell

There is already ample evidence that the new approach in many ways is changing how both institutions relate to their client governments and to each other. Most significant is the provision that the country itself must prepare the PRSP. However, this does not mean that provisions are always fully adhered to.

In fact, critics warn that the potential gains from the initiative have been oversold. It takes more than a change of policy from above to institute fundamental changes in country programs. Some old attitudes of the Bank and Fund, and of other donors for that matter, of prescribing many detailed conditions and sometimes placing excessive emphasis on monitoring and evaluation, seem to have been carried forward in spite of intentions to the opposite. The Bank and Fund still sometimes fall into the temptation of imposing rather than negotiating.

Significant tensions are inherent in the Poverty Reduction Strategy

A broad scope covering many crosscutting issues, tight deadlines and quality requirements, and the need to have the PRSPs endorsed by the boards of the Bank and the Fund create tension vis-à-vis the principle of client country ownership. Disappointments over slow results could come in the way of sustained follow-up.

An evaluation of the *Strategic Compact* entered into in 1997 between the World Bank and its main shareholders to transform the institution points to a problem that might contribute to undermining the effectiveness of the PRS approach: low morale among staff. This problem is traced back to a feeling of disconnection between operational and budget realities felt by staff on the one hand and expectations by its senior executives and the Board on the other in terms of what the organization can deliver. Although many see the PRS approach as a potentially positive way to reduce this divide and help focus the institution, skeptics see it as yet another mandate on top of several others.

Recommendations

Aim at making the Bank and the Fund instruments for rules-based globalization

Since the breakdown of the stable exchange rate system there has been a lack of governance of world markets that has left many with a sense of impotence. It is neither possible nor desirable to police globalization. However, the World Bank and the Monetary Fund, together with the *World Trade Organization* (WTO) and the *Bank for International Settlements* (BIS), could play a larger role than today in moderating and facilitating the development of an international economic architecture that provides a more level playing field for the poor countries.

The World Bank is uniquely organized to channel funds from world financial markets to developing economies. There are no other institutions capable of filling the gap that would emerge. Without the Bank playing this role the resources will be spent elsewhere. The Bank

and the Fund can also compensate for the volatility of private capital flows and restore the confidence of the financial markets in developing economies.

Any misgivings about the policies of the World Bank and the Monetary Fund (and the World Trade Organization) should not lead to a reduction of their roles but rather to efforts to change or modify the policies. Demonstrations against these institutions should be interpreted as misgivings at what national governments do in and through them, not as a lack of willingness to accept international rules and institutions if they are considered fair.

There is a need for clarification of the missions, and a stronger role for the client countries in the governance of the Bank and the Fund

The owners should do more to clarify mandates and the setting of priorities among the multiple, complex and crosscutting agendas that they tend to impose on the Bank in particular and to lesser extent the Fund. The BWIs' important role in developing countries necessitates a reconsideration of their governance structure. In its early decades, many of their potential clients had a large voice in the institutions' decisions. Today, the main clients have little influence. A lack of representation and involvement reduces legitimacy and thereby may harm effectiveness of country programs.

The bilateral donors should see to it that the views of the Boards are conveyed to local representatives as well as ensuring that local experiences are brought to bear in Washington. This might work to moderate multiple, complex and crosscutting Board demands on the institutions and their staffs.

More focus on issues that developing countries deem important, and more realistic conditionalities

There is a potential tension – or, put more bluntly, contradiction – between country ownership of the PRSs and donor concerns about the omission of crosscutting issues that

rate high on the agenda in their own countries. Boards, and the *Development Committee*, should be more concerned with issues that developing countries see as important.

Aid cannot “buy” reform in poor countries that are flatly opposed to undertaking it. In spite of this finding debt reduction and the PRS process in some countries have been characterized by exactly that: the buying of reform with dubious country ownership. Conditions for aid and debt relief are necessary; one cannot reward regimes that are corrupt or not committed to development. On the other hand, too strict guidelines or too little time leave little leeway and room for creating ownership; and the donors are now rightly concerned with how countries can cope with their onerous reporting demands.

Do not try to hinder crises at all costs

Many economic crises provide a fertile ground for civil war and political disintegration. On the other hand, it is difficult to find a case where reform occurred without a crisis. It may be a controversial recommendation to let a crisis run its course. However, it will be more acceptable when one keeps in mind that aid is to little avail if there is no willingness to carry out reforms. A crisis may be what it takes to bring about a change in policies.

Support the Poverty Reduction Strategy approach as a continuous process

An overall concern for donors should be to turn the *Poverty Reduction Strategy* (PRS) into a common framework for country–donor partnerships, and it is important to see it as a continuous process that is to be developed and improved as one moves along. Its integrity must be protected and strengthened, allowing ownership to take root, not only within government but also in society at large.

The PRSPs should therefore not be mere one-time events linked to debt relief, but rather continuing efforts with the papers being updated and improved as experience is gained.

Placing them squarely within an open and transparent *Comprehensive Development Framework* (CDF) may serve to build ownership and be a remedy against further erosion of public confidence in the BWIs. With focus shifting away from debt relief, the issue should be how to get genuine poverty reduction strategies in place and how to get the donor community to commit resources to their implementation.

The Poverty Reduction Strategy should be better integrated with national policy efforts

Several countries already had well-developed planning systems for promoting poverty reduction before the introduction of the PRS approach, and some had come far with their own poverty reduction strategies. There has been a tendency, however, to try to impose the PRSP as the official document for development policy, rather than drawing on existing plans and strategies and using the PRSP as an instrument to develop further national policies and policy institutions. The *interim* PRSPs associated with debt relief under the HIPC have clearly been perceived by many governments as World Bank and Monetary Fund-driven exercises for which they feel limited ownership, beyond their instrumental use for securing debt relief.

Both bilateral donors and the UN should be more active in the setting of development agendas

The BWIs tend to dominate the aid dialogue at country level. While in some instances this may be positive for host countries, since it limits the number of players to relate to, in other cases the BWIs may yield too much influence. Greater pluralism of views would enrich the development debate and strengthen the role of the host countries vis-a-vis the donors. Therefore it should be encouraged, and it would also serve as quality assurance of the PRS processes.

Pluralism can be achieved both by better and more coordinated action by bilateral donors in the field, and by strengthening UN

organizations that show potential as development policy agenda makers. However, support for more pluralism should not be confused with allowing much of international development assistance to continue as today: largely ad hoc, uncoordinated, and with very limited transparency.

Lead donors like the EU, DFID in the UK, and groups of likeminded donors such as the Utstein group do sometimes provide larger funds than the Bank or the Fund, and they should be able to work with them in the field on an equal basis. At a minimum, the bilateral donors with active country programs should opt for a close dialogue with the BWIs in order to strive towards complementarity of their respective programs and consensus on key policy issues.

Emphasis on good governance is useful, but do not forget the drop-outs

The arguments in *Assessing Aid* and *Aid and Reform in Africa* are convincing; development finance to countries with poor governance has had little impact. There is the obvious risk, however, of a vicious circle from poverty to poor governance and back to more poverty, sometimes with political breakdown and instability as the end result. To leave large pockets of extreme poverty unattended is not acceptable on humanitarian or human rights grounds, and it is also in the best interest of rich countries to do something in order to reduce political instability and other risks such as the spread of contagious diseases.

Bilateral donors and NGOs can play an important role in efforts to reach vulnerable groups and build the base for policy change in countries with weak or corrupt regimes. They can complement the “*blue-print approach*” of the Bank and the Fund by their experience in human and institutional capacity building.

1 The Bretton Woods Institutions

1.1 The conference in Bretton Woods

In July 1–22 1944, during World War II, the allied nations met at Bretton Woods, N.H., USA, to make financial arrangements for the postwar world after the expected defeat of Germany and Japan. The conference, (formally *United Nations Monetary and Financial Conference*), was attended by experts noncommittally representing 44 states or governments, including the Soviet Union. It drew up a project for an *International Bank for Reconstruction and Development* (IBRD or the World Bank) to make long-term capital available to states urgently needing such foreign aid, and a project for an *International Monetary Fund* (IMF or the Monetary Fund) to finance short-term imbalances in international payments in order to stabilize exchange rates. Although the conference recognized that exchange control and discriminatory tariffs would probably be necessary for some time after the war, it prescribed that such measures should be ended as soon as possible. After ratification by governments the World Bank was constituted late in 1945 and the International Monetary Fund in 1946, to become operative, respectively, in the two following years.

The principal functions of the Bank were to assist in the reconstruction and development of its member countries. This was to be achieved by facilitating capital investment for productive purposes, promoting private foreign investment by guarantees of and participation in loans and other investments made by private investors, and by making loans for productive purposes out of its own resources or funds borrowed by it when private capital is not available on reasonable terms. The Fund was designed to stabilize international monetary rates and promote foreign exchange cooperation.

The roles of the Bank and the Fund (the *Bretton Woods Institutions* – BWIs) at their creation at Bretton Woods in 1944 have long been overtaken by events. The primary focus of the BWIs has shifted from the advanced

industrialized countries to development in the Third World states. This owes partly to successful postwar reconstruction in the West, and partly to problems related to decolonization, and difficulties in development in the Third World that were exacerbated by the oil shocks of the 1970s.

Both agencies are powerful players on the international economic scene, and they have been focal points of contention between the Western industrialized and Third World countries. The former insist on adherence to market principles and the latter assert that such adherence causes undue hardships for developing states. The founders presupposed that the activities should be purely economic and not governed by political evaluations. This principle is also laid down in the statutes. However, many critics maintain that in reality the organizations are based on an ideology to which they do not adhere.

1.2 The World Bank

1.2.1 Organization and early history

The *World Bank Group* is a multilateral lending agency made up of four closely related institutions: the *International Bank for Reconstruction and Development* (IBRD or the World Bank), the *International Development Association* (IDA), the *International Finance Corporation* (IFC), and the *Multilateral Investment Guarantee Agency* (MIGA). In addition the *International Centre for Settlement of Investment Disputes* (ICSID) is an autonomous international organization that has close links with the World Bank. By the early 1990s the Bank had more than 160 members. The Bank is under the day-to-day management of a president appointed for 5-year terms, de facto by the United States Government. However, the Bank is governed by its member countries, represented on the permanent Executive Board of Directors and, above this body, the Board of Governors (mostly finance ministers) which meets twice per year. Voting in

the Executive Board is weighted according to initial contributions to the bank's capital.

The World Bank obtains its funds for loans primarily through the sale of bonds in international financial markets that are absolutely guaranteed by member governments to be repaid. This strong shareholder support and a substantial paid-in capital base have allowed it to raise most of the funds for its lending activities through triple-A rated bond issues in the international financial markets. Its soft-loan component, the IDA, receives its funding largely from contributions from its wealthier member countries

1.2.2 Later development

Most of the Bank's loans in its early years underwrote large-scale infrastructure projects—dams, thermal power plants, highways and other big projects. Electricity supply represented half of total lending. Since about 1970 an increasing proportion of the lending has been for agricultural, educational, health and population programs in the Third World.

During the 1970s World Bank lending increased dramatically. Even if it stressed investments in the social sector and comprehensive programs for rural communities, the increase in lending during this period mainly came in the traditional sectors like energy, transport and irrigation. Many programs had little or mixed success in their goal of pulling developing states out of poverty and increasing self-sufficiency, and so engendered controversy.

The bank's lending was further complicated in the 1980s by the world debt crisis and the fact that many debt-plagued states fell behind in loan repayments. In addition, widespread criticism of the social and environmental effects of many large-scale infrastructure projects put growing pressure on the Bank. Through the eighties and nineties the private sector was given higher priority as the engine of growth and the Bank rapidly strengthened its capacity to address social and environmental concerns in its lending.

A standard critique is that a pressure to lend tends to reinforce problems connected to the ideology and strategy that characterizes the Bank. Bank staff have given priority to negotiation and disbursement of new loans it is said, while less effort has been given to the borrowers capacity to manage large and complex projects, or to follow-up and evaluate projects during and after implementation. The development impact is disputed, and critics maintain that large projects have broken up and destroyed local communities and cultures, and that local resources have been exploited in a centralized development process favouring the already rich and powerful.

While this criticism may be exaggerated and ignore much evidence to the contrary, the Bank itself has concluded in its own evaluations that many of these programs did not deliver according to their high prospects. For example, a review of the irrigation sector, carried out by the Bank itself in 1991, showed a large amount of expensive, unsuccessful projects. Generally economic returns were low, while costs were high. The expectations towards availability of water and effectiveness of irrigation were unrealistically high, and there were a great number of unfinished projects.

Over the late 1980s and early 1990s the Bank became more visible on the environmental arena. Especially in connection to the *United Nations Conference on Environment and Development* (UNCED) in Rio in 1992, the Bank projected itself as a suitable institution for addressing environmental issues. One example is the Bank's cooperation with the UNEP and the UNDP on the *Global Environment Facility* (GEF), which is supposed to act as a financial mechanism to help the South contribute to the solution of global environmental problems like emission of greenhouse gases and loss of biodiversity. Although some environmental NGOs remain skeptical, the Bank quickly became a lead actor internationally in terms of both its analytical work on environment and development, and its financing of environmental projects in developing countries. In this period the bank also strengthened its capacity to

analyze and mitigate the negative environmental and social consequences of investment projects.

1.2.3 Structural adjustment

The paradigm of development assistance has changed – from a focus less on bricks and mortar to policies and institutions, country ownership of the development process, the role of the private sector, partnership, knowledge and learning. Originally the World Bank was to give loans only to specific projects, but this changed with the advent of the international debt crisis in the early 1980's. Now a country program cycle has replaced the project cycle as the Bank's most important business model. It has found sector-wide approaches and programmatic adjustment lending to be cost-effective vehicles for supporting the policy dialogue. The programmatic approach has not replaced investment lending, but it emphasizes the importance of setting such support in the context of a sound overall program of structural, social and macroeconomic policy – with the Bank focusing its support and diagnostic work on the structural and social elements.

By the end of the 1980s roughly 25 percent of the Bank's lending went to restructuring of the economies of developing countries, through structural adjustment programs. In countries with structural adjustment programs these loans have amounted to 50 percent or more of total lending. Conditionality connected to structural adjustment loans implied devaluation, reduction in public sector spending and cut in subsidies. In many cases this included subsidies on basic food supplies. The programs have often involved export orientation based on raw materials and natural resources.

The Bank has major influence on formulation of policies and development strategies of recipient countries, for instance through *Country Programming Papers*. In addition to this come support in sector policy formulation and other programs. Its role as coordinator of development aid in a large number of countries enhances the influence of the Bank.

1.3 The International Monetary Fund

1.3.1 Organization and early history

The International Monetary Fund came into existence in December 1945, but its first transactions were not made until 1947. It is administered by a board of governors and 22 executive directors. Member governments subscribe the Fund's operating funds. Each member has a quota based on a formula that includes its GNP, reserves, and trade potential and pays its quota in its own currency or with a mix of its currency and acceptable reserve assets, including *Special Drawing Rights* (SDRs), which allow a country to purchase currency for other transactions. A member's quota determines both its voting power in the agency and access to funds. Members may arrange standby credits to use as and if necessary. The Fund has created a number of facilities under which it provides loans to countries facing particular difficulties.

The entire face of international finance has changed since the Fund was created. In 1971 the U.S. dollar went off the gold standard, marking the formal end of the Bretton Woods monetary system, and the Fund lost its original mandate of maintaining stable exchange rates. By March 1973, a system of generalized floating had taken its place and is still used today. In 1978, when the Fund formally ratified the new system, its involvement with industrial countries became largely ceremonial. It had to end its role as traffic cop of the world monetary system and to concentrate instead on providing advice and information to its members, which by 1998 numbered 182 countries.

1.3.2 Later development

Later the Fund has sought a more ambitious role as an international lender of last resort to the world economy. In return for the imposition of various conditionalities, the Fund, along with major industrial countries' central banks, provides credit lines and other facilities. Fund conditionalities may include provisions for lifting foreign-exchange restrictions and price controls, liberalizing trade, higher taxes and cutting spending to balance budgets, currency devaluations, and curbs on the supply of credit

in the economy. Lately the Fund is making a major effort reconsidering the scope of its conditionalities, whether they should be limited to those that are absolutely critical, not only relevant, for success.

In imposing such conditionalities, the Fund wields considerable influence on the domestic economic policies of the states that apply for assistance. Despite the relatively strict conditions often attached to loans, membership in the Fund has increased over the years, and loans were extended to Russia and a number of eastern European states after the end of the Cold War.

With commercial lending growing fast, the Fund's clients have become the poorest countries, to which no bank would lend, and those middle-income countries dealing with macroeconomic crises. Many developing countries have become dependent on Fund loans, given uncertain export markets, high cost of imports, and pre-existing heavy debt burdens to both the Fund and private banks. Moreover, Fund conditionality, whereby the agency insists on certain measures of structural adjustment before approving loans, has generated controversy between the advanced industrial states, which wield the greatest voting power in the agency, and Third World states, which apply for loans.

The Fund has faced criticism that it is secretive in its dealings, undemocratic in its makeup, and unresponsive to the needs of poorer members. Critics maintain that the economic austerity programs that are typically attached to any Fund assistance are not always appropriate, and that in some cases spending cuts only deepen local recessions and make the task of necessary financial and industrial restructuring all the more difficult.

1.4 Poverty orientation

1.4.1 Introduction

In 1996, the *Organization for Economic Cooperation and Development* (OECD) adopted a report: *Shaping the 21st Century: The Contribution of Development Cooperation* (OECD/DAC, 1996), in which it selected seven goals for development. (See Box 1). In their introduction to *A Better World for All: Progress towards the international development goals* (UN/OECD/World Bank/IMF, 2000), UN Secretary-General Kofi Annan, OECD Secretary-General Donald Johnston, IMF Managing Director Horst Köhler, and World Bank Group President James Wolfensohn said, "Our institutions are actively using these development goals as a common framework to guide our policies and programs and to assess our effectiveness."

Box 1. The seven international development goals

1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015.
2. Enroll all children in primary school by 2015.
3. Make progress toward gender equality and the empowerment of women by eliminating gender disparities in primary and secondary education by 2005.
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015.
5. Reduce maternal mortality ratios by three-fourths between 1990 and 2015.
6. By 2015, provide access to reproductive health services to all who need them.
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

1.4.2 *The World Bank*

The World Bank under its current president James Wolfensohn has established for itself multiple ambitious goals. The most overarching is reduction of poverty, stated time and again in official speeches and publications. Still very much in the realm of rhetoric, the Bank has adopted broadly shared axioms such as equitable economic growth and sustainable development to capture the key strategies towards achieving the goal of poverty eradication. Going further towards making the strategy operational, the Bank has formulated a number of more specific objectives that together make up its developmental program or agenda for moving towards the overarching target. A reading of key documents and statements in recent years reveals these operational objectives or agenda items as a mixture of old and new:

- promoting macroeconomic reform, financial sector reform, trade liberalization,
- promoting private sector development by catalyzing and stimulating investment,
- promoting better governance and more specifically fighting corruption,
- promoting debt relief for the poorest countries (HIPC),
- a strategy of multiple and broad partnerships across all relevant development actors (CDF),
- participatory development: community-based approaches,
- promoting education, especially for girls,
- a more client-focused bank, shifting focus from lending volumes to results on the ground,
- converting the World Bank to a leading disseminator and broker of development knowledge,
- environmental sustainability, leadership on global public goods,
- global financial architecture: defending and strengthening the social/developmental dimension of the architecture,
- securing continued IDA financing.

These worthy objectives add up to a broad and highly complex development agenda. President Wolfensohn frequently states that all the key ingredients must be present in order to make real progress towards economic development and poverty eradication.

Added to this is an ever-increasing array of more targeted, specific concerns or agendas adopted by the Bank. The result is an almost overwhelming menu: post-conflict reconstruction, micro enterprise, protection of cultural heritage, combating climate change, preventing natural disasters, combating tropical diseases and HIV/AIDS, supporting and protecting indigenous communities, protection of coral reefs and tropical forests. The management of the Bank has recently asked the owners for clarification on terms of setting priorities among these multiple, complex and crosscutting agendas and mandates, particularly in light of a tightening administrative budget.

1.4.3 *The Monetary Fund*

Fund involvement in the poorest countries initially tended to be of short duration during macroeconomic crises. However, after the Latin American debt crisis in 1982, the Fund began to broaden its policy agenda. This shift reflected the opinion of the Fund that these crises were not simply manifestations of temporary fiscal imbalance, but rather a reflection of a wide range of deeper problems that made it difficult to fix imbalances quickly. Stabilization thus required adjustment.

This influenced the Fund's activities in all its developing country clients, and the result was that the Fund stayed on longer in developing countries than it had in developed ones – often much longer. The vehicle for this deeper

involvement was the Fund's *Structural Adjustment Facility* (SAF), established in the mid-1980s and replaced soon after by the *Enhanced Structural Adjustment Facility* (ESAF). Rather than simply stability, the goals of ESAF were to promote in a balanced manner the objectives of payments viability and growth.

This wider mandate also reflected the Fund's response to widespread criticism over the impact of its austerity programs on the poor. To counter this, the Fund began to recommend more specific budget cuts in its austerity programs, for example cutting military spending. Consequently, the Fund became even more involved in government processes. Similarly, to counter criticism that its policies hurt the poor through losses of income in the midst of austerity, Fund officials began to add poverty alleviation and even governance-related issues like corruption to their agenda.

1.5 The highly indebted poor countries (HIPC) Initiative

1.5.1 Origin and procedures

Debt relief for the *Heavily Indebted Poor Countries* (HIPC) through the *HIPC Initiative* was originally created in 1996 and strengthened in 1999 as recommended at the Cologne Summit. It is meant to reduce the debt burden of the poorest countries. It is a multilateral effort, involving both multilateral and bilateral donors, to channel debt relief funds to poverty reduction programs.

To ensure that the debt relief is given only to countries with sound macroeconomic environments – and thereby ensure that the countries do not become highly indebted again – the Initiative demanded that a country must complete two of the Monetary Fund's *Enhanced Structural Adjustment Facility* (ESAF) programs before it could receive the relief. Rather than simply stability, the goals of ESAF were to promote in a balanced manner the objectives of payments viability and growth. Thus a facility of the Fund, an institution originally never meant to deal directly with poverty, has become the

instrument by which a major poverty reduction initiative is triggered.

The *Enhanced HIPC Initiative* adopted by the Boards of the World Bank and the Monetary Fund in the fall of 1999 aimed at accelerating the delivery of HIPC Initiative assistance and linking debt relief more firmly and transparently to poverty reduction. At the same time, the enhancements more than doubled the amount of relief projected to be provided under the initiative. It relies on two key instruments – an *Interim Poverty Reduction Strategy Paper* (I-PRSP), see section 2.1, and interim relief – in order to help reconcile the objective of rapid delivery of debt relief with the need to ensure that resources released will truly contribute to effective and sustainable poverty reduction. The I-PRSP can serve as a basis for taking a country to a decision point within the enhanced HIPC process. In an I-PRSP, a government should convey its commitment to poverty reduction, indicate its overall strategic goals and programs to address the issue, and define an action plan that would eventually lead to the articulation and adoption of a PRSP in a participatory process.

1.5.2 Interim relief

The interim relief comes in two forms, a Poverty Reduction Strategy Credit (PRSC) from the Bank and a Poverty Reduction and Growth Facility (PRGF) from the Fund. In 1999 the Fund replaced ESAF with this facility that for the first time makes reducing poverty one of the Fund's explicitly stated goals. Specifically, the purpose of the new facility is to support programs to strengthen substantially and in a sustainable manner (qualifying low-income members') balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty. It covers the following policy areas:

- The overall expenditure ceilings and public sector borrowing.
- Reforms in tax policy and tax administration to increase compliance and total tax revenue.

- Reforms in financial market regulation and banking and insurance surveillance.
- Monetary policy targets and management.

One of the key changes from ESAF is that the complementarity of macroeconomic, structural, and social policies will now be given greater recognition. Key measures of a country's poverty reduction plan – such as land reform or eliminating obstacles to better health and education services – will be part of Fund programs. This facility is available to all qualifying poor countries, but it will be particularly important in the HIPCs, because it will continue to act as the trigger for debt relief.

The *Poverty Reduction Support Credits* (PRSC) from the Bank are a series of *Programmatic Structural Adjustment Credits* (PSACs) with a special emphasis on poverty reduction, in support of a country's poverty reduction strategy. They are proposed for countries where the poverty reduction strategy paper is accompanied by a *Fund Poverty Reduction and Growth Facility* (PRGF) and would be the Bank's counterpart to this facility.

Typical for the thinking behind PRSC is a public sector focus. The program is linked to the use of extra resources in government budget and to public management issues such as accounting and budgets, public procurement and civil service and public sector pay reform. It includes progress in three prioritized sectors. The coordination with the Fund is done through a clear separation of issues for the dialogue the two institutions have with the government. PRSC will gradually become the vehicle for *International Development Association* (IDA) support of the strategy.

1.5.3 Funds saved are to go into the overall budgets of the countries

The HIPC debt relief makes available resources by reducing debt repayment and interest payments the country has to make. World Bank and Monetary Fund teams are collaborating to assess country capabilities and provide guidance to governments on mechanisms to

track and report on poverty-related public spending in HIPCs. A preliminary assessment of early cases suggests that funds saved through debt relief should be seen as part of the overall budget and monitored through the country's own public financial management system. While countries themselves should bear the primary responsibility for monitoring and reporting, Bank and Fund staffs' work in this area should help the HIPCs to strengthen their public expenditure management systems.

Over the longer term, this entails working to strengthening their entire financial management architecture. In the short-run, World Bank and Fund staffs assist in selected areas of public expenditure management, including working with those tools currently in place in each country for monitoring specific types of poverty-oriented spending. Some countries have a basic capacity to program, track and report on poverty-related recurrent public expenditures and the potential to relate these to social indicators. Other countries are responding to significant shortcomings in their overall public expenditure systems by establishing special HIPC-arrangements and accounts to identify and track spending on poverty-related programs. In virtually all cases, technical assistance and extensive efforts at institution building continue to be needed.

1.6 Bank-Fund cooperation

1.6.1 The Development Committee

The *Development Committee* (DC) is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus building on development issues. Known formally as the *Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries*, the Committee was established in 1974.

The Committee's mandate is to advise the Boards of Governors of the Bank and the Fund on critical development issues and on the financial resources required to promote economic development in developing countries.

Over the years, the Committee has interpreted this mandate to include trade and global environmental issues in addition to traditional development matters.

The Committee has 24 members, usually Ministers of Finance or Development, and who represent the full membership of the Bank and Fund. They are appointed by each of the countries, or groups of countries, represented on the Boards of Executive Directors of the Bank and Fund. The Chairman is selected from among the Committee's members and is assisted by an Executive Secretary elected by the Committee.

The *Development Committee* meets twice a year; in the spring in tandem with the *International Monetary and Financial Committee* (IMFC) of the Monetary fund, and in the fall before the Bank–Fund Annual Meetings. The agenda for the meetings is based on issues recommended by the Chairman, the President of the Bank, the Managing Director of the Fund, and the Executive Boards of the Bank and Fund. The convergence of focus on poverty, at least in the least developed countries, between the two central policy-setting bodies – the *Development Committee* (DC) and the *International Monetary and Financial Committee* (IMFC) – is in itself unprecedented and sends a clear signal to the two organizations.

1.6.2 Overlapping roles

The introduction of the PRSPs has brought the two Bretton Woods institutions closer together both at headquarters and in the field. At least in the poorer countries, they now have a joint focus on poverty as an overriding issue and their respective country programming is supposed to take place on the basis of the same document—the PRSP. Operationally, this is already manifesting itself in the reformulation of lending instruments: from *Enhanced Structural Adjustment Facility* (ESAF) to *Poverty Reduction and Growth Facility* (PRGF) in the case of the Fund, and from *Structural Adjustment Loans* (SALs) to *Poverty Reduction Support Credits* (PRSCs) in the case of the Bank. At least officially, these new instruments are more than

mere reformulations, but manifestations of the new way to do business under the PRSPs.

However, as in many other areas of life, getting closer together also produces tensions. There are signs that the Bank and the Fund have ventured into each other's field of responsibility with some friction as a result. At the staff level, suspicions and frustrations are many across the famous 19th Street divide in Washington, D.C. The difference between the Bank and the Fund has faded, as the Bank has been given the additional role as debt administrator and stresses short-term macroeconomic policy that originally was the Fund's field, while the Fund has started to talk about development on a long-term scale.

The overlapping of roles springs out of the Asia crisis with a need for rapid action. The Fund, with a more flexible mode of operation than the Bank, got involved in structural adjustment programs that appeared crucial for a way out of the crisis. It started with the financial sector, but with a big role of the industrial conglomerates there was no clear distinction between financial and industrial restructuring. At the same time the crisis was fueled by a withdrawal of international private lending, and the Bank was called upon to substitute for some of that lending. In this way it transgressed into a traditionally Fund area.

1.6.3 A new cooperative spirit?

The Bank and the Fund appear, for the most part, to be cooperating constructively in implementing the new approach to poverty reduction. This is commendable, considering their very different corporate cultures. Still, much remains the same in Washington and there are many examples of considerable friction both at Headquarters and in the field. This relates in part to the fact that Fund and Bank staff still tend to view the world in rather different ways and that policy changes at the top have not always penetrated deeply. However, many staff members of both institutions claim that the PRSPs are bringing important changes in the way the two institutions operate and cooperate and that there is a certain new

cooperative spirit growing out of the early experiences with many PRSPs.

A problem specific to the Bank may contribute to undermining the effectiveness of the PRS approach: the current low morale among staff. This problem can be traced back to a feeling of disconnection between operational and budget realities felt by staff on the one hand and expectations by its senior executives and the Board on the other in terms of what the organization can deliver. Although many see the PRS approach as a potentially positive way to reduce this divide and help focus the institution, skeptics see it as yet another mandate on top of several others.

Fund staff remains highly doubtful of the Bank's commitment to holding borrowing-country government accountable to minimum standards for the PRSPs. The experience with the *HIPC Initiative* has deepened this suspicion. The fear is that anything will go as far as the PRSPs are concerned, and that the consequences will be yet another cycle of poor economic performance and accumulation of new debts. Fund staff are also skeptical about the prospects of having their own streamlined and stringent country programming held hostage to the somewhat more unruly, time consuming and unpredictable processes of the Bank.

On the other side of the fence, Bank staff is suspicious that the Fund will prove unprepared to accept the results of the PRSPs and be inclined to prepare their PRGFs as if little new had happened. Recent PRGFs are cited as signs that the Fund finds it hard to change below the

senior management level. Conditionality is as standard and as numerous as before and are not presented in the PRSP spirit as agreed performance monitoring indicators. Although the Fund has officially accepted that poverty reduction is the overarching objective in the poorest countries, at the country team level too much emphasis still tends to be put on improving the macroeconomic framework, even in countries where the framework is already fairly good. Said one Bank official:

About 1/3 to 1/2 of the countries in Africa have actually met the Fund's criteria for macroeconomic stability over the last several years. And these are tough criteria. So why worry so much about improving macroeconomic management performance even more and demand more cuts or higher fiscal surpluses, when what we really need to think about is growth?

There are signs, however, of a new cooperative spirit growing out of these experiences. There are many joint working groups and seminars at headquarters, and the cooperative spirit is said to be better than before. The Bank has moved a long way from project financing to more holistic country programming, policy advice and conditionality. The Fund has also moved a long way to include social concerns in its policy advice and conditionality. Both organizations are well equipped for improving national and international financial architectures, for instance by engaging private lenders in rules of conduct to avoid rapid capital flight in times of crisis.

2 Implementing the new approach to poverty reduction

2.1 The Comprehensive Development Framework/Poverty Reduction Strategy Paper (CDF/PRSP) approach

A *Comprehensive Development Framework* (CDF) was launched by President Wolfensohn at the annual meeting in 1997 as his personal vision for how the development process in each country ought to be managed. It takes a holistic approach to development and seeks a better balance in policy-making by highlighting the interdependence of all elements of development – social, structural, human, governance, environmental, economic, and financial. It emphasizes partnerships among governments, donors, civil society, the private sector, and other development actors. Perhaps most important, the country is supposed to be in the lead, both “owning” and directing the development agenda, with the Bank and other partners each defining their support in their respective plans.

In September 1999, the boards of both the World Bank and the Monetary Fund Bank and the Fund determined that nationally owned participatory *Poverty Reduction Strategies* (PRSPs) should provide the basis of all their concessional assistance and for debt relief under the *Enhanced Heavily Indebted Poor Countries Initiative*. This approach, building on the principles of the CDF, has led to the development of *Poverty Reduction Strategy Papers* (PRSPs) by country authorities for submission to the Bank and Fund Boards. In order to make HIPC countries eligible for debt relief within target dates set by the two institutions’ Boards of Governors countries may initiate the process with *interim* PRSPs (I-PRSPs) that are shorter, more focused documents. *Joint Staff Assessments* (JSAs) evaluate the soundness of PRSPs and I-PRSPs as the basis for concessional assistance and debt relief. The Boards of the Bank and the Fund will consider the overall strategy in the PRSP or I-PRSP as an integrated whole. However, each institution will focus upon and endorse those policies and programs within its area of responsibility.

Some middle-income countries that are not seeking HIPC debt relief and are not seeking loans under the Fund’s PRGF arrangements or PRSC loans from IDA, are also pursuing the development of comprehensive poverty reduction strategies. The initiative has many objectives:

- Ensure a poverty reduction effect of debt relief.
- Improve the Fund’s poverty focus.
- Improve Bank/Fund collaboration.
- Replace the *Policy Framework Papers* as the basis for lending operations.
- Improve donor coordination.
- Foster government ownership.
- Promote strategic, long-term approaches to development.

The requirement on borrowing countries to prepare PRSPs grew out of the political process surrounding the HIPC debt relief initiative and became a joint Bank/Fund responsibility to oversee.

This joint new effort by the Bretton Woods Institutions is simultaneously intended to be each and every country’s own strategic approach to combating poverty. The Bretton Woods institutions should play only supporting and facilitating roles. The PRS should result in a specific written output: the *Poverty Reduction Strategy Paper* (PRSP). Again, this should be the country’s own product, but at the same time the paper needs to be approved by the Boards of the Bank and the Fund. Hence, the approach embodies an inherent tension that was recognized from the start: between the principle of country ownership and the need for Bank and Fund oversight and quality assurance.

The PRSP is meant to combine a broad economic framework with the policy and institutional underpinning of growth (including institutional reforms and sector strategies). It is to be the framework for Bank and Fund activities in the country, with the country's own targets and goals serving as the targets and goals the Bank and the Fund monitor. This is certainly in line with the new understanding of the importance of ownership in policy-making.

The *Comprehensive Development Framework* (CDF) and the *Poverty Reduction Strategy Papers* (PRSPs) differ in many respects, but they also share several key features. Both initiatives are based on the recognition that effective development and poverty alleviation require a strategic and comprehensive approach. The macro-economic, social and structural agendas must be viewed in a holistic fashion, implying closer coordination between the Bretton Woods institutions. The borrowing government should be provided with the opportunity and the tools to be in control of strategy setting and decision-making. All donors and other stakeholders should formulate their own strategies in open and transparent interaction with the government and each other, based on the country's own strategies.

2.2 Achievements

2.2.1 Some numbers

The CDF was piloted in 13 economies (some of them later came to overlap with the PRSPs) starting in 1998 and ongoing until September 2000. The CDF is now being implemented in the same countries, which include both less developed and middle-income countries.

As of June 2001, *five full PRSPs* (Bolivia, Burkina Faso, Uganda, Tanzania and Mauritania) are presented to the Boards of the Bank and Fund. These strategies will give direction for lending and policy dialogue between the countries and both Bretton Woods Institutions, and hopefully also provide the framework for assistance for other donors.

As of June 2001, *35 interim PRSPs* (I-PRSPs) are presented to the two Boards. The I-PRSPs are intended to be followed by full PRSPs requiring significantly more analytical work and meaningful public participation in order to ensure broadly based ownership. This means that these countries, which are all among the poorest in the world, should have such broad-based, comprehensive poverty reduction strategies in place in the relatively near term.

2.2.2 Qualitative changes

Beyond the numbers quoted above are more qualitative factors that may carry more significance. First, staff at all levels both in the Bank and Fund express similar sentiments about the CDF/PRSP approach to development: The approach makes sense and it is changing many aspects of how both institutions relate to their client governments and to each other. This sentiment is expressed much more clearly with respect to the PRSPs than to the CDF, which probably reflects the fact that the PRSPs are jointly handled by the two institutions and have been given top priority due to the HIPC debt initiative. Consequently, there is less awareness of the CDF, particularly in the Fund. However, those who are aware of the CDF generally see it as something consistent with the work on the PRSPs and something that might become the accepted framework for the PRSP work in the future.

In spite of all the attention given to poverty reduction there are few signs of tradeoffs with other objectives and activities of the BWIs. Good governance remains an overarching concern in both the Bank and the Fund. Particular support to fight AIDS etc. seems not to be crowding out development aid. In addition, poverty relief, health and education efforts, and empowerment of the poor are efficient means of increasing productivity and laying the ground for economic growth in addition to their intrinsic values.

2.2.3 Debt relief is well under way

Of the about 35 countries that could ultimately qualify for assistance under the HIPC Initiative, 22 countries had reached their decision point by

April 2001. They receive a debt service relief, which will amount to 34 billion US\$ over time, or a reduction of 20 billion US\$ in the net present value of their outstanding stock of debt. This is nearly one half of their total stock of debt in net present value terms and approximately 70 per cent of the total relief projected to be delivered under the Initiative (World Bank 2001b).

However, several poor countries risk continuing building up unsustainable debt levels despite receiving debt relief. As a result of falls in the terms of trade – the ratio of export to import prices—they may not achieve the target debt-to-export ratios that the HIPC initiative is intended to deliver. The background is that the debt relief process is designed to reduce the net present value of each country's external debt to 150 percent of exports. However, this target is set when the country enters the initial stage of the process and is not reassessed when it qualifies for full relief (World Bank Development News 11 April 01).

2.2.4 The emphasis on poverty reduction has translated into changes in the work program at country level

The most commonly cited changes brought about by the CDF/PRSP approach are:

- *Poverty has explicitly been brought into focus* as the principal challenge in the least developed countries. This is new, particularly in the Fund. Poverty has become a central and legitimate part of the Fund's agenda. In the Bank, the PRSPs are focusing staff's attention on one overall objective in the poorest countries, rather than multiple and competing objectives.
- There is *broad recognition of the principle that the host government must be in charge* of the strategy and policy-making process and

that any conditionality must emerge as performance criteria based on the countries' own strategies. There is even an expression of relief by some that the *old way* is no longer considered appropriate.

- In the Bank there is considerable excitement about what might be considered *the new analytical baseline in the Fund's dealings with the poorer countries*. Whereas before, maintaining the budget balance was the starting point for macroeconomic programming and determining expenditure levels, the Fund has now changed the objective function to meeting fundamental public expenditure needs. The country's budget, debt relief, and external aid must be managed in order to meet those needs. This is a small revolution according to many Bank staff.
- In the Fund, there seems to be *satisfaction with the operational implications of the PRSP approach*. The relationship with many client governments is improving as governments realize they have a greater say than before in formulating strategies. They can be more assertive as to what kinds of conditions are required for a loan to go forward. The IMF and the Bank can be more open about those aspects of a PRSP that they disagree with, without imposing changes.
- In both the Fund and the Bank there are *expectations that the new approach will gradually foster better cooperation and coordination at the working level*. This is already happening to some extent, both in the form of closer working relations at the country level and in the form of cooperation on policy and guidance documentation in Washington. However, there is clearly scope for further improvements.

3 Assessing the CDF/PRSP approach

3.1 The CDFs/PRSPs have brought about important changes, but implementation is a demanding task

While still at an early stage, it is more than likely that the degree of success in implementing the PRS approach will – over time – determine whether the World Bank and the Monetary Fund are considered successful in fulfilling their missions.

There is a common feeling among Bank and Fund staff that the PRS approach makes sense conceptually. There is already ample evidence that the new approach in many ways is changing how both institutions relate to their client governments and to each other. Most significant is the provision that the country itself is supposed to prepare the PRSP. The Fund and the Bank are no longer to write up the policy prescriptions and hand them over. Another key change lies in the fact that reducing poverty is now an explicit part of the Fund's mandate in the least developed countries. Maintaining the balance of payments is no longer an end in itself but rather a means to achieving sustainable growth and poverty reduction.

However, it is a demanding task weighing down on Bank and Fund staff as they go about trying to implement these new approaches to development. They must depart from old and ingrained habits, including the habit of being in charge. They must translate an ideal conceptual framework – which most of us believe makes sense – into a real world made up of both gangsters and saints, plus everything in between in all shapes and forms. Diplomatic and political skills are becoming at least as important as the technocratic and economic-disciplinary skills. Their counterparts in government and donor agencies face similar challenges.

It appears that many are learning, and the support for the new way of doing business is surprisingly strong at the staff level. However, it is an open question whether the institutions are

fully equipped to meet the new demands and expectations, and organizational stress may undermine the valuable efforts. Also, the move from investment lending to programmatic and budget lending is a slow process.

To date the CDF and the PRSPs have been implemented in different countries. Despite some internal friction as to which of these frameworks should be given priority, it is clear that the two initiatives are now broadly seen as parts of the same move towards a more comprehensive and client-driven framework for effective economic development and poverty reduction. For these reasons it makes sense to cover both initiatives when looking at how poverty reduction is being implemented in practice.

One important objective of the CDF/PRSP approach is to link these initiatives on to domestic political and administrative processes. This is all the more important since any initiative from the Bank or Fund is easily perceived as an imposed foreign objective. CDF or PRSP requirements run the danger of interrupting or even hampering domestic political and planning processes and have indeed been criticized for doing just that in some countries. Bank and Fund staffs are still sometimes viewed as haughty, arrogant and disrespectful of local efforts. When that's the case, the battle is lost before it has even started.

3.2 A risk of oversell

Critics warn that the potential gains from the initiative may have been oversold. It takes more than a change of policy from above to institute fundamental changes in country programs. If anything has been learned over the past 50 years about development, it is that poverty reduction takes time. Disappointments over slow results could come in the way of sustained follow-up.

A critical success indicator which can be evaluated over the short-to-medium term is the extent to which new lending reflects the PRSPs. Will the PRSPs make a noticeable difference? Over time it may also be possible to assess whether the new emphasis on poverty reduction is conducive to economic growth, or if there is in fact a trade-off between the two.

There is an almost abysmal divide between the elegantly formulated visions and strategies in Washington (or in any other international development policy hub for that matter) and the real world of the least developed countries where Bank and Fund staffs find themselves trying to implement them. The fundamental day-to-day challenge of Bank and Fund staffs is to bridge this divide, again and again.

Significant tensions are inherent in the PRS approach. A broad scope covering many crosscutting issues, tight deadlines and quality requirements and the need to have the PRSPs endorsed by the boards of the Bank and the Fund create tension vis-à-vis the principle of client country ownership.

The most challenging problem has been the linking of the PRSPs to the HIPC debt relief initiative and its excruciating timetable. The CDF initiative has escaped this problem, but has – on the other hand – lacked the heavy political impetus that propelled the PRSPs onto the development arena. This has put pressure on both the Fund and the Bank, but not least on the borrowing countries that have to prepare the PRSPs.

3.3 The tyranny of the HIPC timetable

There is considerable concern, both in the Bank and the Fund, over the effects of the HIPC initiative on the PRSPs. The decision to go ahead with interim PRSPs (I-PRSPs) as a compromise solution in order to enable as many HIPCs as possible to reach decision point by the end of 2000 may have been politically correct and necessary. However, this requirement could be putting at risk the PRSPs and what they entail in terms of reform both within and between the

Bank and the Fund and – not least – in the client countries. It would not be the first time that the international donor community was responsible for putting such time pressure on an otherwise good initiative that the initiative itself got jeopardized.

The most well known example is the so-called *National Environmental Action Plans* (NEAPs) that all IDA countries were obliged to prepare a few years ago. In that case the principle of borrowing country ownership, as important in principle then as now with the PRSPs, got undermined in almost all the NEAPs in large part due to the requirement to have them prepared before a tight deadline. NEAP reports were prepared, but very few governments paid attention to them and few NEAPs made any tangible contributions to improved environmental performance.

What is different from the experience with the NEAPs is precisely the interim solution with I-PRSPs, which do not carry the same requirements in terms of stringency, scope and participation as the full-blown PRSPs, which are scheduled for later, once the HIPC decision point is reached. However, this may not be sufficient if the purpose of the PRSPs is to generate genuinely homespun poverty reduction strategies.

The I-PRSPs are done in a way that is not too different from the Bank's and Fund's traditional way of doing business, in the sense that their own staffs have found themselves forced to be heavily involved in the preparation in order to meet the HIPC target dates. There has hardly been time for home spinning, not to mention consultations, at the national level. This could be sending wrong signals to the host governments concerning what the PRSPs should be about. In a worst-case scenario, the I-PRSP experience could end up discrediting the whole CDF/PRSP approach – in the borrowing countries, in the donor community, and among the traditional critics of the Bank and Fund. As one Bank staff member said:

The I-PRSPs are light-years away from what the PRSPs are intended to be. However, once you actually have an I-PRSP it will be very difficult to prepare a PRSP that is significantly better. At most, it will be 50 per cent better than the I-PRSP, and that's a far cry from where we'd like to be.

Some staff are even concerned that the HIPC initiative may be bringing the PRSPs too early into some countries – or even to the wrong countries where the political commitment towards poverty-oriented reform is still lacking. This raises the potentially problematic issue of whether the price for meeting – even exceeding – the HIPC debt relief targets by the end of 2000 that the HIPC reform agenda has become meaningless.

The principal concern, then, is that the HIPC initiative, which propelled the Bank and the Fund into adopting a joint poverty focus in the poorest countries in the form of PRSPs, may itself contribute to the watering down and even failure of this new instrument. It is too early to tell. Some recent reports claim that the time constraints have not been a major factor in undermining ownership in some countries. However, it is becoming increasingly urgent to de-link the PRSPs (and for that matter ensure that the CDF remains de-linked) from the HIPC agenda.

3.4 Limited success with creating ownership

Government ownership and broad public participation are supposed to be key elements in developing the *Poverty Reduction Strategy* (PRS). However, ownership is not easily achieved, and there are few signs that the PRSPs have become part of the political debate in countries preparing a PRSP.

Few PRSPs are completed, and the interim PRSPs have clearly been perceived by many governments as World Bank and Monetary Fund-driven exercises for which they feel limited ownership, beyond their instrumental use for securing debt relief. To be effective

strategies for poverty reduction the full-fledged PRSPs will have to be undertaken in a much more elaborate and consultative way, and with the host government in the driver's seat.

It remains to be seen whether true country ownership can be attained. The process of consulting with civil society and the private sector is also complicated. Finally, even if a government were indeed to produce a document widely owned, many developing countries do not have sufficient institutional capacity to carry out ambitious plans. It will be of critical importance to allow governments to take few but implementable actions towards effective poverty reduction, and to employ a long time horizon. Regrettably, some old attitudes of the Bank and Fund, and of other donors for that matter, of prescribing many detailed conditions and sometimes placing excessive emphasis on monitoring and evaluation, seem to have been carried forward in some of the PRSPs and in subsequent lending – in spite of intentions to the opposite. The Bank and Fund still sometimes fall into the temptation of imposing rather than negotiating.

Given past dynamics the Bank and the Fund will heavily influence the PRSPs toward their own policy preferences even if they try not to, because countries will generally know the kinds of policies the Bank and Fund are likely to support financially. Even if this dynamic were to be overcome by a present focus on avoiding excessive conditionalities, the question of who owns the document within a country will be largely political. For example, the process of consulting with civil society and the private sector is enormously complicated – who is a legitimate representative of either? And even if the country were indeed to produce a document widely owned, many developing countries lack the institutions to carry out their plans.

It is an undeniable fact that some client governments are simply not preoccupied with poverty reduction as a priority objective. In some cases, survival in power, and power and privilege for its own sake, are the only games in town. A real CDF/PRSP process can only be

staged once there is a genuine focus on poverty as a worthwhile and central policy issue in the country. Getting to this point requires patience and perseverance not rushed scheduling.

In other countries, Bank and Fund staffs encounter problems of extremely limited capacity in key government ministries. Undertaking a meaningful CDF/PRSP is only possible once there are counterparts with the required skills and resources to lead the process. Again, patience and perseverance must come before concrete action.

In yet other countries, the chief limiting factor is political. Some regimes will not tolerate the kinds of participatory, open processes advocated by the Bank and Fund. Some regimes are – sometimes legitimately – concerned about maintaining a fragile political order, where a public policy dialogue on poverty could inadvertently degenerate into strife and tensions along ethnic and other societal faultlines.

These real world problems cannot be glossed over by eager development policy-makers. The work of the Bank and the Fund may be the art of impressive rhetoric in Washington but is still the art of the possible in the field. No CDF or PRSP will ever match the ideal case. On the other hand, real CDF/PRSP processes may have the advantage of producing real results.

3.5 Monitoring and evaluation is important, but it can overload recipient governments

Effective planning and management of public expenditure is vital to success in the design and implementation of PRSPs: ex-ante budgets should be linked to ex-post outcomes. It is also a precondition for providing budgetary support for their implementation through PRSCs and similar instruments. Its form is changing from ex-ante contracts to mutual commitments based on performance. However, the new form of conditionality will in some respects be more intrusive and more demanding on institutional

capacity that is already stretched thin, than the old form.

Financial management is more than fiduciary control; and more than control of donor money. It is a management tool, and the BWIs control efforts may crowd out efforts to improve overall improvements of financial management.

3.6 Insufficient recognition of the interdependence between financial management and budgeting

The PRSP represents a comprehensive development program that touches on all parts of budgeting and financial management systems with the governments. This calls for an integrated view of all these systems and how to tackle problems linked to them. However, while the Bank and the Fund spend a lot of energy to formulate and reformulate individual benchmarks, the same amount of effort is not put in the formulation of how to achieve the institutional capacity improvements necessary to accomplish what was formulated as the benchmarks. The issues tend to be approached separately and from two different angles: one represented as benchmarks linked to budget policy, i.e. planning and budget instruments and budget execution; the other accounting and auditing improvements formulated under the financial management heading in the PRSP's policy matrix. This way of identifying and analyzing problems that have to be dealt with does not sufficiently recognize existing interdependencies between concerned systems and procedures in this field, and it risks crowding out civil service reforms to improve national fiscal budgeting, accounting and auditing.

The background is probably that the Bank is a bank and that previous policies and ways of operating have been based on strict and separate control of cash flow, at one stage with the aim to actually be able to trace individual contributions to different investment projects. The mere fiduciary control aspect as point of departure for this work is not sufficient or consistent with a concept like the PRS.

In many respects, the Bank is breaking new ground for itself through the structure of the PRSP. From a previous macro perspective, the Bank is now entering into a wide field of implementation of systems and institution capacity linked as benchmarks to a continued disbursement of the credit during a number of years. In these fields of system development and institutional capacity building, many bilaterals have been operating since several decades, not least the Nordics, based on established polices and lots of experience.

In the future, superior World Bank knowledge in budget policy and in the accounting and auditing structures (through the *Country Financial Accountability Assessment*–CFAA) combined with the likeminded bilaterals' views on how to tackle and formulate interventions in the broad financial management area in an integrated manner, might turn out to be a very successful way of working and cooperating with the PRSP and CDF counties.

3.7 Too dominant position of the World Bank and the Monetary Fund in setting the development agenda

There is a multitude of organizations and agencies within the UN system that are involved in promoting development in poor countries: ECOSOC, UNDP, UNICEF, UNFPA, WFP, UNESCO, UNCTAD, WHO, ILO, FAO, IFAD, UNIDO + several commissions and committees. Many of them have little influence and impact; one reason may be that resources are spread thin. However, over time the Bank and the Fund have come to play major roles. They are highly professional organizations, operating through a staff with high skills, and they are able to combine expertise with funds that translate into meaningful activities at the operational level. Therefore, they are often preferred as partners by client countries, and other institutions tend to make their assistance dependent on adherence to Bank and Fund recommendations.

A decline in the role of other UN agencies has led to a dominating, not to say monopolistic, role for the World Bank and the Monetary Fund in

setting the development agendas. This is no fault of these institutions and probably not in their best interest. Greater pluralism of views would enrich the development debate and it would also serve as a quality assurance of the PRSP process. This can be achieved both by more active and coordinated acting by bilateral donors in the field, and by strengthening UN organizations that show potential. However, support for more pluralism should not be confused with allowing much of international development assistance to continue as today: largely ad hoc, uncoordinated, and with very limited transparency.

Our impression is that UNCTAD is one institution that develops and presents alternative development approaches of acceptable analytical standard, and it might be useful to support these efforts and to extend their influence.

3.8 Bilateral donors are not fully involved in the PRSP process

Whereas the Bank and the Fund seem to collaborate well in most countries, with no major differences in views on key policy issues on the process to develop, there are mixed signals on the involvement of the bilateral donors. The Bank and the Fund report on positive support, but the impression from donors is a tendency to follow the process largely from the sidelines.

The vision of a transparent and coordinated donor community, committed to serving the developmental needs of the host country, is central to the CDF/PRSP approach. To a certain extent, there has rarely been broader agreement on these principles than today. Most bilateral and multilateral donors have officially endorsed them, although some grudgingly: *"Nobody paid attention when we proposed them"*. There are encouraging reports from some early CDF and PRSP cases that the donor community – or at least a part of it – is rising to the occasion. However, there are as many reports to the contrary painting a picture of business as usual.

Local representatives of bilateral donors often complain about Bank or Fund excessive conditionality and cumbersome procurement procedures etc., and they complain that the Bank and Fund are arrogantly overriding the host country and are not allowing the bilaterals the opportunity to provide input. The Bank and Fund may complain that representatives of bilaterals are not willing to let the host country take charge of its own development and are refusing to come to the CDF or PRSP table. In private, Bank and Fund staff may mock the bilaterals that push new initiatives down everybody's throat in the Boards of the Bank and the Fund, and attaching an impossible timetable, only to turn around through their field offices with charges of not allowing the host governments to develop ownership.

Lead donors like DFID in the UK, the EU, and groups of likeminded donors as the UTSTEIN group do each sometimes provide larger funds than the Bank or the Fund, and they should be able to match them and work with them on an equal basis in the field. Still the BWIs tend to dominate the aid dialogue at country level. While this may be positive for host countries in some instances since it limits the number of players to relate to, in other cases the BWIs may yield too much influence. At a minimum, the bilateral donors with active country programs should opt for a close dialogue with the BWIs in order to strive towards complementarity of their respective programs, and consensus on key policy issues.

Since the BWIs have gained their dominance mainly via competence and analysis, it is a demanding task for the bilateral donors to gain acceptance for alternative approaches. To be able to play a more active role the bilateral donors would have to cooperate better in the field, and invest more in analytical work, in creating, sharing and applying knowledge and in quality monitoring and evaluations of their programs. Bilaterals are also often well placed to help build capacity for countries' PRS processes, including the capacity to negotiate with the BWIs.

3.9 The PRS approach will set the terms for all aid to countries involved

The PRS approach is a definite challenge to the bilateral donors. The intention of the Bank is to introduce the PRSPs in all *International Development Association* (IDA) countries. This will influence fundamentally the way bilaterals are operating. The attention of governments most certainly will be geared towards a dialogue with the Bank and the Fund that will guarantee next year's credit. Bilaterals that want to influence this dialogue would need to structure their way of working so that they can participate in this information exchange on a more or less permanent basis during the year. Nearly all activities funded by the bilaterals in the public sector will be affected, irrespective of their structure as projects, cooperation with other bilaterals or participation in a program that falls under the PRSP in the concerned country.

There are few signs that the CDF/PRSP approach is leading to a simplification and harmonization of priorities, of time-consuming planning and programming cycles, and of monitoring and reporting requirements. Donors complain about lack of transparency of Bank and Fund operations; but there is also the observation that donors, who tend to be vocal on the need for extensive consultations, have not been eager to participate in consultations that the governments organize. This lack of balance and pluralism in the aid dialogue is a drawback, and combined with a decline in the role of other UN agencies, in particular the UNDP, the BWIs have developed an unhealthy de facto monopoly in setting the development agenda.

3.10 Poverty relief is rightly seen in the perspective of economic growth

Economic growth is an absolute necessity for poverty relief in poor countries, but it may take time for prosperity to trickle down, and how much poverty reduction at a given rate of economic growth varies significantly across countries. The special *Poverty Reduction Strategies* (PRS) are therefore justified.

Growth is also painful. It demands social and economic reforms and adjustments that unavoidably hurt many people. The Bank and the fund have not always been sufficiently careful in their approach to structural change and liberalization policies with a view to balance the long-term advantages and the short-term costs of growth. With more active demand management policies, structural change can be combined with high employment.

The Bank and Fund approach accepts that poverty has many dimensions; that it is not only a question of low incomes but also of marginalization and disempowerment, of illness and lack of education. By reducing suffering it is also easier to maintain political support for the changes and reforms that are necessary for sustainable growth and poverty relief. Without broad popular support reform policies have little chance of being sustained.

Measures to empower the poor and to improve health and education may be efficient also to increase productivity and promote economic growth. Recent research has increased the awareness of human rights in the process of development (Sen, 1999). The key message is that concerted policies to expand access to freedoms such as holding property, participating in economic transactions, taking part in organized activities locally and nationally, obtaining assistance and protection from the judicial institutions, expressing political views, and receiving basic health and educational services are all conducive to equitable economic growth.

3.11 Trade is more important for development than aid

The World Bank should be commended for recent efforts to mainstream trade into development plans. Trade and investment, not aid, are the engines of economic growth. By one estimate from the Tinbergen Institute, developing countries would gain US\$155 billion a year from further trade liberalization. That is over three times the US\$43 billion they get annually in overseas aid.

Massive research shows that not only is internationalization advantageous for economic growth, but trade restrictions in developing countries generally benefit special interest groups and are detrimental to the poor in general. The greatest threat to developing countries is not globalization, but marginalization. The background for complaints about trade liberalization is probably that the liberalization has been implemented too quickly, so that the growth of new activities could not keep pace with the decline in the old that are losing their protection. Reduction of trade restrictions in developing countries should therefore progress carefully.

Debt relief without increased market access is a sham. Developed countries' restrictions and customs on imports from developing countries significantly reduce the developing countries' development potential. Their export credit schemes also distort trade and investments to the detriment of developing countries. The international community has an important role to play; and cooperation between the World Bank, the Monetary Fund and WTO can make significant contributions to facilitate exports from developing countries.

4 Recommendations

4.1 Support the Monetary Fund and the World Bank as they have an increasingly important role to play

4.1.1 Aim at making the Bank and the Fund instruments for a rule-based globalization

The architects of the Bretton Woods system had learnt that international markets need rules and governing structures to function fairly and properly, markets can and do get it wrong (UNCTAD 2000). Since the breakdown of the stable exchange rate system there has been a lack of governance, and the rapid globalization of world markets has left many with a sense of impotence.

It is neither possible nor desirable to police globalization. However, the World Bank and the Monetary Fund, together with the *World Trade Organization* (WTO) and the *Bank for International Settlements* (BIS), could play a larger role than today in moderating and facilitating the development of an international economic architecture that provides a more level playing field for the poor countries. A new doctrine to reduce market volatility and the chances of serious breakdowns that create extensive suffering is useful in itself. It will also help to counter isolationist tendencies that may put the huge potential benefits of globalization at risk.

Any misgivings about the policies of the World Bank and the Monetary Fund (and the World Trade Organization) should not lead to reduction of their roles but rather to efforts to change or modify the policies. Demonstrations against these institutions should be interpreted as misgivings at what national governments do in and through them, not as a lack of willingness to accept international rules and institutions if they are considered fair.

OECD governments should show more courage in defending Bank and Fund board decisions in face of external criticism, and also be more prepared to accept Board policy decisions that

may not always be fully in line with their home-based development paradigms.

4.1.2 The Bretton Woods Institutions must remain important channels for capital for developing economies

The World Bank is uniquely organized to channel funds from world financial markets to developing economies in a way that would not come about without its intervention and which can not be served by bilateral donors. Without the Bank playing this role the resources will be spent elsewhere. There are no other institutions capable of filling the gap that would emerge. The Bank and the Fund can also compensate for the volatility of private capital flows and restore the confidence of the financial markets in developing economies. In 1997, before the financial crisis, 15 countries received 83 percent of the private capital flows to developing countries. That left about 140 developing countries (with about 1.7 billion people) sharing the remainder. The 61 low-income countries, as classified by the Bank, were largely untouched by these flows.

Whatever changes that are proposed, there can be no doubt that poor countries will continue to need financing. Therefore, the financing available to these countries must be maintained, or rather increased. The missions of the World Bank and the Monetary Fund should not be limited to the poorest countries or the middle-income countries. The goal must be to serve all developing countries with critically needed resources for economic development and poverty alleviation.

4.1.3 A stronger positions for the client countries in the governance of the Bank and the Fund

It is necessary to consider the issue of whether the governance of the BWIs could be realigned both to better reflect current economic realities and to give a more active role to the poorest countries. In its early decades, many of their potential clients had a large voice in the institutions' decisions. Today, the main clients

have little influence. Increasing the participation of poor countries can lead to more equity in the rules that govern interactions in the world economy. Also, the Boards and the *Development Committee* could be more concerned with issues that developing countries see as important.

A lack of representation and involvement reduces legitimacy and may thereby harm the effectiveness of country programs, as client countries may come to see the BWIs as dominated by rich countries rather than as impartial advisers and supporters. Many client countries also tend not to take active part in many policy discussions at the Board level, precisely because of this problem. While this is not the only reason that some loan programs have been less than successful, it does play a role in whether or not governments are likely to buy into proposed policy reforms. Just as important is it that the OECD country members of the Boards could demonstrate in word and deed a readiness and ability to discuss the developmental challenges of borrowing countries on their terms.

However, the risk of giving the clients a larger say is also obvious: major shareholders may reduce their commitment to the institutions and thus weaken their ability to finance development. On the other hand broader representation may increase legitimacy and relevance and hence the chances of increasing the effectiveness of country programs, in the sense that policy advice and lending may be implemented with more country commitment. The current efforts by some members to introduce a more nuanced voting system that would give more influence to borrowing member countries without challenging the basic ownership structure of the two institutions should be encouraged.

4.1.4 Defining missions

There is a need for clarification of the missions, and the owners should do more to clarify mandates and the setting of priorities among the multiple, complex and crosscutting agendas that they tend to impose on the Bank in particular and – to a lesser extent – the Fund.

With regard to institutional cooperation, there is the issue of institutional overlap. It is true that public resources are scarce and that institutional overlap in some cases can be detrimental and wasteful. However, in development, where the cost of failure is high and a lack of consensus exists on many issues, some redundancy of effort can be worth the cost in some cases. Diversity of ideas should be valued, not discouraged. This should of course be balanced with institutional capacity – but it means that there is no inherent problem in the Fund and Bank disagreeing openly about some policy choices.

Concerns have been expressed that the BWIs tend to expand their mandates (*mission creep*). Our impression is that such initiatives do not come from the staffs, particularly not in the Bank, because they are already overloaded with new initiatives without corresponding budget allocations. It might be a problem, however, that some members of the boards are overly ambitious on behalf of their respective organizations. By trying to make the World Bank everything to everyone they risk making it nothing to anyone. The management of the Bank has recently asked the owners for clarification on terms of setting priorities among the multiple, complex and cross-cutting agendas and mandates, particularly in light of a tightening administrative budget.

The bilateral donors should improve consistency between their policy views expressed in the BWI boards and by their field representatives by seeing to it that the views of the board are conveyed to local representatives as well as that local experiences are brought to bear upon board decisions. Our assumption is that this might work to moderate board demands on conditionalities and on the many tasks that are imposed on institution staffs.

4.1.5 The Monetary Fund should focus on balance of payments, but with social concerns in mind

The Fund should not become a development institution. Its main focus should remain balance of payments. On the other hand, one must accept that crisis management takes time,

and that political and social concerns are not outside the economic model. It must be made clear that balance of payments is not an end in itself, but one among many preconditions for growth and poverty alleviation.

Structural questions should not be a primary task of the Fund, and the Fund should withdraw where the Bank is actively engaged. Possibly the Fund should withdraw somewhat from active growth and poverty-oriented policies, mainly because of limited capacity. Longer-term lending, the *Extended Fund Facility* (EFF), should be limited, but not eliminated. The donors fund PRGF directly and it cannot easily be transferred to the Bank. This debate is coming in the Fund, but some owners still support the extension of Fund activities into structural questions and long-term lending.

4.1.6 The World Bank is primarily a development institution

The core mission of the World Bank is to fight poverty by stimulating economic growth, and it should remain so also in the future. Two recent major shifts in development thinking raise many issues regarding how the Bank should strengthen its fight against poverty and what the strategic directions should be. The first shift lies in the recent findings and acceptance of a widened definition of what poverty encompasses. The second shift is the reinforced focus on the need for country ownership. Genuinely country-owned development strategies are necessary to be able to reach sustainable effects on poverty reduction.

The Bank should remain a global institution that can transfer experience between countries at different stages of development. Also from the point of view of the Bank's financial position a global portfolio is important. The Bank can serve its development function at a low cost to the donors because its creditworthiness allows it to borrow cheaply. Any restrictions on the diversity of its portfolio can have serious implications for its credit rating.

The World Bank can supplement and spearhead private long-term lending by helping countries

access, and build the capacity to service, available private sector finance. In addition it cannot avoid being implicated in crisis management. For instance it can support the Fund by compensating for private lending volatility.

4.1.7 Do not try to hinder crises at all costs

Many economic crises provide a fertile ground for civil war and political disintegration. On the other hand, it is difficult to find a case where reform occurred without a crisis. It may be a controversial recommendation to let a crisis run its course. However, it will be more acceptable when one keeps in mind that aid is to little avail if there is no willingness to carry out reforms. A crisis may be what it takes to bring about a change in policies. International financial institutions and other aid agencies may sometimes get more value and better results out of providing targeted advice to reform-minded actors and institutions than trying desperately to avoid crisis through loans and grants. A deep understanding of the crisis itself, including its political dynamics, is indispensable for providing proper assistance in times of crisis.

4.2 Support the Poverty Reduction Strategy as a continuous process

4.2.1 A continuous and long-lasting effort

The *Poverty Reduction Strategy* (PRS) approach is showing promising results and should be supported. An overall concern for donors should be to turn the approach into a common framework for country–donor partnerships, and it is important to see it as a continuous process that is to be developed and improved as one moves along. Its integrity must be protected and strengthened, allowing ownership to take root, not only within government but also in the society at large.

The PRSs could increase their leverage with both donors and host governments through explicit linkage to the *International Development Goals*. The Nordic-Baltic caucuses of the two institutions could promote this view in the respective Boards. With focus shifting away from debt relief, the issue should be how

to get indigenous, genuine poverty reduction strategies in place; and how to get the donor community lined up behind them. Needless to say, this will require time and skilful diplomacy, and considerable patience and willingness to let go of the policy-setting agenda at the country level. Experience to date suggests that both the Bank and the Fund still have a way to go in acquiring these new skills.

Related to this potential linking of agendas is also the possibility of fully merging the PRS approach and *Comprehensive Development Framework* (CDF). Both the Bank and the Fund must be encouraged and pushed to give due emphasis to the CDF/PRSP approach as it was originally intended – as the way to organize and steer the development agenda in and by each and every country. The two initiatives are already largely consistent philosophically. The CDF has the added advantage that it provides a venue for more transparent decision making by both host governments and external donors and for broad participation by the private sector and civil society. Thus, it may serve to build ownership and be a remedy against further erosion of public confidence in the BWIs.

On the other hand, it would be a mistake to hold PRS processes hostage to the politically more sensitive challenge of undertaking a CDF in a given country. The CDF/PRSP should not be one-time events linked to debt relief, but rather continuing efforts with the papers being updated and improved as one gains experience.

4.2.2 Balance debt relief with attention to debt management and access to credit markets

Relief of unsustainable debt is both rational and just, as the blame for the running up of excessive debt is often as much with the lenders as with the borrowers. However, it is important to balance debt relief HIPC's with aid to equally poor countries with small debts. Also, debt relief has to be carried out in a way that does not put at risk the countries' future access to private credit markets.

It is becoming increasingly urgent to refocus on qualitative criteria in the aftermath of the year-

end 2000 HIPC deadline. For countries receiving debt relief it is essential for both the Bank and the Fund and other donors to focus attention on debt management capacity specifically, and on capacity building more generally. If not, exit from the debt crisis will be yet another broken hope.

4.3 The Poverty Reduction Strategy should be better integrated with national planning efforts

4.3.1 Avoid replacing national documents

Several countries already had well-developed planning systems before the introduction of the CDF/PRSP, and some had come far with their own poverty strategies. See for instance the section on Mozambique in Annex 3. The CDFs/PRSPs are broad economic and social development programs that are supposed to be linked with the priorities of the national development plans as well as with the Bank-initiated *Medium Term Fiscal Frameworks* (MTFFs) and annual budgets. There has been a tendency, however, to try to impose the CDF or the PRSP as the official documents for development policy. More emphasis should be put on using these approaches as instruments to develop further national policy documents and policy institutions.

The objectives and targets of sector and provincial strategies are difficult to harmonize with the objectives and targets that the Bank and the Fund want to see in the PRS, and in many countries these strategies can be expected to be the main drivers of budget priorities. How the linkages to the already existing national plans are to be carried out in concrete, procedural terms should be made clearer, because priorities spelled out in a strategy have little influence if the linkages to the budgetary process are not strong and clear.

4.3.2 The PRS needs a national anchor

Policy matrix benchmarks apply to responsibilities both at core ministries like Finance or Planning, but also to line ministries. Thus, in reality they structure a development program for a very large part of the public

sector. However, even though most ministries and other institutions concerned seem to be aware of ongoing work they rarely feel ownership or responsibility for the formulation of benchmarks or for implementation of the programs. The tight deadlines that are imposed mean that many who are far away from central government institutions, see the CDF or the PRSP as a *fait accompli* with little room for incorporating alternative viewpoints brought forward during consultations. If hearings do not lead to tangible results they may result in a backlash for the whole process.

There is a need for a coordinating body that takes on the final responsibility of the Government in relation to discussions about e.g. formulation of benchmarks. Planning ministries or Ministries of Finance are the natural counterparts at the top level, but the impression is that they do not perceive themselves as being responsible for the implementation of benchmarks outside their own jurisdiction.

Local experts at universities and research institutions should be involved to a larger extent rather than bringing in Bank and Fund staff or consultants from donor countries. The longer-term perspective should be that client countries develop their independence and their capacities so that they are able to decide on and implement their own development strategies. Then the Bank, the Fund and various other UN agencies etc. will have to compete to deliver and to find their place within these strategies.

The World Bank and the Monetary Fund will need to respond and adjust their operations to homegrown strategies, and must become more flexible to meet the new demands while maintaining their integrity on safeguards established by the international community. They will need new capacity to analyze the political dimensions of development, and will need even greater presence at the country level to become effective dialogue partners to both the government and other stakeholders. They will also need to decentralize decision-making power.

4.4 The bilateral donors should be more active in the PRS process

4.4.1 *Bilateral donors should aim at a balancing role at country level versus the Bank and the Fund*

Concerned bilateral donors could put together their own review teams to evaluate the donor procedures, including the Bank and the Fund, in each of the PRSP-countries. These teams should be structured to go through the policy matrix in discussions both with concerned institutions in the countries and with donor representatives. They should build a comprehensive picture of donor activities with a view to promote complementarity, and find how both the donors and country representatives view the feasibility and validity of formulated benchmarks. To be able to play such an active role the bilateral donors would have to invest more in analytical work, knowledge creation and quality monitoring and evaluations of their policies.

All work by such bilateral teams should be performed completely transparently and in direct cooperation with both the Bank and the Fund and the governments, and information should be possible to use by any concerned actor that would be interested to do so. The Bank and the bilaterals working together in such a program would provide pluralism of views and quality assurance of the PRSP process.

The bilaterals can strengthen the PRSP process and dialogue through their comparative advantages. They have many years of experience in diagnosing and structuring institutional capacity building projects and programs that includes both human resource capacity building activities and system improvements. The bilaterals also have experiences of another and more integrated way of looking at implementation of programs that contain interrelated areas that have to be restructured in a way that considers integrated changes simultaneously.

4.4.2 *Moderate donor emphasis on conditionality and create more ownership*

Conditions for aid and debt relief are necessary; one cannot reward regimes that are corrupt or

not committed to development. On the other hand, too strict guidelines leave little leeway and room for creating ownership. Aid cannot “buy” reform in poor countries that are flatly opposed to it. In spite of this recognition, debt reduction and the *Poverty Reduction Strategy* process are characterized by extensive conditionalities. There is a potential tension – or, put more bluntly, contradiction-between country ownership of PRSPs and donor concerns about the omission from PRSPs of cross-cutting issues that range high on the agenda in their own countries.

Enthusiasm and efforts to implement the PRS process need to be balanced by modesty in setting goals and clear awareness of difficulties and uncertainties in attaining them. Of particular importance is the readiness of donors to accept the process nature of PRS efforts, and to be flexible both in evaluating progress towards targets and in deciding on consequences of non-fulfillment. Unrealistic conditionalities combined with threats of strict sanctions that are not carried out are counter-productive.

An overall impression is that even under favorable circumstances the process of developing a *Poverty Reduction Strategy* in client countries is not an easy one. The donors should be concerned about how countries can cope with the onerous demands that this process places upon a country’s government, public servants and civil society. Bilateral and other donors should provide support for expanded technical assistance to upgrade public expenditure management systems in poor countries.

4.5 Reward good governance, but search for ways to help the poor in countries with poor policies (the “drop-outs”)

The arguments in *Assessing Aid* and *Aid and Reform in Africa* are convincing: development finance to countries with poor governance has had little impact. Providing significant amounts of money has not made much of a dent in countries with weak management. There is little evidence that inadequate policy and institutional environment can be overcome by targeting assistance to specific activities – such as health or education. Further, strict conditionality is not likely to result in better governance. Consequently, the new approach is that more of the aid should be channeled to countries that have demonstrated good governance. Particularly, one should reward and follow up when there is a success. That will both increase aid effectiveness and increase the legitimacy of development aid in donor country constituencies.

On the other hand, there is an obvious risk of a vicious circle from poverty, to poor governance and back to more poverty, sometimes with political breakdown and instability as the end result, and with the poor in countries with bad governance risking being left behind. That is not acceptable on humanitarian grounds, and it is also in the best interest of rich countries to do something about it to reduce political instability and risks of spreading of contagious diseases.

Bilateral donors and NGOs can play an important role in efforts to reach vulnerable groups and build the base for policy change in countries with weak or corrupt regimes. They can supplement the “blue-print approach” of the Bank and the Fund that depends on a policy dialogue with national governments.

Annex 1 A brief review of development theory

A1.1 Aid and development – a dismal record

The progress toward the seven international development goals is slow. It will not be easy to achieve the goal of reducing the proportion of people living in extreme poverty by half between 1990 and 2015. Progress has been uneven. Most of the worldwide decline in poverty has been in East Asia, notably China. In the rest of the world, although the proportion of people in poverty has declined, the number of poor people has increased because of population growth.

(Finance & Development, December 2000, Volume 37, Number 4)

It is not simple to form an impression of the development of poverty and inequality – or of the impact of globalization. Some measures indicate increasing inequality: in 1963 the richest 1/5 of the world population had 71 percent of world GDP, and the poorest 1/5 2.3 percent. Now the numbers are 89 and 1.2. In spite of many years of development aid, both bilateral and multilateral, poverty and economic stagnation is prevalent in the least developed countries (LDCs). According to the *Human Development Report 2000* (UNDP 2000) average GNP per capita in the LDCs fell by an annual rate of 0.3 percent from 1975 to 1990. It grew on average by the modest rate of 0.9 percent from 1990 to 1998, but 17 countries out of 40 continued to decline. There are indications, however, of a somewhat better performance in the second half of the 1990s (UNCTAD 2000).

On the other hand, the share of the world population living on less than US\$1 a day is down, and outside Africa even the absolute number living in extreme poverty is down by 100 million since 1990. A study from the Norwegian Institute of International Affairs (Melchior 2000) indicates a certain reduction in world inequality as measured by the Gini-index, but the result is heavily influenced by the positive development in China. This study also draws attention to the fact that inequality is

much less dramatic when expressed in Purchasing Power Parities.

The fact remains, however, that, if present trends are an indication, none of the International Development Goals (IDGs) (OECD/DAC 1996) on health and education – namely, a two-thirds decline in infant and under-five mortality, a three-quarter decline in maternal mortality, and universal primary education for all by 2015 – are likely to be achieved at the global level without a more concerted powerful campaign.

The trading system has probably done more to boost living standards and lift people out of poverty than any government intervention. The 17-fold rise in world trade since 1950 has gone hand-in-hand with a 6-fold rise in world output. This has benefited both developed and developing countries: in both, living standards have risen three-fold; life expectancy in developing countries has risen from 41 to 62 years, infant mortality has more than halved, and the adult literacy rate is up from 40 percent to 70 percent (Moore, 2000).

A1.2 Evolvement of development theory

From the 1940s to the early 1960s economists saw accumulation of physical capital as the key to development. A second phase recognized that human capital provided another and more inelastic constraint on development. In the third phase, which started about 1970, development theorists emphasized that the policy environment influenced the level, and dominated the productivity of investment. The major theoretical advance of the 1990s stemmed from experience that the transition from centrally planned to market-based economies involved building the institutional infrastructure of a market economy. This experience was complemented by a growing recognition that weak fabrics of society and bad institutions can sabotage good policies.

Much more is known about how to achieve macroeconomic stability than about how to achieve long-term sustainable growth and poverty reduction. There is little debate about the need to avoid large budget deficits, prudently manage debt, carefully monitor large current account deficits, avoid overvalued exchange rates, shun heavy reliance on short-term borrowing, and have enough reserves or emergency credit lines available to cushion against adverse shocks. On how to achieve long-term growth and poverty reduction there is far more disagreement. Growth has been shown to depend on a wide variety of local factors, including the degree of initial inequality, ethnic fragmentation, and even geography. And discussions of poverty reduction have widened over the years from considerations of economic growth alone to those of education, health, institutional strength, social norms, human rights, and many other factors. Beyond broad macroeconomic fundamentals, and the importance of education and health, there is little consensus on the correct policy mix for pursuing growth and poverty reduction.

A1.3 The Washington Consensus

A1.3.1 The origin

Professor John Williamson coined this phrase in 1990. He intended to describe the lowest common denominator of policy advice addressed to the Latin American countries in 1989. It summarizes the policies that were widely viewed as supportive of development at the end of two decades when economists had become convinced that the key to rapid economic development lay in the set of economic policies that it pursued and not in a country's natural resources or even in its physical or human capital:

- To *cut government budgets* and subsidies and redirect public expenditure toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.

- To *lower marginal tax rates* and broaden the tax base.
- To *liberalize (raise) interest rates* and set a competitive exchange rate.
- To *open national economies* to foreign imports and foreign direct investment and to increase exports.
- To *deregulate*, abolishing barriers to entry and exit.
- To *privatize* public operations and public companies
- To *secure property rights*.

However, over the years the term has been invested with a meaning that is significantly different from the original. It is used as a synonym for neo-liberalism and market fundamentalism, and in this meaning it has been attacked, for instance by Joseph Stiglitz and George Soros.

Williamson maintains (Williamson 2000) that the term the Washington Consensus must be understood against the background of the orthodoxy of the policies that it challenged in 1989, and that were much more statist than advisable. Hence the policy reforms that were needed at that time were all in the direction of liberalization without necessarily implying a swing to the opposite extreme of market fundamentalism and a minimalist role for government. Most of the reforms are at least potentially pro-poor even if the Consensus was not a manifesto adequate for addressing poverty. There is no reason why the Bank should back away from endorsing the original version of the Washington Consensus in view of its focus on poverty reduction. However, there is clearly a need to supplement the Consensus with an outline of policies in a world that takes poverty reduction seriously. In such policies institutional development will play a dominant role.

A1.3.2 The Joseph Stiglitz critique

Joseph Stiglitz was chief economist in the World Bank from 1997 to 1999. Already in this position, but even more in his present positions as professor at Stanford University and senior fellow at Brookings Institution, he has voiced strong criticisms, particularly of Fund policies. He has strong objections to the Fund's policy of making loans to countries contingent on far-reaching internal changes. *"Of course, any lender will need evidence the loan can be repaid,"* he recognizes. *"But the conditionalities the IMF imposes have gone well beyond anything required for repayment."* He argues that the crash privatization program, in a country with no working democratic, legal or financial regulatory system, creates a corrupt new oligarchy that blocks economic growth; and he also finds that the liberalization of international trade and of capital market has been carried out too quickly. In face of recession, a little deficit spending might be necessary, he maintains.

A1.4 Recent emphasis on good governance

Two recent reports from the World Bank, *Assessing Aid: What Works and What Doesn't, and Why* (World Bank 1998) and *Aid and Reform in Africa: Lessons from Ten Case Studies* (World Bank 2001) are clear in the message that providing significant amounts of money has not made much of a dent in countries with weak management. There is little evidence that inadequate policy and institutional environment can be overcome by targeting assistance to specific activities-such as health or education. In addition they find that aid *"is not a primary determinant of policy"* and *"Variables under donors' control had no influence on the success or failure of reform. Aid cannot 'buy' reform in poor countries that are flatly opposed to it."*

Both the Bank and other development institutions have accepted these findings, and channel funds mainly to poor countries with sound policies. The *International Development Association* (IDA), the World Bank's soft loan facility for the poorest countries, uses rankings of policy effectiveness in allocating its funds.

The dilemma remains what to do for the poor that live in countries with weak governance.

A1.5 Economic growth is necessary for poverty reduction, but ...

The poor suffer from the harsh measures necessary for economic adjustment, but they are also the first to suffer from macroeconomic instability. Fund management has emphasized that concern for the poor is a necessary ingredient of crisis response. However, the reciprocal linkages between macroeconomic adjustment and social development are reportedly still not fully accepted and integrated in the Fund's policies.

Poverty encompasses low income and consumption levels. Therefore economic growth is a sine qua non for poverty reduction. Without economic growth there is no decent way out for the poor. Yet poverty is also powerlessness and voicelessness, vulnerability and insecurity. The standard desiderata of growth policies leave considerable room for maneuver, and different growth policies may have different impacts on distribution. In addition, PRS is taken to imply that policy packages shall contain programs that are directed directly toward short-term relief for the poor. However, these programs may draw resources away from policies to promote long-term growth. Still we have not found explicit criteria for how to strike a balance between short-term relief and long-term growth.

Stiglitz coined the phrase: *"Too much shock, too little therapy"* in his critique of the Monetary Fund and the Washington consensus. Compared to the extreme care and the long adjustment times allowed for instance in the creation of the European internal market, it strikes us that Stiglitz has a point. The Fund, but also the Bank, seems to believe in shock therapy, both in crisis management and in structural change, to an extent that has rarely been practised in the industrialized countries since the Keynesian revolution in the late 1930s. The result is probably excessive human

suffering and definitely little legitimacy of, and much political resistance to, their policies.

One often hears complaints that globalization and opening up countries to international trade hurt the poor, for instance by the ATTAC movement. However, massive research shows that not only is internationalization advantageous for economic growth, but many trade restrictions in developing countries benefit special interest groups and are detrimental to the poor in general. The background for the complaints is probably that trade liberalization may be implemented too quickly, so that the growth of new activities cannot keep pace with the decline in the old that are losing their protection.

Developing countries continue to need substantial inflows of capital. Private flows to developing countries reached US\$227 billion in 1998 and now far exceed aid flows in some countries. In fact, private flows in 2000 accounted for almost 90 percent of total resource flows to developing countries. However, these figures are highly misleading. In 1997, before the financial crisis, 15 countries received 83 percent of the private flows to developing countries. That left about 140 developing countries (with about 1.7 billion people) sharing the remainder. The 61 low-income countries, as classified by the Bank, were largely untouched by these flows.

A1.6 Tradeoff between growth and poverty relief?

Economic growth is an absolute necessity for poverty reduction in poor countries. However, growth is not always sufficient, at least in the short run. It takes time for prosperity to trickle down. A broad consensus seems to be emerging in which social engineers accept that economic growth and sound macroeconomic policies are necessary conditions for reducing poverty, and the free-market advocates accept that they are not sufficient conditions. Stability fosters growth, and growth is indispensable to reduce poverty. Experience suggests that the poor should be given a greater say in defining their

own needs, not only for ethical reasons but because it helps economically, too. The implication is that the debate on growth versus poverty reduction is meaningless, and that it diverts attention from the real question: what works, how and under which circumstances?

Four arguments speak in favor of entering the well-being of the poor as an independent determinant of policy choices in addition to macroeconomic stability, microeconomic efficiency, and good governance:

- The standard desiderata of growth policies leave considerable room for maneuver.
- Different growth policies may have different impacts on distribution.
- Poverty is associated with market imperfections such as poor access to public goods such as property rights, public safety, and infrastructure. Reducing these imperfections may be the most efficient way to increase average income.
- Income and consumption are too narrow indicators of development. The overarching goal is to maximize people's ability to lead the kind of life that they value. The poor face the greatest hurdles in this area.

There is little evidence that rapid economic growth or globalization exacerbates inequality or is making people poorer. On the contrary, research suggests that the poor generally benefit from greater exposure to international trade and investment, even though faster growth in some countries leads to more equal incomes and in others to greater inequality. Estimates of the potential welfare gains for developing countries from a 50 percent worldwide reduction in barriers to trade range from \$110 billion to \$140 billion a year.

A1.7 Why lending for public spending?

Doubts are voiced both by bilateral donors and UN agencies about the wisdom of extending loans instead of grants to indebted countries for

public spending. It is assumed that projects that are not generating cash results, or preferably foreign currency, will not contribute towards servicing the debt incurred. However, the decisive question is whether the funds are spent in a way that increases growth. Investments in education and health may be as productive as investments in physical infrastructure or productive capacity, and should not be discriminated against. Even the common rule against aid financing recurrent costs is not always justified.

A1.8 Poverty reduction in middle-income countries

A1.8.1 General

80 percent of the world's poor live in middle-income countries. To the extent that the Bank and the Fund can make a difference for the poor, by increasing the room for investment or by using cheap loans and other support to leverage policy and institutional change, this is an argument that they have a role also in middle-income countries. How large a role depends on whether the poverty impact is on par with the impact in the least developed countries? In this connection one has to consider that sector specific lending in countries with a certain degree of fiscal freedom of action may have little influence on actual sector allocations because of fungibility.

Not only are middle-income countries important for global financial stability, but developments in them are also important for poverty reduction elsewhere. Many of them have yet to put in place crucial structural and social reforms that will move them to the next stage of development. Helping these countries meet their development challenges is central to the Bank's overarching mission of tackling global poverty, and towards the realization of the international development goals.

The economic well being of the middle-income countries can translate into trade opportunities for low-income countries; on the other hand, financial instability, environmental degradation, and the proliferation of communicable diseases

can have deleterious effects far outside their own borders.

Some middle-income countries have some access to private lending, but few have an investment grade credit rating. Even those countries that have a credit rating do not have continuous access to international capital in the size they need or on terms that are manageable for them. Up to now private lending has been concentrated on a few countries (50 percent of private capital flows to developing countries go to China, Brazil, Mexico and Argentina) and many purposes that are important for development cannot find private finance. Moreover, World Bank lending may have a catalytic effect: *It crowds in private capital, it doesn't crowd it out.* The role of the Bank must be to supplement and to spearhead private lending by helping them access, and build the capacity to service, available private sector finance. The risk of crowding out should be limited. Many borrowers find bank borrowing so cumbersome and costly that they prefer other lenders if they have an opportunity.

A1.8.2 Crisis lending

One additional element is that private lending is volatile; it is not available when the countries need the credit most. Middle-income countries should be eligible, like all countries, to borrow from the Fund in times of macroeconomic crisis. In the Asian crisis the Bank played an important role together with the Fund by providing counter-cyclical financial support and financial support for social and structural programs at times of market dislocation. Still there seems to be some hesitation about the role of the Bank in crisis lending.

The financial crises showed that it is difficult for the Bank to quickly pick up operations in countries where it no longer has ongoing operations. Therefore, a continued Bank presence in emerging market economies is important if one wants to maintain the capacity for crisis lending. Operational experience of lending preparation and monitoring keeps the Bank's advice practical and focused.

The Bank should remain a global institution that can transfer experience between countries at different stages of development. Also from the point of view of the Bank's financial position a global portfolio is important. The bank can serve its development function at a low cost to the donors because its creditworthiness allows it to borrow cheaply. Any restrictions on the diversity of its portfolio can have serious implications for its credit rating.

A1.8.3 Crisis management – Conditionalities

The Fund's use of policy conditionality beyond strict macroeconomic policy, ranging into deep structural and institutional changes, has given rise to a broad debate. When the Fund lent to the crisis-hit East Asian countries in the late 1990s, the conditions on its loans struck deep into the structure of those economies, including such issues as labor laws and the ability of foreign investors to acquire local businesses. It is argued that this far-reaching conditionality can have two negative effects. The first is that it discourages countries from coming to the Fund until they have no choice, so that the situation may be far more serious and difficult than if the Fund had been called in earlier. The second effect is that foreign investors may assume that the problems are not short term in nature, but rather deeply structural, delaying the return of investment. This not only may have further harmful effects on the economy (especially in the poorer countries that are less well known to investors), but as in the recent case of the Asian countries, it may simply be wrong.

The bounce-back of most of the crisis-hit Asian countries has been remarkable, and it is argued that it has had little to do with the implementation of structural reforms since the crisis. This expressed by Paul Krugman in the International Herald Tribune issue March 11-12, 00:

In Asia the Monetary Fund seemed to want to restructure whole societies from the ground up. Some plausibly argue that the rebound suggests that how excessive the Monetary Fund's demands were.

When crises are caused by policy errors on the part of the government, it is reasonable that lending institutions should condition their loans on a restricted set of macroeconomic changes tightly focused on making repayment probable. Because many such policies can be altered quickly, stability can be restored. Outside of macroeconomic policy, however, and certainly in times of stability, conditionality should be used only as a tool for the country government to impose restrictions on itself, for example to reduce the temptation for inflationary spending. Outside these situations in which the government firmly supports the conditions, conditionality has not been effective in promoting structural and institutional reform. Moreover, the rapidly increasing number of conditions has been intrusive and burdensome, especially to poor countries with already limited institutional capacity.

Annex 2 Some developmental challenges

A2.1 Good governance

A2.1.1 *The emphasis on governance is useful, but ...*

The reports from the World Bank, *Assessing Aid: What Works and What Doesn't, and Why* (World Bank 1998) and *Aid and Reform in Africa: Lessons from Ten Case Studies* (World Bank 2001) are clear in the message that providing significant amounts of money has not made much of a dent in countries with weak management. There is little evidence that inadequate policy and institutional environment can be overcome by targeting assistance to specific activities – such as health or education. Their recommendation is therefore that more of the aid should be channelled to countries that have demonstrated good governance, and they provide indicators that can be used to identify good governance. A word of warning is that aid may have perverse incentive effects and it risks sustaining poor policies and deterring key social and economic reforms since it provides an easy way out of macroeconomic problems for the government.

The reports are weaker on what donors can do in countries with weak policies or corrupt regimes. There is the obvious risk of a vicious circle between poverty, poor governance and poverty. So the poor in such countries risk being left behind. That is not acceptable on humanitarian grounds, and it is also in the best interest of rich countries to do something about them to reduce political instability and sources of contagious diseases. Probably the task of inducing or facilitating policy change in countries with weak or corrupt regimes is more suited for the bilateral donors. They can complement the “blue-print approach” of the Bank and the Fund by their experience in diagnosing and structuring institutional capacity building that includes both human capacity and system improvements.

A2.1.2 *Aid that is aimed at stimulating policy reform*

The paradigm that underlies the increased emphasis on programmatic lending is that good governance is important/necessary for aid to be

effective. This was the basic message of *Assessing Aid*. On the other hand, *Aid and Reform in Africa* finds that donors have had little or no influence on client country policies in spite of their efforts. That calls for modesty as regards what can be achieved by an elaborate design of Bank instruments or by extensive Fund conditionalities. It also casts some doubt upon the great emphasis put on the poverty reduction strategy papers. It should be seen as a paradox that the Bank and the Fund, which often are accused of being reckless *free-marketeters*, are the prime proponents of planning and an active state in the PRSP-countries.

There are those that maintain that the long-term effect of aid mainly comes via increased investments, and that increased investment adds to the growth rate even when governance is poor (Hansen and Tarp 2001). This is not necessarily an argument for investment lending, however, as the bottom line is that any form of transfer of resources increases the room for investment. Our conclusion is that it seems obvious that if overall policies are grossly inappropriate aid is unlikely to have much effect, and that unless sound policies are domestically supported they are unlikely to be sustainable. The emphasis on programmatic lending can hardly be detrimental unless conditionalities are too extensive, and it may bring some advantages.

A2.1.3 *A limited role for conditionality*

Aid and Reform in Africa is clear in the message that aid “is not a primary determinant of policy” and “Variables under donors’ control had no influence on the success or failure of reform. Aid cannot ‘buy’ reform in poor countries that are flatly opposed to it.” Economic policies are primarily driven by domestic policies, not by outside agents. In spite of this finding the PRSP process and the HIPC Initiative are characterized by extensive conditionalities.

There is a potential tension – or, as some people more bluntly put it, contradiction-between country ownership of PRSPs and donor concerns about the omission from PRSPs of important cross-cutting issues such as environment, HIV/AIDS or gender. At one extreme, to try to force such issues into a country's PRSP would violate the principle of ownership. At the other extreme, to ignore them would be contrary to poverty reduction goals and best practices of development, which have been endorsed by the international community in United Nations conferences.

The Bank's evaluations in *Assessing Aid* and in *Aid and Reform in Africa* point toward modesty with regard to the scope for influencing client country policies by designing sanctions and incentives connected to lending and other forms of aid. There is also a potential conflict between the need to promote ownership and the expressed emphasis in the board on conditionality and fiduciary controls. The recent emphasis on track records, *Economic and Sector Work* (ESW), and on *Country Policy and Institutional Assessment* (CPIA) is a promising sign. However, that attention is redirected from specific policies toward good governance in general.

Furthermore, the use of policy conditionality without real endorsement by the government turns out to be an ineffective instrument for policy reform. Complex structural changes take time, and the use of policy conditionality as an instrument of policy reform has been shown to be far more effective in the short term than in the medium to long term. Much of this has to do with the domestic political process that rightly should be involved in mediating such structural changes. Issues such as labor flexibility are deeply political, and governments must be fully behind such reforms in order to adopt and sustain them. If a country government does not believe in (or own) a policy reform, or if domestic political conditions are such that the reform is difficult to implement, the chances are overwhelming that the reform will not be sustained. This is why it is important to view the

present poverty reduction effort within a sustained and long-term perspective.

A2.1.4 Crises may lead to changes

Aid and Reform in Africa points out that it is difficult to find a case where reform occurred without a crisis. However, leadership in crisis matters, and the combination of economic crisis and the existence of significant natural resources provides a fertile ground for civil war and political disintegration (see for instance Karl, 1999).

A2.1.5 Institutions are important

While the Bank and the Fund spend a lot of energy to formulate and reformulate individual benchmarks, not the same amount of effort is put in the formulation of how to achieve those necessary institutional capacity improvements that would make it possible to accomplish what was formulated as benchmarks. This way of thinking is also reflected in the substantial number of special groups, committees and studies that are being proposed. These external structures will probably have to use available competence at concerned institutions to succeed with what is intended through their introduction; thereby additionally hampering institutional capacity building efforts with regular government structures.

A2.2 The balance between macroeconomic and social and structural issues

A2.2.1 Roles of the World Bank and the Monetary Fund

HIPC/PRSP give clear operational guidelines. The client countries shall be in the driver's seat. There are constraints, or rather requirements, as to themes but not as to measures. Of course the desire to act quickly opens for being wise after the event. One question raised is whether one proceeds too rapidly and poses too lenient demands on recipient countries to be able to achieve targets.

Comments have been forthcoming that there is too little focus on macroeconomic and structural policies in poverty reduction strategy papers; one should not forget that even if economic

growth is not always followed by a corresponding reduction of poverty, growth is undisputedly necessary for a sustainable reduction in poverty. Further, it is maintained that there should be a clear division of labor between the Bank and the Fund, but the dividing line is often blurred and the Bank's role in this field is also important. International trade does not receive adequate attention; for instance, one should ask how the Bank could address the negative consequences for vulnerable groups of trade liberalization/globalization. One should also ask what role the Bank (and the Fund) can have in promoting equity in borrowing middle-income countries. The leverage that the Bank has depends on the attractiveness of Bank loans to the borrowers.

A2.2.2 Globalization

Over the last 30 years, several developing countries have participated in trade liberalization, but the gains from trade have been uneven. Low-income countries, particularly in Africa, have been less able to capitalize on liberalization and world trade growth, not the least because rich countries impose restrictions on the import of products where these countries have potential, as textiles and agricultural produce. Both the Bank and the Fund may have a catalytic function in increasing trading opportunities for Africa and other developing countries, to boost their capacities to negotiate with the *World Trade Organization* (WTO) and rich countries. The costs of adjustment to freer trade have caused suffering and resentment, and more could be done to smooth the adjustment process.

Rich countries must get serious on trade. Barriers to developing-country exports in industrialized markets continue to severely disadvantage poor countries. They should also reconsider carefully their own export credit schemes, which distort trade and complicate the debt situation. Industrialized countries spend more than US\$300 billion a year on agricultural subsidies. That is roughly equal to the total GNP for all of sub-Saharan Africa. And yet even today developed-country tariffs on meat, fruits and vegetables – all primary exports from the developing world – can exceed 100 percent.

A2.2.3 The costs of adjustment

Although the Monetary Fund has been criticized for the expanded relationships it has developed with poor countries, it is its shorter-term crisis lending that has drawn the most attention in recent years. The Monetary Fund has become the organizer of massive rescue packages for countries experiencing crises that threaten the global economic system. The Monetary Fund's actions in these crises, particularly in the Asian-Russian-Brazilian financial crisis of the late 1990s, were heavily criticized – both for not preventing it (or not sounding the alarm earlier) and for the initial austere policy prescriptions that were proposed. The effect of these crises – and indeed all macroeconomic crises – on poverty has been severe. Therefore the question of whether the Monetary Fund could have done more to prevent the crises, or more to cushion the blow once they struck, is profoundly important for development policy.

Annex 3 Case studies

A3.1 Introduction

This annex is based on a NORAD memo for the annual World Bank Consultation in Washington D.C. 11–15 December 2000 (NORAD 2000) and on responses to a questionnaire that NORAD, in cooperation with ECON, circulated to a number of Norwegian embassies in January 2001.

A3.2 Bangladesh – donor behavior

There has been little motivation for, and no ease with which, Bangladesh could enter into a PRSP-process. The government has been sceptical toward entering another capacity-consuming planning process, and is ambiguous about the donors' willingness to accept true ownership. Using their 5-year plans as the base for donor coordination and development strategies, up to midyear 2000 the donor community including the Bank accepted the Government's reluctance to enter into a CDF/PRSP process.

A PRSP process has now been started, and the Bank has fixed June 2002 as deadline for a complete PRSP. However, little progress was registered by early 2001. Bangladesh has no current credit with the Fund. The dialogue with the Fund is focused on macroeconomic questions as servicing of debt, currency reserves etc. The poverty perspective has not been prominent.

The Bank emphasizes poverty reduction as a central objective, but the measures chosen are neither innovative nor radical. In the new *Country Assistance Strategy* (CAS) it is difficult to find clear criteria for striking a balance between support for the poor and general measures to promote economic growth, and it does not define particular target groups.

Several questions can be raised. What steps should the Bank take to assure the government in Bangladesh about the Bank's intention to enter into a truly country-owned process? How

far is it possible to stretch the requirements for the PRSP so that as much as possible of the 5-year plans may be incorporated as possible?

The Bank's procedures are still characterized by closed planning procedures with the Government but without interplay and cooperation with other donors. In one instance, the Bank and a few other donors, without consulting other donors, initiated and more or less finalized a dialogue with the Government for future funding of the non-formal education sector. Even if the local Bank representative is cooperative this attitude is not fully reflected at lower levels or back in Washington, D.C. The Government probably sees an efficiency gain in relating to one donor institution only.

A3.3 Ethiopia – a complicated situation

Both institutions have been very active since the war ended late summer 2000. They are acting in unison, both in front of the Government and with regards to the donor community as represented in the *Donor Assistance Group* (DAG). Their legitimacy cannot be questioned, but their role in a broader development context is, however, more complicated.

The Bank will always operate at the juncture between policy and politics. At present there is an emergency situation that presses all actors to commit support for post-conflict activities. The impression in the DAG is that there is a marriage between the Bank and the Government that invites the Bank to mainly support the political agenda. The DAG has argued repeatedly that it is not convinced that there is congruence between this agenda and the basic needs of the poor. Thus, it remains to be seen whether the poor will share in the benefits from economic growth.

There is a need for analysis to uncover the inhibiting factors for sustained development over the past ten years. Here the Bank could

play a crucial role, but recently the Bank has decided to run a race with the authorities that excludes a number of critical considerations from the DAG from being brought on the agenda. Foremost among these is the need to establish why Ethiopia has had a declining productivity, especially within agriculture. There is undoubtedly a link to the current political agenda that is founded on an ancient land regime in which the land is state controlled and thus not available as collateral. There is also a need to assess the capacity to absorb the forthcoming massive influx of funds.

The seemingly limited interest of the Bank to place the issues raised by the DAG on the agenda has created discontent with the Bank's approach. One consequence is partial donor withdrawal, so in this context, crowding out may take place.

The Fund has conducted a number of missions to Ethiopia to establish the macroeconomic interventions necessary to reach the HIPC decision point during the spring and for the interconnected balance of payment support. According to the Fund these interventions are an absolute necessity to create economic space to cope with the after-effects of the war. In the discussions with the Fund, there has been little emphasis on specific protective measures for the poor. Food security, which is at the forefront in the post emergency situation, is merely treated as a trickle-down effect. Furthermore, major elements of the PRGF remains largely unknown to the donor community as time constraints seem to deny the Fund representatives a meaningful dialogue with the funding agencies.

Viewed as a recovery package, the parallel interventions called for in the matrix in the I-PRSP represent a major shift in a direction that potentially can create an economic environment conducive to growth. Short-term balance of payments support is in place to re-establish domestic and international financial credibility. However, unless it is followed up with long-term lending agreements it may not represent a lasting remedy.

It would be an exaggeration for the Fund to claim increased transparency, most information has to be dragged out rather than freely delivered. Increased openness in the preparatory phases would allow for more insight and thus qualified opinions on both the rationale and objectives of the Fund's interventions.

The Bank and the Fund seem to work well together. Glued by the objectives and targets of the I-PRSP, they have formed an alliance with the Government that has made possible the harmonization of approaches.

A3.4 Malawi – strongly donor influenced

Both the Bank and the Fund present poverty reduction as their main aim. However, whereas the Bank emphasizes social sectors and poverty nets in its programs, the Fund seems not to have changed its approach. On overall macroeconomic policies there seems to be agreement between the two.

Malawi is one of the strongest donor influenced countries in the world. There seems to be little open disagreement between the Government and the Bank and the Fund. However, disagreement is evident in the slowness of implementation of agreed policies, e. g. privatization. Country ownership is weak, and is hardly getting stronger.

There is a clear discrepancy between macroeconomic policies and stated goals for the social sectors and for supporting the poor. In other words, budgets are too small to achieve the goals. The stabilization and growth policies have not been successful, since *Social Action Programs* (SAPs) have been implemented since 1981, with no noticeable impact on growth. The Bank and the Fund explain this by the lack of implementation by the Government.

There is no awareness of confusion, clashes or inconsistencies between the Bank and the Fund, and there is never any problem obtaining information from the local representative of the Fund.

A3.5 Mozambique – strong ownership

The PRSP process in Mozambique got off to a good start by building upon the existing *National Poverty Reduction Plan* (PARPA). Also, the development of a new *Country Assistance Strategy* (CAS) late 1999 and early 2000 included a consultation process with central stakeholders at central as well as at provincial levels. The final CAS is very well related to basic needs and poverty reduction.

A Sida/NORAD study (October 2000) of the I-PRSP process in Mozambique shows that all in all it has been relatively successful so far. It is, however, concerned about two points. The process has been under a lot of time pressure, and this may have weakened the ownership of the I-PRSP, even though it builds upon the already existing national poverty reduction plan. In fact, the consultation process for this domestic plan was also limited due to time pressure. Both the I-PRSP and/or the national poverty reduction plan are known of in relatively large circles, but at the time of the study many government officials and almost no one outside the Government had a copy – or had even seen one. The report further stresses that there was some worry about a backlash against the PRSP process when people felt that though they had been consulted, they had not been heard. If the input into the PRSP process does not rapidly show tangible changes in policy, the entire process may be discredited. There is a real risk of this due to planning fatigue in the population and within government.

The Government's ownership of the development agenda has been strong all the time. Still, it may be possible to increase ownership through participatory processes in the period leading up to the deadline for the final PRSP. Since this is a very short period of time, it may be possible to use the annual updates as an occasion to attempt to increase ownership of the PRSP. The time pressures would be even more acutely felt for countries that don't have a poverty reduction plan to build upon, and in such instances extending the interim period, with appropriate interim financing, may be necessary.

The second concern is about the implementation of the strategies of the PRSP and the national poverty reduction plan in the budgetary processes. In Mozambique the responsibility for both the national plan and the PRSP lies with the Ministry of Planning and Finance. This helps ensure that the PRSP will be prioritized in the budgetary process, but may lead to problems with the relevant sector ministries. However, we focus here upon the present lack of concrete, procedural linkages between the PRSP and other plans in terms of resource allocation. The PRSP is supposed to be a general strategic document, but the lack of concrete plans also makes it very difficult to employ it in the budgetary process. At the same time, other instruments such as the 5-year development plan and the *Medium Term Fiscal Framework* (MTFF) lend themselves much more easily to budgetary implementation. The Sida/NORAD study shows that the I-PRSP is not fully coordinated with these other plans, so some deviation from the PRSP is to be expected.

The PRSP is a national strategy, and at the same time Mozambique is developing sector and provincial strategies. These are parallel processes, and coordination of the strategies will present a challenge. How the PRSP will link with the provincial processes is unclear. The strong donor involvement in development plans at the local level may also undermine the national efforts, unless the donors also actively support coordination. Again, in this country case many of the elements that are necessary for a successful PRSP process are in place, yet there are clear difficulties with the actual implementation of the strategies, especially in the budgetary process. While the final PRSP is supposed to specify these links more, the nature of the PRSP as a general, national planning instrument will pose a problem for implementing the strategy at the specific, local level. Improved ownership, better budgetary links and further coordination with other national and local plans is necessary.

There is definitely a risk that loan funds crowd out grant funds. The Bank in some cases has its own interest in project funding.

As to the social costs of structural adjustment, there is still discussion on protection of industry. The private sector especially argues for the need for protection of infant industries. Some years ago a number of factories in the cashew industry had to close down, and thousands of workers lost their jobs because the Fund forced a lowering of export duties on cashew nuts. The discussion now continues in the sugar industry. The Fund has recently eased its stand on limiting the share of public expenditure on social sectors. The cooperation between the Fund and other donors is very close and good, but when it comes to availability of information and documentation, there is still room for improvement.

No clashes or inconsistencies are observed between the Bank and the Fund. They cooperate and often share roles even if their respective roles are well defined.

A3.6 Nicaragua – a new attitude

There are indications that the Bank and Fund commitment on poverty reduction has been translated into a new attitude when dealing with the Government and the civil society. New conditionalities on transparency, good governance and participation illustrate this attitude, although this has come about in Nicaragua as a result of strong pressure from bilateral donors. This new attitude, considering social development as a parallel requirement to economic growth, seems to have improved their legitimacy. Of course, some critics maintain that the changes are merely cosmetic.

Coordination between the two institutions appears close, but the Fund is often quick to underline that the PRSP is not their responsibility. Country ownership of the development agenda has become stronger. However, there is no other overall strategy in terms of budget allocations and planning that would indicate that there is a genuine development agenda with overall priorities for the use of the country's resources.

Bank lending per se does not crowd out grants from other donors. However, there is a perception that the Government prefers to deal with the Bank rather than with the (European) donors, because the donors are tougher when dealing with governance and corruption. It is also important to be aware that it is the *Inter-American Development Bank* (IDB) that is the leading lender in Nicaragua and that the World Bank plays a more limited role. On the other hand, whereas the IDB has the responsibility for the CG-meetings and is supposed to be the coordinating entity, it does not fill this role. That leaves the Bank and the Fund in a de facto leading role.

There are no signs of enhanced transparency of the Fund's analytical work or its lending activities. On the other hand, there is no evidence of conflict or confusion between the Bank and the Fund, and the processes for HIPC and PRSP, and for PRGF and PRSC are closely coordinated.

A3.7 Tanzania – good partnership

The PRSP clearly recognizes the work done under Tanzania's vision 2025, its *National Poverty Eradication Strategy* (NPES), annual *Public Expenditure Review* (PER) and the *Tanzania Assistance Strategy* (TAS). Yet the scope of the PRSP has been questioned in the paper from the Tanzanian President's Office Planning Commission for the OECD/DAC Informal Workshop on Poverty Reduction Strategies, Comprehensive Development Framework and Nations Strategies for Sustainable Development, 28–29 November 2000 in Paris. There are several ways in which both the convergence between strategies and ownership could be increased:

The Tanzanian government states that the NPES is a more comprehensive document than the PRSP. The PRSP focuses largely upon how debt relief can free resources for social services whereas the national strategy focuses upon tackling poverty in a comprehensive fashion, with special emphasis upon wealth creation. There is a risk that the PRSP may overshadow

the sharper focus of the homegrown strategy for sustainable poverty reduction. Including the more comprehensive view of poverty reduction in the national strategy in the follow-up of the PRSP would increase ownership and facilitate better contributions from donors to poverty reduction in Tanzania. In addition, this would promote convergence between the different poverty reduction strategies.

Both the Bank and the Fund have participated in and supported the Government in the preparation of the TAS and the PRSP. While the PER process used to be a Bank operation, it is now owned and run by the Ministry of Finance with the support from the Bank, the Fund and the bilateral donors. There is a good partnership relation between the Government and the donor community, both multilateral and bilateral, and the partnership is improving.

As to crowding out, the president of the country stated: "There has been offers of loans, although I find it somewhat odd, being on the road to reaching the Completion Point for accessing debt relief under the enhanced HIPC Initiative, to contemplate accepting debt-creating assistance in the war on HIV/AIDS!"

A3.8 Uganda – need for broader participation

In contrast to many countries, Uganda describes its poverty reduction strategy development process as a completely country-owned process. Several key elements have contributed to this result, not the least the general improvement in Uganda's economic and social climate. Still, Uganda itself emphasizes the importance of establishing and maintaining:

- An enabling policy environment for rapid and sustainable economic growth and structural transformation.
- Good governance and security.
- A policy environment that directly increases the ability of the poor to raise incomes.

- Actions which directly improve the quality of life of the poor.

The process in Uganda has also been a lengthy one. The original strategy took two years from start to completion, and just as importantly – it has since been updated with both further consultations and new studies. Starting the CDF/PRSP process with the already existing national strategy leads to a natural comprehensive process, with less need to coordinate plans after the fact. The national strategy focuses upon the environment to a larger degree than many CDFs do. It is the intention of Uganda to implement these priorities into sector plans, as has already been done in the Plan for Modernization of Agriculture.

The case of Uganda illustrates that including the general intent of considering concerns about the policy environment in the CDF and the PRSP is not sufficient, it is necessary also to implement these intentions in practical policy. While the actual development of local sustainable development projects is handled best at the immediate local level, it is important that the sector plans include specific and attainable goals and applicable principles to work by. The positive experiences in Uganda show one way of implementing environmental goals in specific plans.

A3.9 Vietnam – the Bank is very active

Assessing Aid points out Vietnam among the most efficient recipients of aid and loans. The existence of an explicit Government strategy to combat poverty in partnership with the donors, but under the leadership of the country itself, has created a favorable basis for selecting Vietnam as a pilot country for CDF. The Bank is very active in following up the CDF process and drafting of both the I-PRSP and the full PRSP. This is reflected in a large and highly qualified staff in Hanoi.

The Norwegian embassy expresses that the Bank manages its roles both as a dialogue partner for the Government and donors, as well

as coordinator of the CDF process extremely well. Twenty-five Government-donor partnership groups have been formed in various sectors and areas of interest, and the Bank is active in 18 of them. This shows that it is actively pursuing poverty reduction in Vietnam.

The Fund has a very small representation in Hanoi, but it has a close relation with the Bank and seems to be quite in line with the Bank on poverty reduction. *The Asian Development Bank* (ADB) which is the second largest donor, is also working closely with the Bank and the Fund.

The Government states that there is full agreement on the principles of all planned reforms between it and the Bank and the Fund, there are only some discrepancies as to the speed of implementation. The Government expresses concern that not enough attention is paid to the possible social disorder that might result if the dismantling of state owned enterprises and the banking reforms are carried out too quickly. In addition it is clear that there

is an ideological concern about diminished government control over the economy. These discrepancies are not a major worry, as the Bank is not the only player, both Japan and the ADB are larger donors than the Bank.

Thanks to the passing of time, to policy adaptations and to personnel with the right approach, today's cooperation between the Government and the Bank and the Fund is characterized by mutual respect and goodwill. There is a strong ownership to the development agenda, and the poverty programs specially targeted toward ethnic minorities and the rural population were planned and started before the introduction of the CDF and the PRSP.

In recent years Vietnam has been one of the fastest growing economies in the world, and this growth has helped to dramatically reduce poverty. Since 1998 growth has slowed, but the structural reforms necessary to tackle the constraints identified by the Government are fully supported by all donors.

Annex 4 Sources

- Africa2000 (2000): Politics, Economics and Coercive lending: The Early Years*, <http://www.africa2000.com/RNDX>
- Bakke, Egil: "Norges politikk i forbindelse med etableringen av IMF og IBRD", Norsk Økonomisk Tidsskrift, 1/2000, Oslo
- Bergsten, Fred (2000): "The Empire Strikes Back. Why the Meltzer Commission report is bad policy and unfairly maligns two highly successful international institutions", *The International Economy*, May/June 2000
- Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries): Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries, DC/2000-19 September 8, 2000
- DFID (Department for International Development, UK) (2000): Making Globalisation Work for the World's Poor, London
- ECON: World Bank Lending to Blend Countries, Memo 88/2000
- Erikson, John R. (1999): "Aid Coordination-Moving toward Partnership: The Challenge of Measurement", Discussion Paper, World Bank, Washington, D.C.
- Falck, Hans and Kåre Landfald (2000): *The Poverty Reduction Strategy Process in Mozambique, A Preliminary Assessment*, NORAD, Oslo
- Hansen, Henrik and Finn Tarp (2000): "Aid and Effectiveness Disputed", in Finn Tarp (ed.): Foreign Aid and Development: Lessons Learnt and Directions for the Future, London
- (2001): Aid and growth regressions, *Journal of Development Economics*, forthcoming
- IDS (The Institute of Development Studies) (2000): A Foresight and Policy Study of the Multilateral Development Banks (MDBs), *Final Report prepared for the Ministry of Foreign Affairs, Sweden, Sussex*
- IMF (2000): *Survey Supplement, Volume 29*, Washington, D.C.
- (2000): *Review of IMF Loan Facilities, A Factsheet*
- IMF and IDA (International Development Association) (1999): "Poverty Reduction Strategy Papers-Operational issues", Prepared by the Staffs of the IMF and the World Bank, Washington, D.C.
- (2000) "Poverty Reduction Strategy Papers-Progress in Implementation", Prepared by the Staffs of the IMF and the World Bank
- Karl, Terry Linn (1999): "The Perils of the Petro-State: Reflections on the Paradox of Plenty", *Journal of International Affairs*, Fall 1999, 53, no. 1
- Kemp, Jack (1998): "Who Needs the IMF?", *Wall Street Journal*, 3 April 1998
- Krugman, Paul (2000): "Bash the IMF for the Right Reasons", *International Herald Tribune*, 11–12 March 2000
- Lerrick, Adam (2000): "A Better Way to Lend a Hand. The World Bank should convert its lending program for the poorest countries to outright grants.", *The International Economy*, November/December 2000
- Meltzer, Alan (2000): *International Financial Institution Advisory Commission: The Meltzer Report*, Washington, D.C.

- Melchior, A., K. Telle and H. Wiig (2000): *Globalisation and inequality-World income distribution and living standards 196–1998, Report 6b:2000, Ministry of Foreign Affairs, Oslo*
- Ministry of Foreign Affairs (1999): *Aid Coordination and Aid Effectiveness, Evaluation Report 8/1999, Oslo*
- Moore, Mike (2001): *WTO and LDCs: delivering a better future through trade, Speech in Brussels, 17 May 2001*
- NORAD (2000): *“Memo for the annual World Bank Consultation in Washington D.C. 11–15 December 2000”, Oslo*
- OECD/DAC (1996): *Shaping the 21st Century: The Contribution of Development Co-operation, Paris*
- Overseas Development Council (2000): *“The Future Role of the IMF in Development: An ODC Task Force Report”, Washington, D.C.*
- (2000): *“The Agenda for Global Institutional Reform: Next Steps for Developing Countries”, Talks given at ODI, 8 June 2000*
- PRSP-Progress Task Team Input to the SPA Technical Group (2000): *“Strategic Partnership with Africa. Donor Involvement in PRSPs: Survey Results”, Washington, D.C.*
- Raghavan, Chakravathi (2000): *“Growth Doesn’t Do the Job for the Poor”, International Herald Tribune, 2000*
- Rodric, Dani (2000): *“Growth Versus Poverty Reduction. A Hollow Debate”, in Finance & Development Dec 2000*
- Sachs, Jeffrey D. (1997): *“Take a Fresh Look at Foreign Aid”, International Herald Tribune, 5 February 1997*
- Secretary of State for International Development, UK (2000): *Eliminating World Poverty: Making Globalisation Work for the Poor, White Paper, London*
- Sen, Amartya Kumar (1999): *Development As Freedom, Oxford University Press*
- Sjølander, Stefan and Dag Aarnes (2001): *“The Poverty Reduction Support Credit to Uganda”, Discussion paper commissioned by SIDA and NORAD, Oslo*
- Srinivasan, T. N. (2000): *“The Washington Consensus a Decade Later: Ideology and the Art and Science of Policy Advice”, The World Bank Observer vol. 15, no. 2, Washington, D.C.*
- Stiglitz, Joseph E. (1997): *“The Role of Government in Economic Development”, in Annual World Bank Conference on Development Economics 1996, The World Bank, Washington, D.C.*
- (2000): *“What I learned at the world economic crisis. The Insider”, New Republic Online, 04.17.00*
- Summers, Lawrence H. (1999): *“Summers questions development policy research. What should development policy researchers be thinking about today, and what should they be thinking about over the next few decades?”, World Bank Policy and Research Bulletin, 10/2 April–June 1999*
- Tobin, James and Gustav Rains (1998): *“The IMF’s misplaced priorities. Flawed Fund”, New Republic Online, 03.09.98*
- Treasury (US) Reply to IMF/World Bank Reform Commission Report, Washington, D.C.
- Ullstein Group (2001): *“Report of the Ullstein Group Mission to the World Bank and IMF, January 2001, to Consider Poverty Reduction Strategy Papers”, Ministry of foreign Affairs, Oslo*
- UN/OECD/World Bank/IMF (2000): *2000 A Better World for All: Progress towards the*

international development goals.
www.paris21.org/betterworld

- UNCTAD (2000): The Least Developed Countries 2000 Report, United Nations, New York and Geneva*
- UNDP (2000): Human Development Report, United Nations, New York and Oxford*
- Waelbroeck, Jean (1998): "Half a Century of Development Economics: A Review Based on the Handbook of Development Economics", The World Bank Economic Review, 12/2 May 1998*
- Williamson, John (2000): "What should the World Bank think about the Washington consensus?" The World Bank Observer vol. 15, no. 2, Washington, D.C.*
- (2000): "The Role of the IMF: A Guide to Reports", International Economics Policy Briefs, IIE (Institute for International Economics), No. 00–5 May 2000*
- World Bank (1994): World Bank Annual Conference on Development Economics*
- 1993, Supplement to The World Bank Review and The World Bank Research Observer*
- (1998): Assessing Aid, What Works, What Doesn't, and Why, A World Bank Policy Research Report, Washington, D.C.*
- (1997) Annual World Bank Conference on Development Economics*
 - (2000a): "Development Effectiveness at the World Bank, What Is the Score?", OED REACH Spring 2000, Operations Evaluations Department,*
 - (2000b): "The Enhanced Initiative for Heavily Indebted Poor Countries-Review of Implementation", Prepared by the Staffs of the IMF and the World Bank,*
 - (2001a): Aid and reform in Africa, Lessons for Ten Case Studies, Washington, D.C.*
 - (2001b): "Financial Impact of the HIPC Initiative", produced by the HIPC Unit, Washington, D.C.*

Annex 5 Terms of reference

Terms of reference for a study of the International Monetary Fund and the World Bank Cooperation on Poverty Reduction

The purpose of the study is to examine the poverty orientation of the International Monetary Fund and the World Bank and their cooperation in this area in developing countries since 1995.

This study is being commissioned on the basis of the increased focus being placed on poverty orientation by the governing bodies and member countries of these organizations.

An account is to be given of the organizations' objectives in this area, and of how the goal of poverty orientation affects the organizations' main objectives and activities.

An account is to be given, and an assessment made, of the efforts being made by these organizations to accomplish their policy objectives in this area, both centrally and in developing countries. An assessment is also to be made of the economic, organizational and other consequences of these policy objectives for the activities of the organizations.

The study is primarily to comprise a review of documents and reports, and discussions with

employees at the Ministry of Finance, Norges Bank, the Ministry of Foreign Affairs and at selected embassies in developing countries.

The Multilateral Bank and Finance Section of the Department for Multilateral Affairs at the Ministry of Foreign Affairs is to be informed on a regular basis about the progress of the study.

A twenty-five-page report in English is to be produced. See the enclosure for a description of how the report is to be structured. A draft report is to be delivered by 31 December 2000, and after any comments on the factual contents have been submitted, the report is to be completed in the course of two weeks, by 31 January 2001 at the latest. The report is to be published in the Ministry's series of evaluation reports. The report is to be presented by the consultant at a seminar for Foreign Ministry employees.

An upper limit of NOK 300 000 has been established for the study. Payment for consultancy services will be NOK 750 per hour, and payment for technical assistance will be half that amount. Payment will be made upon receipt of an itemized bill, and such that the last ten per cent of the total amount is paid when the completed report has been approved by the Ministry.

EVALUATION REPORTS

1.88	UNIFEM - United Nations Development Fund for Women	6.97	Norwegian Church Aid's Humanitarian and Peace-Making Work in Mali
2.88	The Norwegian Multi-Bilateral Programme under UNFPA	7.97	Aid as a Tool for Promotion of Human Rights and Democracy: What can Norway do?
3.88	Rural Roads Maintenance, Mbeya and Tanga Regions, Tanzania	8.97	Evaluation of the Nordic Africa Institute, Uppsala
4.88	Import Support, Tanzania	9.97	Evaluation of Norwegian Assistance to Worldview International Foundation
5.88	Nordic Technical Assistance Personnel to Eastern Africa	10.97	Review of Norwegian Assistance to IPS
6.88	Good Aid for Women?	11.97	Evaluation of Norwegian Humanitarian Assistance to the Sudan
7.88	Soil Science Fellowship Course in Norway	12.97	Cooperation for Health Development WHO's Support to Programmes at Country Level
1.89	Parallel Financing and Mixed Credits	1.98	"Twinning for Development". Institutional Cooperation between Public Institutions in Norway and the South
2.89	The Women's Grant. Desk Study Review	2.98	Institutional Cooperation between Sokoine and Norwegian Agricultural Universities
3.89	The Norwegian Volunteer Service	3.98	Development through Institutions? Institutional Development Promoted by Norwegian Private Companies and Consulting Firms
4.89	Fisheries Research Vessel - "Dr. Fridtjof Nansen"	4.98	Development through Institutions? Institutional Development Promoted by Norwegian Non-Governmental Organisations
5.89	Institute of Development Management, Tanzania	5.98	Development through Institutions? Institutional Development in Norwegian Bilateral Assistance. Synthesis Report
6.89	DUHs Forskningsprogrammer	6.98	Managing Good Fortune - Macroeconomic Management and the Role of Aid in Botswana
7.89	Rural Water Supply, Zimbabwe	7.98	The World Bank and Poverty in Africa
8.89	Commodity Import Programme, Zimbabwe	8.98	Evaluation of the Norwegian Program for Indigenous Peoples
9.89	Dairy Sector Support, Zimbabwe	9.98	Evaluering av Informasjonsstøtten til RORGene
1.90	Mini-Hydropower Plants, Lesotho	10.98	Strategy for Assistance to Children in Norwegian Development Cooperation
2.90	Operation and Maintenance in Development Assistance	11.98	Norwegian Assistance to Countries in Conflict
3.90	Telecommunications in SADCC Countries	12.98	Evaluation of the Development Cooperation between Norway and Nicaragua
4.90	Energy Support in SADCC Countries	13.98	UNICEF-komiteen i Norge
5.90	Intentional Research and Training Institute for Advancement of Women (INSTRAW)	14.98	Relief Work in Complex Emergencies
6.90	Socio-Cultural Conditions in Development Assistance	1.99	WID/Gender Units and the Experience of Gender Mainstreaming in Multilateral Organisations
7.90	Non-Project Financial Assistance to Mozambique	2.99	International Planned Parenthood Federation - Policy and Effectiveness at Country and Regional Levels
1.91	Hjelp til Selvhjelp og Levedyktig Utvikling	3.99	Evaluation of Norwegian Support to Psycho-Social Projects in Bosnia-Herzegovina and the Caucasus
2.91	Diploma Courses at the Norwegian Institute of Technology	4.99	Evaluation of the Tanzania-Norway Development Cooperation 1994-1997
3.91	The Women's Grant in Bilateral Assistance	5.99	Building African Consulting Capacity
4.91	Hambantota Integrated Rural Development Programme, Sri Lanka	6.99	Aid and Conditionality
5.91	The Special Grant for Environment and Development	7.99	Policies and Strategies for Poverty Reduction in Norwegian Development Aid
1.92	NGOs as Partners in Health Care, Zambia	8.99	Aid Coordination and Aid Effectiveness
2.92	The Sahel-Sudan-Ethiopia Programme	9.99	Evaluation of the United Nations Capital Development Fund (UNCDF)
3.92	De Private Organisasjonene som Kanal for Norsk Bistand, Fase I	10.99	Evaluation of AWEPA, The Association of European Parliamentarians for Africa, and AEI, The African European Institute
1.93	Internal Learning from Evaluations and Reviews	1.00	Review of Norwegian Health-related Development Cooperation 1988-1997
2.93	Macroeconomic Impacts of Import Support to Tanzania	2.00	Norwegian Support to the Education Sector. Overview of Policies and Trends 1988-1998
3.93	Garantiordning for Investeringer i og Eksport til Utviklingsland	3.00	The Project "Training for Peace in Southern Africa"
4.93	Capacity-Building in Development Cooperation Towards Integration and Recipient Responsibility	4.00	En kartlegging av erfaringer med norsk bistand gjennom frivillige organisasjoner 1987-1999
1.94	Evaluation of World Food Programme	5.00	Evaluation of the NUFU programme
2.94	Evaluation of the Norwegian Junior Expert Programme with UN Organisations	6.00	Making Government Smaller and More Efficient. The Botswana Case
1.95	Technical Cooperation in Transition	7.00	Evaluation of the Norwegian Plan of Action for Nuclear Safety Priorities, Organisation, Implementation
2.95	Evaluering av FN-sambandet i Norge	8.00	Evaluation of the Norwegian Mixed Credits Programme
3.95	NGOs as a Channel in Development aid	9.00	"Norwegians? Who needs Norwegians?" Explaining the Oslo Back Channel: Norway's Political Past in the Middle East
3A.95	Rapport fra Presentasjonsmøte av «Evalueringen av de Frivillige Organisasjoner»	10.00	Taken for Granted? An Evaluation of Norway's Special Grant for the Environment
4.95	Rural Development and Local Government in Tanzania	1.01	Evaluation of the Norwegian Human Rights Fund
5.95	Integration of Environmental Concerns into Norwegian Bilateral Development Assistance: Policies and Performance	2.01	Economic Impacts on the Least Developed Countries of the Elimination of Import Tariffs on their Products
1.96	NORAD's Support of the Remote Area Development Programme (RADP) in Botswana	3.01	Evaluation of the Public Support to the Norwegian NGOs Working in Nicaragua 1994-1999
2.96	Norwegian Development Aid Experiences. A Review of Evaluation Studies 1986-92	4.01	The International Monetary Fund and the World Bank Cooperation on Poverty Reduction
3.96	The Norwegian People's Aid Mine Clearance Project in Cambodia		
4.96	Democratic Global Civil Governance Report of the 1995 Benchmark Survey of NGOs		
5.96	Evaluation of the Yearbook "Human Rights in Developing Countries"		
1.97	Evaluation of Norwegian Assistance to Prevent and Control HIV/AIDS		
2.97	«Kultursjokk og Korrektiv» - Evaluering av UD/NORADs Studiereiser for Lærere		
3.97	Evaluation of Decentralisation and Development		
4.97	Evaluation of Norwegian Assistance to Peace, Reconciliation and Rehabilitation in Mozambique		
5.97	Aid to Basic Education in Africa - Opportunities and Constraints		

Published by
The Royal Norwegian Ministry of Foreign Affairs
7. juniplassen 1/Victoria Terrasse
P.O. Box 8114 Dep., 0032 Oslo
NORWAY

Available on the Internet:
[http://odin.dep.no/ud/engelsk/publ/
rappporter/032091-990133/](http://odin.dep.no/ud/engelsk/publ/rappporter/032091-990133/)

Evaluation reports may be ordered from:
E-mail: eval@mfa.no
Fax: +47 22 24 35 40
Tel: +47 22 24 33 54

