



**CIDSE / CI<sup>1</sup> input to the IEO / OED Evaluation of Poverty Reduction Strategy Papers**

**August 2003**

***Summary***

This review looks at the quality and results of PRSPs in ten countries with a focus on the effectiveness of the IMF and World Bank's roles in the PRSP process. When compared against the principles that are meant to underpin the PRSP, it has found that progress has been slow, but noticeable, in most countries. There has been a marginal increase in the openness to civil society participation and there have been modest improvements in pro-poor policy formulation. The gains made are fragile and uneven across countries however.

This paper recommends that the World Bank and IMF take specific initiatives in terms of their own internal structures, processes and policies. These include: delegation of IFI decision-making to staff located in programme countries, allowing comments and proposals from government and civil society to be attached to Joint Staff Assessments; developing terms of reference with civil society for engagement and fulfilling commitments to carry out PSIAs. It also recommends that the Bank and Fund promote formal structures for participation by civil society in dialogue with government and that they increase their own commitment to openness, particularly with respect to macro-economic policy. Finally, it recommends that Consultative Groups with broad

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stakeholder participation should be established at country level in order to deal with issues of policy failure, conditionalities and suspension of aid.

## **1. Background**

In late 2002, the IMF's Independent Evaluation Office (IEO) and the World Bank's Operations Evaluation Department (OED) began a process of evaluating both institutions' roles so far in the PRSP process. The evaluation process is expected to last until early 2004, when the completed evaluations will be presented to the Boards of both institutions.

With the aim of inputting to this review, CIDSE / CI undertook a survey of key partners and field office staff. The survey aimed to draw out civil society views on the aims, objectives and implementation of the Bank and Fund's role in the PRSP process. This document is a synthesis of the views of some civil society stakeholders in ten countries<sup>2</sup>. It does not claim to be representative of civil society as a whole in the countries surveyed but is nonetheless a valuable contribution to the debate on PRSPs.

This paper will examine evidence from civil society respondents in relation to the application of the principles underpinning the PRSP and in particular the World Bank and IMF's performance in their engagement with PRSP countries. The perspective throughout this paper is that of civil society and is particularly strong in its assessment of the dimensions of PRSP relating to broad based participation.

## **2. The Aims of the IEO and OED evaluations**

The IEO and the OED undertook the evaluation jointly in view of the joint IMF - World Bank nature of many of the components of the process. Nonetheless their Terms of Reference differ in some important respects, which are highlighted below.

The review has focused on the experience of 23 countries with full PRSPs. The scope of the evaluation was described as covering the first three stages in a conceptual logframe for the PRSP initiative:

- *Process* (ex: country ownership, participation, IMF and WB support);
- *Outputs* (ex: PRSP, PRGF-supported programme, Bank lending programme);
- *Intermediate Effects* (ex: changes in policy and practice by the IMF / Bank or national government).

Outcomes, the fourth stage, could not be assessed as the PRSP initiative is at too early a point in its implementation.

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<sup>2</sup> Bolivia, Ethiopia, Honduras, Niger, Malawi, Senegal, Rwanda, Vietnam, Uganda, Zambia.

## 2.1 IEO Aims and objectives

The IEO's stated aim is to review the IMF's role in PRSP and PRGF, assessing five aspects: efficiency, effectiveness, impact, relevance and sustainability. The IEO identified three broad sets of questions to address<sup>3</sup>:

- Are the objectives of these initiatives suitably defined and is their design consistent with the achievement of cost-effective and sustainable progress?
- Is the IMF delivering on its commitments embedded in the PRGF / PRSP and with what results?
- What accounts for any shortcomings diagnosed (including systemic constraints) and what suggestions emerge from the evaluation about how they can be remedied as far as the IMF is concerned?

The Terms of Reference of the IEO was generally well received by NGOs<sup>4</sup> who welcomed its inclusion of many of the most relevant and challenging issues for the IMF, an example of which is the question of whether the methodological tools provided by the IMF allow sufficient scope for country-driven choices between alternative policies.

## 2.2 OED aims and objectives

The objective of the OED review is to 'assess progress of the PRSP process towards meeting the challenge of poverty reduction and to assess the World Bank's role in support of the process with a view to informing, and where necessary, making recommendations to strengthen the implementation of the initiative and to increase the effectiveness of the World Bank's support.'<sup>5</sup>

The OED review will pursue three main evaluative dimensions:

- (1) Relevance of the overall approach to the problems it intended to address, including:
  - ensuring an integrated approach within a consistent macroeconomic and structural framework (including World Bank / IMF collaboration to promote a balance between financial / macroeconomic and structural / social considerations);
  - ensuring that fiscal space created by HIPC debt relief results in additional spending to accelerate poverty reduction;
  - prioritizing the allocation of all available resources in line with targets for poverty reduction; and

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<sup>3</sup> Evaluation of the Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility: Issues Paper / Terms of Reference, IEO, January 31st 2003.

<sup>4</sup> E.g. in inputs from Eurodad and Trócaire amongst others on the draft issues paper of 13th December 2003.

<sup>5</sup> OED Review of the PRSP Process – Approach Paper, February 28<sup>th</sup> 2003, para. 4

- promoting a more systematic, outcome-based approach to indicators.<sup>6</sup>

(2) Application of the underlying principles and preliminary outcomes, e.g. to what extent have the principles of the PRSP approach been embodied at both input stage (e.g. in formulation of the PRSP) and output stage (e.g. content of the PRSPs) and outcome stages (e.g. extent to which countries have adjusted policies in line with those specified in the PRSP). The review will focus particularly on capacity enhancement and public expenditure management.

(3) The effectiveness of World Bank support and alignment: e.g. assessing the effectiveness of direct support in promoting the underlying principles of the PRSP process. The evaluation will look in particular at the potential tension between providing constructive guidance and excessively influencing the process to the detriment of the principle of country ownership. The evaluation will also address institutional alignment with the PRSP in terms of World Bank, in terms of CAS and PRSC content as well as collaboration with the IMF in integrated policy advice and the JSA process.

The OED review aims to examine the quality and results of the PRSP initiative both in its entirety and also with a focus on the effectiveness of the Bank's own role in it. This distinguishes the OED review significantly from the IEO review, which aimed to focus tightly on the role of the IMF. Optimally, the broader review by the OED it will provide the context which may be missed by the IEO's narrower focus.

It is notable that the OED draft issues paper was not circulated widely to civil society for comment, unlike the IEO paper. Although the OED final approach paper mentions that there was civil society input, such input was not solicited in the transparent manner of placing the paper for comment on the website.

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**PRSP:** The PRSP process was to be based on five principles<sup>1</sup>.

- 1) Country-driven, involving broad-based participation of civil society;
- 2) results-oriented and focused on outcomes that benefit the poor;
- 3) based on a longterm perspective for poverty reduction;
- 4) comprehensive, to address the multidimensional nature of poverty and the policies needed to reduce it;
- 5) partnership-oriented, involving all stakeholders and with / among donors, particularly the IMF and World Bank.

**PRGF:** The features that were to distinguish the PRGF from the ESAF were:

- 1) Broad participation and greater country ownership;

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<sup>6</sup> OED Review of the PRSP Process – Approach Paper, February 28<sup>th</sup> 2003, para. 7

- 2) Embedding the PRGF-supported programme in a broader set of measures set out in an overall strategy for growth and poverty reduction;
  - 3) Government budgets that are more pro-poor and pro-growth;
  - 4) Ensuring appropriate flexibility in fiscal targets;
  - 5) More selective structural conditionality;
  - 6) Emphasis on measures to improve public resource management / accountability;
  - 7) Social impact analysis of major macroeconomic adjustment and structural reforms.
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### **3. Process and Content of PRSPs: Principles and Practice**

This section synthesises respondents' views of the preparation and implementation of the PRS process at national level with a focus on the roles played by governments and civil society. The process and, where possible, outputs of the PRSP are analysed against PRSP principles 1-4. The roles of the World Bank and IMF are examined in later sections. Participation, for the purposes of this paper, is interpreted as meaningful involvement of civil society in partnership-based dialogue on process and policy content of PRSPs.

#### 3.1: Participation

##### ***PRSP Principle 1: Country-driven, based on broad-based participation of civil society***

If the PRSP process was genuinely country-driven, involving broad-based participation of civil society, this could reasonably be expected to result in an opening up of policy debate and decision-making processes in those countries undertaking PRSPs. In this section the degree of progress towards this aim is assessed for the countries concerned.

##### 3.1.1 Limitations and obstacles to participation in PRSP design

The limitations to participation in drawing up of PRSPs have been well-documented. The lessons from this piece of research repeat many of those already widely known but which are nonetheless worth summarising.

In all countries surveyed, the governments' interpretation of participation was limited to consultation and information exchange. Uganda provides the only example of more enlightened participation policies, where at the outset the government there made concrete provision for civil society involvement in monitoring and evaluation of PRS work as well as inputting to the initial PRSP.

In most countries surveyed civil society experienced similar problems in attempting to participate in dialogue on the PRSP. Very often, the governments would call meetings or

make documents available and require civil society to respond at very short notice (this was noted in Uganda & Rwanda for example). Documents were produced in languages which were inaccessible to the majority of the population (Rwanda, Niger). The government gave civil society incomplete information, for example on budget limitations (Honduras, Bolivia), which limited civil society's capacity to respond.

In some cases governments carried out consultation under donor pressure but insisted that they already knew the answers to the questions being addressed (Ethiopia, Vietnam). The Government focused on short-term solutions or programmes rather than on strategies to address underlying structures perpetuating poverty (Bolivia) or else maintained its existing strategies almost unchanged (Ethiopia).

Some civil society bodies were more likely to be excluded. This was noted in the case of trade unions in Malawi, where the Government tended to call civil society bodies which were less likely to oppose its views to consultations.

Further obstacles to participation can be summarized as follows:

- Lack of transparency by the government about the PRSP process and government policies;
- Lack of civil society capacity to undertake analysis of relevant documents and make policy responses, particularly in relation to macro-economic issues;
- Low levels of civil society coordination and cooperation;
- Lack of resources in CSOs, which also meant that some CSOs were vulnerable to being dictated to by funding NGOs, rather than maintaining control over their own agenda;
- Self-censorship by CSOs due either to presence of government officials in consultations (Vietnam) or awareness that alternative proposals would be rejected by donors (Niger);
- Co-option of certain CSOs by government rather than involvement on an equal and consensual basis;
- Inadequate efforts to communicate with the broader public in accessible formats (e.g. through community radio or visual aids, in appropriate language etc.;

Ongoing obstacles to participation in the implementation of the PRS process include lack of transparency about the implementation of the PRS; lack of civil society capacity to monitor implementation of the PRS; and lack of institutional structures involving civil society in follow-up and monitoring of implementation (see below).

### 3.1.2 Changes in space for policy debate as a result of PRSP process

As many other reviews have found, the PRSP process has contributed to opening up of space for civil society to engage in debate on policy issues. The central question is what lasting impact these processes have had on structures and cultures of participation. Findings from a review of the ten countries finds that the changes have been limited so

far but provides useful lessons for the future achievement of this aim. The country experiences can be divided broadly in three categories.

In the **first** category are countries where civil society engagement in public policy was already relatively well-organised in advance of the PRSP process. In Uganda, the PRSP process further legitimised the role of civil society as a partner in dialogue with government. The same is true of Zambia, where a permanent forum for civil society coordination around the PRSP was set up and is still very active.

In Bolivia, civil society participation at municipal level was signed into law in 1994. It has nonetheless been found that openness to participation and monitoring by civil society is increasing as a result of the PRSP process, albeit slowly. This process has been acknowledged as being important in getting poverty onto the agenda and for deepening democracy. There is some recognition by government that public policies for the reduction of poverty will only be effective to the degree that they respond to the demands of the poor. In February 2003 riots over the imposition of income tax on low-paid public servants resulted in the deaths of dozens of people. This tragedy has meant that stakeholders now realise that processes of dialogue must also include the space for joint decision-making.

A **second** category exists where civil society was limited in its level of organisation and where the concept of participation was relatively new for the government but has been accepted in principle. In Malawi, the PRS process allowed civil society to begin to play a more active role in public policy. Civil society has since embarked on a process of consolidation which is allowing it to continue to have a voice on policy issues. Openness to participation on the part of the government has improved to the degree that the government has allowed civil society to make presentations on the findings of its sectoral budget monitoring initiatives to government. It has also recommended that civil society deepen its role in the PRS process as an impartial monitor of the government's implementation of the PRSP. However, this can not yet be described as an institutional change, as the government has recently tended to slip back into exclusionary and closed practices. Consultation still generally happens as a result of donor demands.

However a significant change in the policy environment in Malawi is the nascent partnership between civil society and Parliament. Parliamentary committees have been working with civil society organisations to hold the government accountable. This is contrary to the experiences in all other countries except Zambia and Uganda. In many countries parliaments have no role in the PRS process. Given the need to deepen democratic structures beyond civil society and central government, this is an important finding, if not a new one.

Rwanda also falls into the second category of countries. The PRSP design stage was characterized by a significant level of Government engagement with civil society at a grassroots level. This was almost entirely in the area of poverty diagnosis rather than dialogue on policy however. Nonetheless, such engagement was new to Rwanda and could be viewed as a first step along the road to a deeper process of systematic

engagement. The PRSP is recognized by NGOs as having the potential to define a new relationship between civil society and the State in an environment where participation has not heretofore been seen as a right by either side. However it remains to be seen how entrenched this process will become. Consultative processes have been employed on proposed land reform, the constitution and the education sector review. However such processes have yet to be extended to areas of economic policy formulation such as the budget. Momentum in the implementation, monitoring and evaluation of strategies in the PRSP has declined and civil society remains relatively weak and uncoordinated.

Honduras falls into this group by virtue of the level of organization of civil society primarily, though the government's approach to participation is unsupported by genuine will to dialogue. It has been noted that the failure by the Government of Honduras to consider and incorporate the views of civil society is weakening the credibility of the government and indeed of the PRS process.

In the **third** category are countries which experienced little or no change in the space for participation in policy debate and decision-making. In Ethiopia, there was very little policy debate on the content of the PRSP or the diagnostics that informed it, in spite of attempts by civil society to engage with the government. Participation and openness were imposed on the government by donors, with the predictable result that few of civil society's proposals were taken on board in the PRSP. The government remains remote and ill-disposed to participatory dialogue with civil society.

A similar situation arose in Niger, with limited and poor quality consultation being carried out in order to fulfill donor requirements. However the consultation process, though inadequate, left civil society with the hope that the marginally increased space for public debate would be maintained.

The experience in Vietnam is instructive as participation was initially quite strong and was driven by the World Bank. However, it has not proven sustainable. Participation by all stakeholders, (including the government, donors, World Bank, UNDP, civil society etc.) was very high in the beginning. This was due in large part to the animation of the process by a World Bank official, who has since left the country. The Government of Vietnam appears to see the PRSP process as a means to receiving funding rather than a process with an intrinsic value. The participatory processes which were built around the initial consultation have not been sustained. The government's commitment to participatory processes around monitoring and policy discussion has waned. This illustrates the fragility of the participatory elements of this process when it is not embedded in the government's approach to development.

In all cases, one of the greatest concerns to civil society was the lack of access to debates on macro-economic policy. While civil society has been allowed into debates on social policy and monitoring of service delivery to varying degrees, the macro-economic arena has remained off-limits.

## 3.2 PRSP Content

### ***PRSP Principles 2 & 3: results-oriented and focused on outcomes that benefit the poor; based on a longterm perspective for poverty reduction***

#### 3.2.1 The PRSP process and improvements in pro-poor policy formulation

Overall, the PRSP process has been seen in most countries to have led to modest improvements in pro-poor policy formulation. However, the gains are fragile or in some cases theoretical given lack of concrete implementation of policies which prioritise poverty reduction. There is a frequent disconnect between the PRSP's stated priorities and the actual budget allocations to those priority areas.

In Uganda, Rwanda, Malawi and Zambia priority areas were identified in the PRSPs. In Uganda, expenditure on these priority areas was ringfenced and has remained on-track in spite of increased budgetary allocations to defence. However, to accommodate increased defence expenditure there were budget cuts in other ministries. Progress in areas where expenditure is ringfenced is reduced due to the fact that these often need expenditure in other areas to have an impact.

In Rwanda, the budget does not reflect the priorities outlined in the PRSP. Primary education, agriculture and primary health care are dwarfed by expenditure on third level education, National Police and specialist healthcare, accessible only to the affluent. In Malawi and Zambia priorities for poverty reducing expenditure were identified but the actual allocation of budget resources has failed to fulfil policy commitments. In both countries, civil society has been trenchantly critical of government expenditure on non-poverty reducing initiatives. Monitoring has been identified by civil society as crucial in both of these countries. In Zambia however, the government is resisting the development of concrete, participatory monitoring mechanisms for public accountability. In Malawi, the government is currently open to civil society's role in monitoring progress, but as noted above, government policy on transparency and participation is unreliable.

In Bolivia, improvements in pro-poor policy (such as increased expenditure on health and education using HIPC funds) are undermined by failure of the government to prioritise amongst them and to deal with the structural issues causing poverty, particularly access to land and credit. In Honduras, the only funds to have been made available for poverty reduction programmes are in the form of external loans. Civil society is both deeply critical of the government's failure to mobilize resources for poverty reduction and of the IMF role in delaying Completion Point, and hence debt relief disbursement, through delaying agreement of a PRGF arrangement (see under IMF below).

Ethiopian policy-making is characterised by blank refusal of the government to alter its policies in any way, or to engage with civil society about the orientation of policies.

Civil society's concerns on land access and agricultural policy were not adopted by the Government of Ethiopia in the PRSP, in spite of their overwhelming importance for poverty reduction. The only change seen in policy-making processes was a once-off occurrence when donor pressure forced the government to undertake very limited 'consultation' with CSOs in the PRS design stage.

### 3.2.2 Institutional arrangements for the delivery of broad-based growth and poverty reduction.

- Budget management:

Management, monitoring and transparency in budgets could be expected to have improved as a result of the PRS process and the donor focus on this area. The results of this inquiry have indicated that while some improvements have been obtained, these have largely been for the benefit of the donors rather than for purposes of public accountability. In many countries, reluctance by the government to make budget figures and expenditures publicly available in an accessible format is a critical impediment to improved monitoring. This was cited in the cases of Ethiopia, Senegal, Bolivia, Rwanda, Zambia and Malawi.

- Debt relief:

Institutional arrangements for the use of the proceeds from debt relief appear to have been improved in the countries which have generally performed better relative to others in terms of institutional transparency and governance. This is not surprising but illustrates the ongoing need to promote transparency - not alone towards donors - but towards the public. No system of public accountability on debt relief exists in Ethiopia for example. In Niger, funds released as a result of debt relief go into a Presidential Fund which is supposedly allocated towards poverty reduction programmes. Failure to have proper institutional mechanisms for oversight of the use of debt relief means that, firstly, funds are being misdirected as a result of corruption and secondly, the programmes which are funded are of poor quality.

Governments with more progressive attitudes towards accountability and participation, such as Zambia and Bolivia, have still failed to put in place transparent instruments to allow public monitoring of the use of debt relief. The same is true in Rwanda and Malawi where systems for tracking debt relief expenditure exist on paper but are not in public view. In many countries, civil society organisations are advocating that institutional arrangements for overseeing the debt relief process should include a formal role for civil society.

- Corruption:

In many cases (e.g. Bolivia, Honduras, Malawi, Niger and Ethiopia), the national anti-corruption commissions are failing to deliver on their mandates for political reasons. In Ethiopia and Malawi, they are neither impartial nor independent. In the former, the commission is rooted in the ethnic-based party system and accuses critics of the government of corruption while leaving corruption within government unchecked. In

Malawi, the commission reports to the President rather than to an independent parliamentary committee.

- Institutional arrangements for public participation:

A key demand of civil society in almost every PRSP country has been for formal structures for public participation in policy dialogue. Mainstreaming CSO participation is fundamental to securing the implementation of all five PRSP principles. In all countries in this survey however, frustrations were felt to greater or lesser degrees. Uganda is the most advanced in this regard. There is formal recognition of institutional obligation on central and local government to facilitate civil society participation in policy formulation. The legislative framework allows for it under the Constitution and a Local Government Act, though implementation of the laws need be improved. Critically, open attitudes in government have led to the actual implementation of participatory processes.

Experiences elsewhere are mixed. In Bolivia, a national dialogue law increased the scope for citizen participation at both departmental at national levels. This builds on previous law for participation at municipal level which has been very important in the implementation of the PRSP. Zambia doesn't have any statutory provisions for participation but a more recent opening up of government attitudes to participation has meant that at central level, cooperation with civil society organizations is relatively strong. Frustrations arise due to the lack of implementation of structures for participation at provincial level, however. In other countries, such as Rwanda, participation has been institutionalised in a fractured and almost ad hoc manner. The review of the Education sector included civil society participation but it remains to be seen whether civil society inputs will be incorporated into policy and whether a participatory structure will be used in reviews of other sectors. In Malawi and Honduras, participation is negotiated with government on an ongoing basis. There are no secure or legal frameworks for participation. In Niger, Senegal and Vietnam it is apparent that participation has not been institutionalised at all, while in Ethiopia the tendency has been to clamp down on civil liberties, such as press freedom, rather than to open spaces for dialogue.

### 3.2.3 Incorporating the multidimensional nature of poverty

***PRSP Principle 4: Comprehensive, to address the multidimensional nature of poverty and the policies needed to reduce it***

An underlying determinant of the quality of the PRSP is the interpretation of poverty and manner in which poverty diagnostics were carried out. In several countries a strong critique was made of the narrow nature and non-participatory method of government-led poverty diagnostics. In Niger and Malawi, for example, it was found that the poverty diagnostics were narrow and monetary-based. Bolivian commentators note that the question of equity has not been adequately addressed in the government's assessment of poverty. In Honduras, it was noted that the cross-cutting issues of gender equity, environment and the rights of ethnic and other vulnerable groups are not dealt with.

These are clear examples of the failure to apply the PRSP principle of addressing the multidimensional nature of poverty.

In Zambia the poverty diagnosis was heavily dominated by government to the exclusion of non-governmental organizations such as the Catholic Commission for Justice Development and Peace which has many years of experience in participatory research and poverty assessment. The exclusion of those who are expert in this field is a failing which has inevitably coloured the end-analysis in many countries. This includes Honduras where a key civil society critique of the government's PRSP was that it selected priority regions based on indicators which were not the ones most relevant to poor people. This led to a scattered approach to poverty reduction by department, rather than a comprehensive national plan. Civil society has since developed in-depth processes for participatory poverty analysis and poverty reduction strategy development in at least four regions of the country. These are resulting in proposals for poverty reduction that are rooted in the complex nature of poverty and its varied impacts on different vulnerable groups. Such processes also empower citizens to become more active in holding government to account, thereby deepening democracy and increasing the prospects for good governance.

#### **4. Role of the World Bank**

The level of knowledge and analysis of Bank policies among respondents was uneven. In countries with the weakest institutional infrastructure for participation this was particularly noticeable. A key lesson is that greatly increased efforts must be made by both the Bank and civil society to hold meaningful dialogue on policy issues. This hinges upon both increased openness in its attitude and transparency in its policies and actions by the Bank and greater focus by civil society on coordination and on generating capacity to critique Bank policy. This should be one element of an active citizenry's role in holding stakeholders such as the government, IFIs and donors to account.

##### **4.1 The World Bank's approach to Participation**

Across all ten countries, the World Bank is viewed by civil society as approaching participation as information sharing or at best consultation. On the positive side, particular efforts were made by Bank staff in a limited number of countries (e.g. Bolivia, Vietnam) to increase civil society participation through capacity building and facilitating creation of multi-stakeholder structures for the preparation of the PRSP. There has been a slight but nonetheless discernible change in attitude and practice on the part of Bank staff in some of the countries reviewed, though this could be entirely due to personalities, rather than institutional change. In general, respondents feel that the Bank has not internalised the collaborative nature of participation and is not open about its programmes nor is it prepared to dialogue on them.

Levels of activity of the Bank in relation to civil society vary widely across the countries in the review. In Bolivia, civil society generally had a lot of contact with the Bank. Bank

officials appeared to prioritise participation, arranging capacity building and international meetings at which representatives of both civil society and government were present to discuss their views. Bolivian civil society organizations were consulted in a timely manner about the PRSC and about means to improve consultation. Nonetheless, the inequality experienced by civil society organizations in other countries when in dialogue with the Bank was also felt in Bolivia. Bank and Fund staff in Bolivia have called meetings or gone directly to the offices of civil society organizations to discuss progress in implementation of the PRSP and the processes of dialogue with civil society. A key frustration for civil society however, has been the refusal of the Bank to be transparent about its own policies and conditionalities. The dialogue is not one between equals, which devalues it and undermines the Bank's credibility.

The Bank's apparent disregard for engaging in participatory dialogue is apparent across almost all countries. Respondents referred to agendaless meetings of which there would be no reports and no progress in discussions (Malawi). In three countries (Senegal, Bolivia, Malawi) it was specifically noted that the Bank withheld information requested or provided only partial information relevant to the discussions, including Bank analysis and research. Delivering documents for comment to civil society with unrealistically short time frames was also a criticism of the Bank (Senegal). A strong critique was made of the bilateral nature of meetings with the Bank in Malawi. It was felt that the Bank could be playing civil society off against the government and vice versa. In another case, a lack of formal structures for dialogue with the Bank was noted as a source of dissatisfaction for civil society.

Rwanda's experience possibly typifies a widespread misunderstanding in the Bank of the nature of participation, as expressed by respondents to this review. The Bank's evaluation of the Rwandan government's participatory process for preparation of the PRSP was very positive. Indeed, as an information gathering initiative, the process was very well implemented. However, there was almost no element of policy dialogue with civil society in the Government of Rwanda's PRSP design process. This was not critiqued in the Bank evaluation nor in the JSA of the PRSP. It is apparent that the Bank interpreted the purpose of consultation as being the gathering of information for poverty diagnosis. This is entirely inadequate after four years of 'participation' as a central principle of the work of the Bank. It appears likely that while the Bank is in favour of participation in theory, the parameters of that participation don't generally stretch beyond consultation and rarely encompasses its own work in any meaningful way.

It is apparent that personalities count in the Bank's approach to the partnership dimension - with both civil society and government - of the PRSP initiative. In Vietnam, a key Bank official mobilized an inclusive process of consultation and dialogue at the preparation stage of the PRSP. In one country it was noted that the Bank's openness to civil society had decreased with a change in country representative. In another country, it was mentioned that a change of staff has meant that the Bank is now more receptive to other stakeholders' perspectives.

It is also apparent that the Bank has generally become more open to engaging civil society in dialogue on social policy or on democracy. However, it is just as rigidly opposed to dialogue on its own macro-economic policy. In Honduras, civil society was consulted on only one pillar of the PRSC – that which dealt with governance, transparency and public sector efficiency. Problems identified by civil society became conditions attached to the PRSC. While risky in terms of government ownership, the reforms were generally desirable. For example, one condition was a system of monitoring and evaluation for the PRSP which would involve civil society. However, the section of the PRSC on growth, investment and competition – where civil society also had policy opinions to offer - was not opened up to consultation.

The lack of consistency and coherence in the contact between the Bank and civil society illustrated above points to a need for a more structured framework for dialogue on the part of the Bank (and Fund). This should be based on agreed terms of reference and include jointly agreed agendas and advance circulation of documents and information relevant to the discussions so as to allow participants sufficient time to review and comment on material.

#### 4.2 Country Ownership and the Bank

There are clear tensions between the Bank in its role as both advisor and endorser of a country's PRSP and the national government, which is supposed to have ownership of the strategy.

In Rwanda, concrete evidence emerged of the tension between the national government's ownership of its PRSP and Bank imposition of its agenda. The criticisms leveled at the Bank are relatively mild, compared to other examples of Bank / government conflict, but illustrate some systemic tensions and issues, which the Bank needs to address. These criticisms center around the Bank's heavyhanded approach to policy and its timing in engaging with the Government of Rwanda .

The Rwandan PRSP was finalized by the government in December 2001 but two months later, the Bank sent an editor to finish the document. This was viewed by civil society organizations as wholly inappropriate behaviour. This was exacerbated by Bank attempts to negotiate exclusion of a policy on fertilizer subsidies from the final PRSP and an attempt during a mission by Bank officials from Washington to change the agriculture / rural development policy in the PRSP which the government had finalized. The Bank officials who arrived on mission came late in the process and their failure to appreciate the government's perspective on core policies added to the frustration felt due to this late and brusque intervention.

An institutional constraint facing the Bank is its lack of presence on the ground when it comes to policy formulation and decision-making in the PRSP framework. In order to achieve country ownership and deeper understanding within the Bank of particular country situations, the Bank needs to delegate more policy decision-making to country

level. Bank officials involved in drawing up and negotiating the CAS, PRSC and PRSP should be based in the country in question. The Joint Staff Assessments of Annual Progress Reports and three-yearly reviews of PRSPs should have appended to them a record of civil society organisations's comments, including the names of organisations and the issues which they raised.

## **5. Role of the IMF**

In this section, civil society responses are compared with the principles underpinning the PRGF. As with the World Bank, in-depth knowledge by civil society players of IMF policies and PRGF-supported programmes tends to be limited. This implies some important lessons: the IMF's single-minded focus on holding dialogue with the Ministry of Finance alone and its remoteness from civil society must change if it is to fulfill the PRSP principles. This has not happened to any significant degree. Civil society, on the other hand, needs to develop its potential to be a recognised interlocutor on strategic policy issues, while remaining closely involved with the grassroots, in order to make meaningful progress in dialogue.

### **5.1 Broad participation and greater country ownership**

The Fund has a long history of stubborn opposition to engaging in dialogue with civil society on policy issues. With the advent of PRSP and PRGF however, it has been broadly recognized that in an approach to development which is based on participation and ownership there is also a need for cooperation and dialogue directly between IFIs and civil society.

This review shows some improvements in the Fund's adoption of this principle, but it is still extremely compromised in practice in most countries in this review. On the positive side, the Fund has shown itself to be more open to contact with civil society than in the past, albeit starting from a low base. In some countries (e.g. Zambia) the Fund has proven itself to be quite. In other countries, civil society representatives never have any contact with the IMF (e.g. Honduras). It is apparent that much hinges upon the personality and interest of the Resident Representative. This is a disappointing finding, given the supposed institutional reorientation under the PRSP towards country-driven policy making processes that emerge from broad-based participation.

In between these extremes, respondents report that meetings held by the IMF appear to be carried out in order to be able to insert the requisite line in reports. Meetings, according to respondents in Malawi, Bolivia and Rwanda, are agendaless, called at short notice and lack follow-up. Civil society organisations are not given documents with sufficient advance notice and therefore have no time to prepare their inputs. In Rwanda, for example, a meeting of civil society was called at very short notice during an IMF mission in advance of the first PRGF review. There was no meaningful discussion as most CSOs had no time to prepare and many could not attend due to the lack of notice. Nonetheless

the meeting was described in the June 2003 PRGF review document as consultation with civil society. A key criticism which belies the Fund's interpretation of participation is the fact that the Fund will listen to civil society perspectives but will not openly discuss its policies (Bolivia, Malawi). For civil society, the description of such interaction as participation is disingenuous. Dialogue has not yet become part of Fund culture.

The IMF's institutional structure wherein a skeleton team of staff operates at country level is inappropriate if the goals of broad participation and greater country ownership of economic policy reforms are to be achieved. There needs to be greater dialogue and understanding between all stakeholders: the government (including ministries dealing with social development); parliament; civil society and the IMF. Documents developed in Washington and negotiated with the Finance Minister, with little or no wider consultation, are unlikely to be broadly 'owned' by the public, the executive or elected representatives.

This implies that there is a need for increased numbers of staff with decision-making powers in country offices. It would be important however to limit the Fund's unilateral power to make decisions which critically affect government, donors and the poor. These decisions would include, for example, suspension of a PRGF programme and subsequent suspension of all donors' aid programmes. A possible structure would be that of a Consultative Group with a broader set of stakeholder participation. This group should have the power to assess and take decisions on the gravity of policy failure and suspension of aid. It could also be empowered to take decisions on the inclusion in IFI conditionalities of contested prior actions or performance criteria without ex-ante PSAs

## 5.2 Embedding the PRGF-supported programme in a broader set of measures set out in an overall strategy for growth and poverty reduction.

Generally, respondents noted that the Fund is no more likely to consider the impact of its measures to ensure fiscal stability on poverty reduction than heretofore (Honduras, Malawi). Devaluations, tax reforms and reductions in public sector wage bills were all felt to be imposed by the IMF (either directly or indirectly) with no consideration for poverty reduction priorities or strategies (Malawi, Honduras, Bolivia, Zambia).

Under current PRGF conditions, the objectives laid out in the PRSPs cannot possibly be fulfilled, according to several respondents (Rwanda, Bolivia, Honduras). Corrupt governance certainly needs to be addressed and fiscal deficits, borrowing and inflation kept in check but there is a moral (and political) obligation on governments to invest in programmes which will have both immediate and longterm returns for the poor.

The chief impact of PRGF programmes on poverty reduction has been in their suspension as a result of government failures to fulfil policy conditionalities. In Malawi, Zambia, Honduras and Rwanda the government is currently or has recently been off-track with the IMF. This leads to massive disruption in the disbursement of aid by all donors. Refusal by the IMF to accept the 2002 budget in Rwanda reduced the government to operating a

month-by-month cash budget for 6 months in 2002, putting all development plans on hold. Zambia and Malawi are currently off-track and aid has stalled. Given the continued food security crisis in the region, this is increasing vulnerability to hunger, disease, malnutrition and putting pressure on school attendance and longterm approaches to livelihoods. All of these undermine longer term prospects for economic growth and poverty reduction efforts and create future insecurity. Furthermore, over-reliance on IMF signalling is contributing to volatility in aid flows, contrary to the IMF's mandate to bring about macro-economic stabilization.

It is clear that an approach which holds governments adequately to account for failure to implement conditions around poverty-reducing expenditure, corruption and good governance is necessary. However, this cannot be an approach which punishes the poor. As mentioned above, decisions around the gravity of policy failures and suspension of aid should be taken in the framework of a Consultative Group with broader stakeholder representation. Donors and civil society organizations tend to have a longterm perspective on reduction, as opposed to the Fund's short-term perspective on stability. This system would therefore be an important means to ensure that short-term policy failures do not compromise longterm goals and poverty reduction programmes.

Finally, there is also a clear need to delink the PRSP / PRGF from the HIPC process in order to avoid delaying debt relief. In countries such as Honduras, delayed debt relief has meant that funds are not available to implement the PRSP. Delinking would require that countries have an adequate monitoring system for the use of HIPC funds. The establishment of such systems is of course dependent on governments but is an area in which the Fund, in cooperation with the Bank, can offer technical assistance.

### 5.3 Government budgets that are more pro-poor and pro-growth and emphasis on measures to improve public resource management / accountability.

As outlined in section 3.2.2 of this paper, there have been modest improvements in budget formulation and transparency in most countries. It should be noted that the progress in this area so far has been for the satisfaction of donor requirements and government management, rather than to facilitate civil society's influence over the composition of budgetary expenditures and its oversight of budget implementation. The IMF can play a role in also ensuring that institutional frameworks for budget information management include the disclosure of information to the public in an accessible and timely manner.

### 5.4 Ensuring appropriate flexibility in fiscal targets

A general response to this principle is that the IMF appears to be incapable of tailoring macroeconomic conditions to specific country circumstances. The IMF has been almost intractable in rejecting increased fiscal deficits, for example in Rwanda, Bolivia and Honduras. In Bolivia, IMF pressure to reduce the deficit to 5.5% of GDP resulted in the

deaths of 31 people when riots erupted after a proposal to impose increased income tax on low-paid workers. The Fund only showed flexibility after this tragedy and raised the limit for the fiscal deficit to 6.5%.

In Rwanda, as mentioned above, negotiations to increase the fiscal deficit resulted in serious disruption to government spending. The government-contracted PSIA has not led to a resolution to the question of an appropriate level of investment and fiscal deficit. The IMF has been loathe to discuss this issue or set out a menu of policy paths that would make explicit its assumptions behind its own policy preferences in spite of its commitment under the PRSP / PRGF principles to increased country-ownership and flexibility.

In Zambia the Fund illustrated greater flexibility but the question of consideration for the impact of its policies on the poor is still open. The wage bill was increased from 5% to 8% of GDP in 2002, an increase which was accepted by the IMF. However, when the wage bill increased to 11% in 2003 as a result of public service pay awards, the signing of a new PRGF was suspended. This has led to another delay in Zambia's debt relief and further exacerbated the Government of Zambia's difficulties in reconciling the demand from the Fund to close its fiscal deficit and the demands of public sector workers for a living wage.

Honduras is still waiting to agree a PRGF with the Fund and to set a date for reaching Completion Point. The main obstacle appears to be the fiscal deficit which the government has tried to remedy by imposing taxes which hurt the poor and the lower paid. However, the case of Honduras also highlights the Fund's lack of transparency as information on the Fund's reasons for the delay in agreeing the PRGF has not been made available to civil society.

#### 5.5 Social impact analysis of major macroeconomic adjustment and structural reforms.

In no case, apart from Rwanda, were respondents aware of PSIA's being carried out on reforms. This is clearly a central area, particularly given the IMF's (and World Bank's) commitment that PSIA's would be carried out on all major policies. Failure to implement PSIA's – and obvious discomfort when faced with a PSIA which challenges the IMF's macroeconomic assumptions, as happened in Rwanda – is of deep concern. The PSIA promise was an assurance to civil society of a new openness by the Bank and Fund to alternative proposals. Progress in this area is critical if popular support for the PRSP and PRGF approach is to continue.

## 6. Conclusions and Recommendations

This review has looked at the quality and results of PRSPs in ten countries with a focus on the effectiveness of the IMF and World Bank's roles in the PRSP process. When compared against the principles that are meant to underpin the PRSP, it has found that progress has been slow, but with some noticeable if only marginal improvements in most countries.

- **Broad based participation**

Some degree of openness has been created for increased civil society participation in dialogue with government and IFIs. However, government interpretations of participation are typically confined to information-gathering or consultation, with little or no recognition of the right to participate in dialogue on policy decisions affecting the lives of the poor, including macro-economic policies. The latter is an arena from which civil society is almost uniformly excluded. It is clear that participation must be embraced by government and that civil society must increase its level of coordination and capacity to engage on policy issues.

It takes time for participation to become institutionalised, but formal structures at national and local level can rapidly improve the prospects for participation. The experiences of Uganda and Zambia illustrate the benefit of open and participatory dialogue for: maintaining a focus on poverty reduction; providing the government with information on impacts of poverty-reduction programmes; increasing citizen 'voice' and deepening democracy. In many countries, it was felt that statutory instruments on participation have been impactful, where governments have been committed to implementation.

- **Pro-poor policy formulation**

Overall, the PRSP process has been seen in most countries to have led to modest improvements in pro-poor policy formulation. However, the gains are fragile or in some cases theoretical given lack of concrete implementation of policies which prioritise poverty reduction. There is a frequent disconnect between the PRSP's stated priorities and the actual budget allocations to those priority areas. Budget transparency and monitoring by civil society is critical to ensuring the implementation of policies that benefit the poor, to monitoring the use of debt relief and to reduction of corruption.

- **Multidimensional interpretation of poverty**

Assessment of poverty and interpretation of policies according to their impact on different groups of poor people are critical. However, poverty diagnostics in the formulation of many PRSPs was described as narrow and non-participatory. Civil society experiences in participatory poverty assessment is both a source of alternative analysis of the priorities that are needed for addressing poverty in all its complexity and are a mechanism for citizen empowerment.

## **The Role of the World Bank and the IMF**

Both the Bank and the IMF were seen as interpreting 'participation' as 'consultation' rather than a meaningful dialogue, across all countries and throughout all stages of the

policy-design and implementation process. Despite some of the rhetorical commitments made at the Bank and Fund headquarters in Washington DC, at the level of regional/country offices and in country missions – the level at which it becomes meaningful – staff have not internalised the collaborative nature of participation and they are, in general, not open about their own programs nor are they prepared to enter into a dialogue about them with civil society. Positive experiences with Bank and Fund staff were felt to be due to particularly open or dynamic personalities, rather than as a result of an institutional change.

The tension between country ownership and the role of Bank and Fund as advisors and adjudicators in the PRSP process is highly problematic. This has arisen most seriously in the case both of policy imposition through loan conditionalities by the IMF in particular, but also in minor interferences by the Bank in the process of developing PRSPs. The politically untenable nature of many IMF conditions (such as levels of fiscal deficit or public sector wage bills) has led to derailment of PRGF agreements and suspension in aid disbursement by all donors. This can create or deepen impoverishment when people are extremely vulnerable.

It is apparent that both the Bank and the Fund policy-making processes and outcomes are impaired by the fact that the relevant staff are not located on the ground. This leads to lack of sensitivity towards the particular social, political and economic circumstances facing governments and societies and allows the continuation of standard policy prescriptions across many countries. It prevents proper dialogue and exchange of views on policy with both government and civil society, leading to policies which are less likely to be ‘owned’ and implemented. In order to build country ownership, a minimum requirement would be for the Bank and Fund to locate more policy-makers on the ground and for decisions on PRSPs, PRSCs, PRGF programmes etc. to be agreed at a country level.

## **Recommendations to the World Bank and IMF**

### Changes to Bank / Fund processes, policy and structures

- Both the Bank and Fund should work with civil society representatives in individual countries to develop agreed principles and terms of reference for engagement and policy dialogue.
- Both institutions need to change their policy, attitude and behaviour in relation to dialogue with civil society on macroeconomic policy. This must go beyond transparency and include openness to presenting and discussing their policy proposals and those of civil society.

- Joint Staff Assessments of Annual Progress Reports and PRSP reviews should include as an appendix a note on the consultations held with civil society and a summary of their proposals on issues of process and substantive policy reforms. The same initiative should be extended to government, to allow their views to be communicated directly to the Executive Boards.
- Both the Bank and Fund should fulfil their commitment to carrying out PSIAs on all major macroeconomic and structural policies.
- The Bank and Fund should delegate greater decision making to staff located in the PRSP countries in order to create the conditions for in-depth dialogue with government and civil society and greater country ownership of policy reforms and poverty reduction strategies. This may require relocation of staff to country offices.
- Consultative Groups with broad stakeholder participation (including donors, government, IFIs and civil society) should be established at country level. Decisions around conditionality, the gravity of policy failures and suspension of aid should be taken in the framework of such a group, replacing the IMF's signaling role.
- HIPC debt relief should be delinked from the PRSP process and the Fund and Bank should provide technical assistance for establishment of monitoring systems for expenditure of debt relief.

#### Bank / Fund interventions with governments

- The Bank and Fund should use their leverage with government to promote formal structures for civil society participation, in a manner that is appropriate and sensitive to building government commitment to participation.
- Both the Bank and the Fund should work to ensure that institutional frameworks for budget management and transparency include disclosure of timely and accessible information to the public.

#### Bank / Fund interventions with donors

- As noted above, Consultative Groups with broad stakeholder participation should be established at country level in order to deal with issues of policy failure, conditionalities and suspension of aid.

## Appendix

### Questionnaire for Country Synthesis: IEO / OED Evaluation

1. The PRSP Process & Content
2. World Bank and IMF Role and Performance

#### 1. The PRSP Process & Content

##### 1.1 Participation:

###### 1.1.1 How has the PRSP Process affected policy debate and decision-making in your country?

(Suggested points of reference: involvement of civil society; parliamentary oversight; government openness and transparency; role of the media; openness of budgetary processes etc.).

###### 1.1.2 How has your government interpreted participation as a result of the PRSP Process?

- (a) Joint decision making
- (b) Consultation
- (c) Information exchange
- (d) No change

###### 1.1.3 What have the obstacles to participation by civil society been? How could these be overcome?

###### 1.1.4 Are the obstacles to participation more evident in some policy areas than in others? Why? What should be done to remedy this?

Example: Dialogue and decision-making with Govt authorities on:

- Poverty diagnostics;
- Poverty reduction policies and programmes;
- Sectoral reform;
- Social policy;
- Macro-economic policy etc.

###### 1.1.5 Have civil society's key concerns and proposals been included and prioritised in the PRSP document? If so, in which areas? Which main concerns were not reflected in the PRSP and why?

##### 1.2 Content & Relevance:

### **1.2.1 Has the PRSP process led to improvements in pro-poor policy formulation by the Government?**

- Are policies more likely to focus on outcomes that benefit the poor, ex: access to and quality of basic services ; allocation of expenditure among sectors of the economy; employment, growth and investment policies; tax policies; credit and monetary policies; access to land and productive resources; inflation-related policies and targets; overall fiscal stance etc.
- Are they more likely to take into account the multidimensional nature of poverty and equity issues regarding gender, ethnic minorities, the lack of security, and the lack of political power, etc?
- Are pro-poor policies and expenditure prioritised within the annual budget and medium term expenditure planning? etc.

### **1.2.2 Has the PRSP process led to improvements in institutional arrangements for the delivery of broad-based growth and poverty reduction?**

- Has budget management, monitoring and transparency improved?
- Are there improved measures for accountability in expenditure of debt relief?
- Are there improved measures for tackling corruption and improving civil service performance?
- What is the balance of power between ministries responsible for finance, trade and investment and those responsible for social development and environment?
- What is the role of the parliament in overseeing the government's economic performance and decision-making?
- Are there improved institutional arrangements for public participation (e.g. National Dialogue Law etc.

## **2. World Bank and IMF Role and Performance**

### **2.1 Questions relevant to both institutions:**

**If there has been an Annual Progress Report on the PRSP, did Bank / Fund staff contact you or other civil society stakeholders to get input for their Joint Staff Assessment of the Progress Report?<sup>7</sup>**

### **2.2 How has the World Bank interpreted participation as a result of the PRSP Process?**

- (a) Joint decision making**
- (b) Consultation**
- (c) Information exchange**
- (d) No change**

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<sup>7</sup> The Guidelines for Joint Staff Assessments of PRSP Annual Progress Reports state that staff can use sources including the views of domestic stakeholders and development partners in the JSA.

## **2.3 World Bank Role and Performance**

### **2.2.1 To what degree has the Bank taken a participatory approach to dialogue with civil society on the Bank's Country Assistance Strategy (CAS) and Poverty Reduction Strategy Credit (PRSC)? What has been the impact of such participation?**

- Has there been any improvement / deterioration in Bank openness to participation?
- What, if any, key civil society concerns have been taken into account in the CAS and PRSC? What concerns have not been taken on board?
- What other positive / negative experiences has civil society had with the Bank in terms of participation in policy debates?

### **2.2.2 To what extent is the Bank's Country Assistance Strategy (CAS) aligned with PRSP priorities?**

- Do any CAS policies or programmes conflict with objectives of poverty reduction and broad-based growth in the eyes of civil society?
- Does the Bank present a range of policy options to achieve the PRSP poverty goals, or does it usually focus on a single option.

### **2.2.3 If your country has a PRSC, to what extent is it aligned to the PRSP?**

- Were policy conditions open to public debate prior to their adoption?
- Have the policy conditions increased/decreased in number compared to the past?
- What, if any, other changes to Bank loans and conditions have you noticed in the past 3 – 4 years?
- Do Bank loan conditionalities undermine poverty reduction in any way?

### **2.2.4 Has the Bank carried out Poverty and Social Impact Assessments (PSIAs) on any of its own proposed policies or policies within the Government's PRSP?**

- If so, has civil society been consulted in the assessment? How have the PSIAs been used in policy making?

## **2.3 IMF Role and Performance**

### **2.3.1 How has the IMF interpreted participation as a result of the PRSP Process?**

- (a) **Joint decision making**
- (b) **Consultation**
- (c) **Information exchange**
- (d) **No change**

**2.3.2 To what degree has the IMF taken a more participatory approach to dialogue with civil society? What has been the impact of such participation?**

- Has there been any improvement / deterioration in IMF openness to debate with civil society?
- What, if any, key civil society concerns have been taken into account in the PRGF? What concerns have not been taken on board?

**2.3.3 To what extent is the IMF's PRGF aligned with PRSP priorities?**

- To what extent has the IMF's role supported or undermined the PRSP process and content?
- Are there any contradictions between the PRSP and the PRGF?
- What, if any, key civil society concerns have been taken into account in the PRGF? What concerns have not been taken on board?

**2.3.4 Is the Fund showing more flexibility in considering policy alternatives? What indications are there of greater flexibility, if any?**

- Is the IMF more flexible around fiscal and inflation targets?
- Is the IMF more flexible in accommodating increases in expenditure to achieve poverty reduction goals?
- Were any civil society or government alternatives proposed and were they accepted or rejected? How open was the IMF in terms of dialogue around proposed alternatives?

**2.3.5 Has the IMF undertaken Poverty and Social Impact Assessments (PSIAs) on any macroeconomic contained in its PRGF?**

- Have countervailing measures been introduced to offset negative impacts on vulnerable groups and were these adequate?

**2.3.6 Has the Fund limited its use of conditionality to areas which are critical for economic stability and pro-poor growth?**

- Have the IMF conditions increased/decreased in number?
- Has IMF conditionality become more or less broad in scope and in depth?
- What has the Fund done to verify the critical relevance of structural conditions still contained in the PRGF and what measures, if any, have been taken to inform the broad public about this?
- Has the World Bank taken on any of the conditionalities which the IMF has abandoned due to its streamlining effort (ex, in structural reforms such as liberalisation, privatisation etc.).



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