



Synthesis Paper 2

DFID's Approach to Poverty Reduction Strategies (PRSs)

Debbie Warrener

October 2004

Overseas Development Institute
111 Westminster Bridge Road
London
SE1 7JD
UK

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Acknowledgements

The author is grateful to all who kindly assisted in the drafting of this paper by giving their time for interview and providing comments by email. In particular, Peter Dearden, Stephen Chard and Andrew Roberts, all of DFID, kindly contributed comments on earlier drafts of this paper. They do not, however, bear responsibility for the views expressed in the paper and any errors are the author's own.

Disclaimer

This paper draws from discussions and correspondence with several DFID staff. However, it is not a DFID document; its contents are the responsibility of the author and they are not a definitive statement of DFID policy and should not be regarded as such.

Acronyms

APD	Africa Policy Department
APR	Annual Progress Report
CAP	Country Assistance Plan
CSP	Country Strategy Paper
DBS	Direct Budget Support
DFID	Department for International Development
DoC	Drivers of Change
FCO	Foreign and Commonwealth Office
GBS	General Budget Support
HQ	headquarters
IFIs	International Finance Institutions
IMF	International Monetary Fund
IPRS	Interim Poverty Reduction Strategy
IPRSP	Interim Poverty Reduction Strategy Paper
LAC	Latin America and the Caribbean
M&E	Monitoring and evaluation
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NGO	Non-governmental organisation
PD	Policy Division
PEM	Public Expenditure Management
PPA	Participatory poverty assessment
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PRSP M&S project	PRSP Monitoring and Synthesis Project
PSA	Public Service Agreement
PSIA	Poverty and Social Impact Analysis
RAP	Regional Assistance Plan
RPD	Regional Policy Department
RSP	Regional Strategy Paper
SDA	Service Delivery Agreement
SPA	Strategic Partnership for Africa
SWAps	Sector Wide Approaches
TA	Technical Assistance
UK DEL	UK Delegation to the IMF and World Bank board

Executive Summary

DFID and other actors within the UK government played a key role in the development of the Poverty Reduction Strategy Paper (PRSP) approach. Due to its high involvement in the development of the approach, DFID's corporate commitment to the 'country-led approach' has been strong from the start. 'Think-pieces' outlining how DFID should work with PRSPs were developed early on by the Africa Policy Department.

As Poverty Reduction Strategy (PRS) processes have progressed over the past four years, DFID's approach has also evolved. This is reflected in its support for country activities, both in-country and at headquarters level. In the early stages there was a great need for exchange of information and experiences between offices. The PRSP Monitoring and Synthesis project based at the Overseas Development Institute (ODI) carried out this function for three years on behalf of DFID. Now, however, many country offices, particularly in Africa, are familiar with the approach and have less need for information exchange on general issues.

DFID headquarters Policy Division was restructured in spring 2003 to better support a close connection between policy and research and in-country implementation. Instead of sectorally focused single-discipline departments, such as education and health, 24 multi-disciplinary teams now cover wider thematic issues. Many of these, such as 'pro-poor growth' and 'aid effectiveness', reflect the over-riding importance of the PRS approach.

The 'PRS team', new this year, has been set up to coordinate policy thinking on PRSs within DFID. It is currently working on a new policy paper, DFID's first coherent corporate vision on PRSs, due to feed into discussions within the Commission for Africa, the UK's G8 and EU Presidencies, and the reviews of PRSs and the Millennium Development Goals (MDGs), all due to take place in 2005.

Key to drafting this new PRS policy paper is analysing lessons learned and evidence from the experiences of DFID's country offices. A survey in 2003 of 30 DFID country offices provided useful input to this process; a portion of the detail from it is included in this report. Although activities vary according to country and stage of the PRS process, some generalisations can be drawn out and some lessons for best practice are emerging.

In Africa, PRS processes are well established in some countries and DFID is working on fully aligning its aid instruments with the approach. In Asia, on the other hand, direct support for PRSs remains limited as processes are less well established; government capacities are also stronger in Asia. However, DFID sees the PRS principles as fully applicable to all developing countries and is working to build on countries existing strategies and capacities so that they more fully reflect the PRS approach. Working at sectoral and sub-national level is emerging as good practice in Asia as national capacity is already strong.

Building national ownership of PRSs, implementing Public Expenditure Management (PEM) reforms, including linking the PRS with the budget, and building monitoring and evaluation (M&E) capacities are key elements of DFID's in-country work to build

state capacity to work with the PRS. Alongside this DFID often offers support to wider society with discussions moving from the language of ‘participation’ to that of building long-term domestic accountability mechanisms. As countries move from document drafting to PRS implementation, DFID’s support has shifted from mainly technical assistance for PRS preparation to focus increasingly on M&E. DFID has also increasingly stepped up its activities on donor coordination and harmonisation as PRSs progress.

PRSs now lie at the heart of DFID’s activities, but maximally supporting and aligning with them is not a simple matter. Although DFID’s Country Assistance Plans (CAPs) are closely based on PRSs this is not enough; there is increasing realisation that deeper understanding of country contexts is required to deal with the challenges that are arising in the implementation stage. Two key challenges that DFID country offices are now facing are: (i) how to address the fact that political change is key to the success of PRSs; and (ii) when and how new aid modalities, such as Direct Budget Support, can be introduced to maximally support PRSs.

These challenges are far from simple to resolve, and require careful analysis and close work in partnership with other bilateral and multilateral organisations, as well as with non-governmental organisations and recipient governments. Donor dialogue, coordination and harmonisation are also key elements of support for PRSs. For this reason, British development researchers and practitioners are keen to engage with other development agencies and practitioners. This paper provides background material on DFID’s current experience and thinking. Comments and feedback are welcome; frank exchange of views and experience are an important part of building a basis for collaboration.

1. Introduction¹

This paper sets out DFID's current approach to Poverty Reduction Strategies (PRs).² The synthesis is based on a number of sources, including first-hand interviews with DFID staff and staff involved in the DFID-supported PRSP Monitoring and Synthesis Project³. The paper also draws on a recent survey of DFID's engagement with PRSPs, as well as workshop reports and DFID policy documents.⁴

The paper sets out the overall trend of DFID's engagement with PRs. Countries engaging with PRs differ widely however, with DFID's approach varying according to the multiple dimensions of specific country contexts; generalisations can therefore only be made with extreme caution. For this reason, brief examples are provided in section four to concretely illustrate in-country actions.

The regional focus of this paper is primarily on DFID's relative approaches to Africa and Asia. The reason for this is that Japanese and British relative strengths and approaches in these two regions underpin the initiative within which this paper is being produced. Furthermore, DFID has long experience in Africa where PRs are most well-established. Asia, on the other hand, has the largest number of poor in the world but engagement with PRs is at a much earlier stage.

Although DFID is also active in PRS processes in Latin America and Central Asia, this is covered to a lesser degree. The paper also does not cover how DFID is working in countries where there is currently no PRS due to weak governance or being in a post-conflict situation. This is an issue of growing importance for DFID and the wider development community, and therefore will be covered in a later paper.

This paper is divided into four sections. The first outlines the background to DFID's engagement with the PRS approach. The second section looks at DFID headquarters (HQ) support for country engagement with PRs. The third section provides an overview of current in-country activities in support of the approach. This section is divided into five subsections: a global overview of support activities; details on activities supporting states; activities to support wider society engagement; information on changes in DFID's overall approach to the aid relationship; and a brief mention of two emerging issues. The report ends with a short conclusion.

¹ This paper is the third in a series produced as part of a nine-month initiative focusing on the latest thinking and practice in aid policy in the UK. The aim of the initiative is to stimulate dialogue and debate between development researchers and practitioners in Japan and the UK. (For more details see: http://www.odi.org.uk/RAPID/UK_Japan/index.html) This paper builds directly on the previous paper summarising UK research output on PRSPs.

² The term Poverty Reduction Strategies (PRs), referring to the processes rather than purely the Poverty Reduction Strategy Paper (PRSP) document, is used throughout the paper, reflecting current common practice. This is because the process changes are viewed as the key element of the new approach (see the previous paper for a more detailed explanation of the 'process versus contents' debate).

³ Project website: <http://www.prspsynthesis.org/>.

⁴ Due to the non-academic nature of this material, full references are placed in footnotes rather than in a Bibliography at the end of the paper.

2. Background: Involvement of the UK government in the development of the PRSP approach⁵

The UK government is identified as one of the key agencies in the development of the PRSP initiative in Christiansen's (2003) paper⁶ outlining the elements that led to its adoption. Within the UK, DFID was a key player, but the Treasury and the UK delegation to the IMF and World Bank Boards (UK DEL) also played a significant role. DFID staff also contributed via the Strategic Partnership with Africa (SPA), a loose forum for donor discussions on approaches to Sub-Saharan Africa, established in 1987. The particular role these four elements played is outlined below.

DFID

Staff within DFID view the connection of debt relief to a programme of poverty reduction as one of the key steps in the development of the PRSP initiative. When DFID was established in 1997, Clare Short's⁷ agenda emphasised the impact of aid on poverty; initially debt relief was viewed as unrelated to and even a potential distraction from the primary task of poverty reduction. However, this changed in 1998 when Clare Short was highly impressed by the 'human chain' demonstration of people who encircled the conference site in Birmingham where the G7 summit was taking place. The demonstrators were part of the Jubilee 2000 campaign for the relief of debt.⁸ Soon afterwards Clare Short set out the need to link debt relief with poverty reduction in a speech at Queen Elizabeth House in Oxford. Many in DFID view this speech as the starting point for the development of the PRSP approach.

Within her speech Clare Short stated that there was a need to change the purpose of debt relief from simply ending debt to ending poverty: debt relief as a 'means to an end not an end in itself'⁹. She also quoted Joseph Stiglitz's recent statement that 'debt relief is a strong anti-poverty weapon, but it must be part of a broader development strategy', illustrating the resonance her thinking had within the World Bank.

HM Treasury

Gordon Brown, the UK Chancellor, has a strong personal commitment to the reduction of poverty. This, combined with the fact that many UK Chancellors have worked to implement various forms of debt relief agendas, meant that the Treasury strongly supported DFID's advocacy to link poverty reduction with a new drive for debt relief.

The UK Delegation to the Boards of the World Bank and IMF (UK DEL)

Both the Chancellor of the Exchequer and the UK Secretary of State for International Development are represented on the Boards of the World Bank and IMF. With the

⁵ Draws on Christiansen, Karin with Ingie Hovland (2003), The PRSP Initiative: Multilateral policy change and the role of research, ODI Working Paper 216

⁶ See Footnote 5.

⁷ Clare Short was the UK Secretary of State for International Development from 1997 to 2003.

⁸ It is significant that the Jubilee 2000 campaign was established in the UK and, although it became a global movement, built up very strong support within the UK among people who did not usually engage with protest campaigns or development policy, such as churches.

⁹ 'From Debt Relief to Poverty Elimination', speech by Clare Short at Queen Elizabeth House, Oxford, 21 May 1998.

new government in 1997, UK DEL's stance shifted, becoming more open to dialogue with NGOs and increasing its level of activity. The UK's influence further increased when Gordon Brown took up the Chair of the IMF Board in September 1999.

Strategic Partnership for Africa (SPA)

Although lacking direct policy influence, Christiansen's study indicates that the SPA provided a space for discussion and dialogue that could be more radical than a purely policy-oriented forum. Many of the 'like-minded donors' actively participated and DFID staff feel this work also strongly contributed many of the ideas that ended up within the PRSP approach.¹⁰ The fact that this work had been highly collaborative, involving senior staff of many bilaterals further contributed to a strong sense of ownership of these ideas within many donor organisations.

Having played a relatively central role in the adoption of the new approach, DFID welcomed it and quickly placed it at the centre of its activities. Soon after the adoption of the approach by the World Bank and IMF the Africa Policy Department (APD) drafted a number of 'think-pieces' on how DFID could maximally support PRSPs¹¹. One of these was titled 'How should DFID respond to PRSPs?'. The main points from this paper are set out in Box 1.

Box 1: Key points of DFID early 'think-piece' on PRSPs

- Intention to work in **partnership** with governments that have produced PRSPs
- Aim to support the PRS principles through **building capable** and **accountable** states
- **Process** changes are the main aim, not the content of the PRSP
- A **change in donor behaviour** is necessary for this to happen – multiple projects weaken government systems
- **General budget support** is not the final goal for its own sake but is viewed as the **most likely aid instrument** to produce a donor-recipient **relationship in line with the PRS principles**
- **No universal strategy** is possible – the paper lays out presumptions on how offices will work to support PRSPs
- Acknowledgement that the paper draws on **experience in Africa** and the principles may be applied differently in other countries

Source: How should DFID respond to PRSPs? Africa Policy Department, February 2002

¹⁰ The fact that many of the PRS principles were worked out in an African context enabled the relative ease of its application there, but the lack of a body similar to the SPA for the Asian context, for example, has meant that there is less clarity in how the principles can be applied there (Presentation by Peter Grant, then Deputy Director, Asia, DFID at the Foundation for Advanced Studies on International Development (FASID), Japan, 12 July 2002). (PG presentation)

¹¹ Interview with Ruth Driscoll, PRSP Monitoring and Synthesis project, Overseas Development Institute (ODI) (RD interview)

3. DFID headquarters (HQ) support for engagement with PRSs

This section covers DFID's HQ support structure for country engagement with PRSs and their international engagement on PRSs. Four elements are covered:

- The PRSP Monitoring and Synthesis Project
- Restructuring of Policy Division
- Regional Policy Departments
- HQ international engagement on PRSs

PRSP Monitoring and Synthesis Project¹²

Relatively soon after the adoption of the PRSP approach DFID established the PRSP Monitoring and Synthesis Project (PRSP M&S), based within the Poverty and Public Policy Group at the Overseas Development Institute (ODI). The project began in June 2001 and ran for three years, led by Alison Evans. It provided advice to DFID staff on key issues arising in PRSP support and implementation, based on syntheses of in-country information. Its two main aims were: (i) to share lessons and experiences between countries; and (ii) to use insights from practical experience to inform DFID's policy and approach, particularly to the International Finance Institutions (IFIs).

During its existence the PRSP M&S project was very well used. Successful uptake was assisted by the fact that the project was overseen by a steering group within DFID comprising people from the different regional policy departments and the IFIs department. This group served to both ensure the project's relevance to country needs and to strongly advocate DFID's full engagement with the PRSP approach.

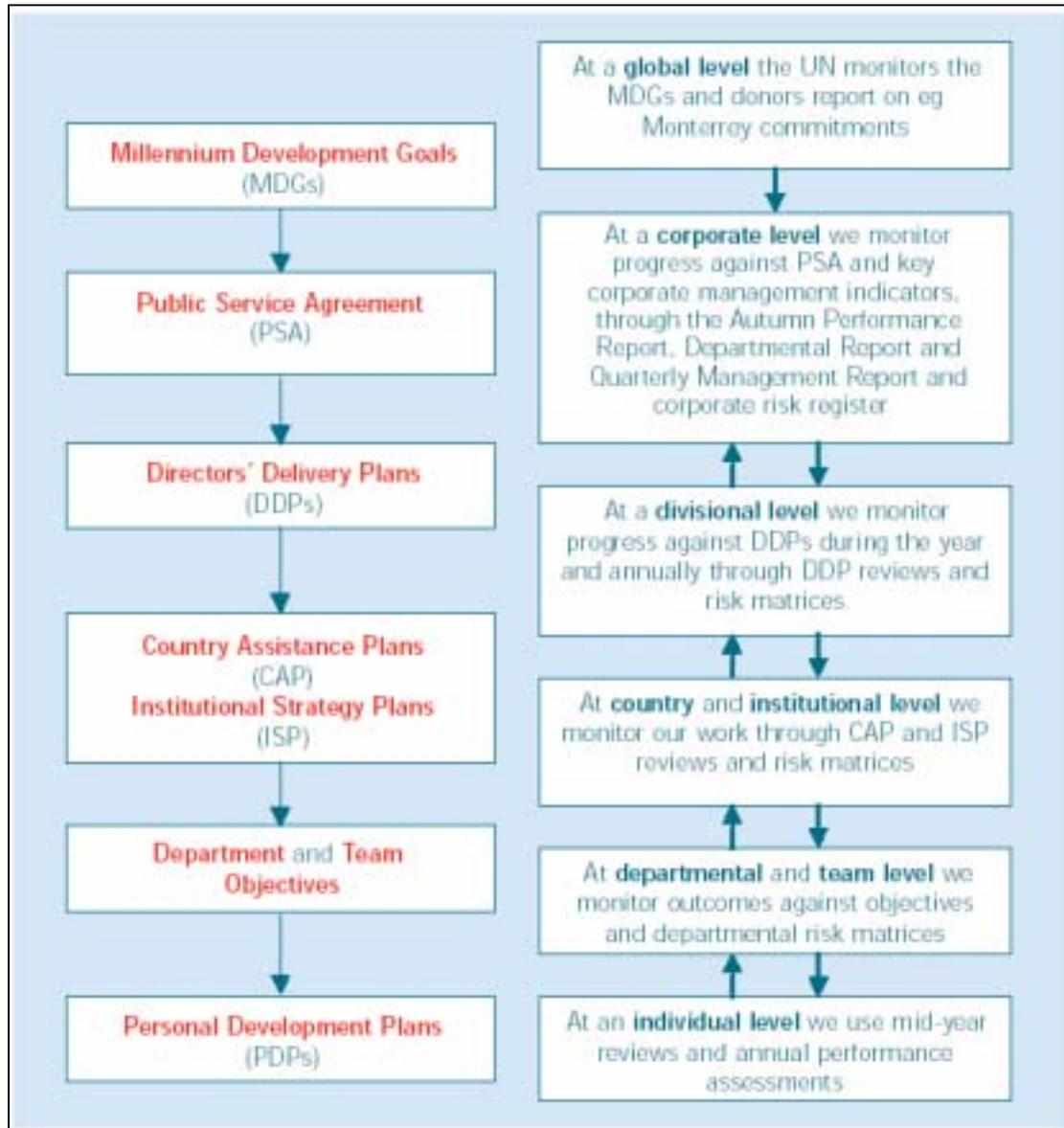
Following the completion of the PRSP M&S project in March 2004, DFID have been reconsidering how they can now best continue to support country engagement with PRSPs. When the PRSP M&S project began, experience with PRSPs was very limited and the approach was still very much in its infancy. Over the past three years, however, a large body of experience has been built up and over the duration of the project PRSs have gradually come to stand at the very heart of DFID's approach. A different form of support is therefore necessary. As a result, support for DFID's work on PRSs has now been taken internally, driven by a new team within the recently restructured Policy Division (PD).

Restructuring of Policy Division

DFID's work is driven by its corporate commitment to the achievement of the Millennium Development Goals (MDGs). DFID manages its commitment to the MDGs through a cascade of strategies developed at different levels of the organisation and performance management targets that are set in relation to them. Diagram 1 below sets out this structure.

¹² Draws from interview with Ruth Driscoll (see footnote 11).

Diagram 1: DFID hierarchical structure for strategy and performance management



Source: DFID Departmental Report 2004

At the highest level stands the Public Service Agreement (PSA), agreed every two years with the Treasury. This is accompanied by a Service Delivery Agreement (SDA) which sets out the actions DFID will take to meet the PSA targets. Under the current PSA, SDA Target 1 indicates the high-level priority PRSs have within DFID:

*'DFID and HM Treasury will work internationally to ensure that countries accessing International Development Association (IDA) resources and their key donors are committed to and supporting effective and sustainable poverty reduction strategies. DFID will provide bilateral support to this end in at least 30 countries'*¹³

Five objectives are set out within the PSA (See Box 2).

¹³ Service Delivery Agreement 2003-06 (DFID website)

Box 2: DFID's 2003-2006 Public Service Agreement Objectives

<i>Objective 1</i>	Reduce poverty in sub-Saharan Africa
<i>Objective 2</i>	Reduce poverty in Asia
<i>Objective 3</i>	Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa
<i>Objective 4</i>	Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises
<i>Objective 5</i>	Develop evidence-based, innovative approaches to international development
<i>Value for money</i>	

Source: DFID Departmental Report 2004

Objective 5 to 'Develop evidence-based, innovative approaches to international development' essentially underpins the other four objectives. In order to maximally support the realisation of this objective, DFID's Policy Division (PD) was restructured in spring 2003.

Prior to the restructuring, DFID's central policy departments were subject or sectorally focused single-discipline departments. There were six main sectoral departments¹⁴: Education Department; Health and Population Department; Infrastructure and Urban Development Department (previously Engineering); Social Development Department; Rural Livelihoods Department; and Governance Department.¹⁵ Restructuring, however, dissolved these departments, reorganising them into 24 new multi-disciplinary teams, focusing on DFID's key policy issues (see the organogram in Annex 1 for the current list).

The new teams are organised into five thematic groups.¹⁶ Currently these are¹⁷:

- Growth and Investment
- Development Effectiveness
- Sustainable Development
- Human Development
- Governance and Social Development

Since its reorganisation, PD teams have been in a state of some flux, with teams forming and dissolving again some months later¹⁸. Responsibility for PRSPs within PD therefore initially fell within the remit of the Poverty Analysis and Monitoring Team, in what was then termed the Aid Effectiveness Group. Reorganisation in May 2004 to form the above groups also created a Poverty Reduction and Aid Harmonisation team ('PRSP team') within the now re-named Development Effectiveness Group.

¹⁴ Email correspondence with Christine Edwards, DFID Public Enquiry Point

¹⁵ In addition to these there were also the following departments: Environment Policy Department; Enterprise Development Department; Private Sector Policy Department; Economic Policy and Research Department; Economists Group; and a Statistics Department.

¹⁶ An additional group within the PD looks after communications and central teams.

¹⁷ DFID Policy Division Directory, August 2004

¹⁸ RD interview

There has been some criticism that the restructuring occurred too quickly and that the process was too 'top down'.¹⁹ However, the changes were necessary as previously policy and research were poorly connected with implementation. Although initially teams were not working very effectively and the roles of the new teams were unclear, the situation now seems to have settled down.

Capacity constraints are visible, however. Fiona Shera, leader of the PRSP team, for example, initially had no staff.²⁰ Although she now has a small team in place, the burden on the team is considerable, particularly as they do not just have responsibility for PRSPs, but also Aid Harmonisation issues. These are both very important components of the drive towards 2005 that DFID is currently gearing up for (see below under 'HQ international engagement').

Despite the fact that PRSPs are now in their fourth year, DFID does not yet have a coherent corporate strategy for supporting PRSPs. Therefore, one of the key tasks for the new team is working on a new DFID-wide policy paper on country led approaches and PRSPs. Rather than simply being a policy paper, however, this is aiming to be a strategy document reaffirming the country-led approach.²¹ Recent thinking on the new paper is set out in Box 3.

Box 3: Possible contents of forthcoming PRS policy paper

The forthcoming PRS policy paper will aim to:

- Be forward-looking, proactive and organisation wide
- Clearly set out the goal of effective poverty reduction
- Draw out implications for harmonisation, instruments and better understanding drivers of change (DoC approach)
- Contain a framework for action, including a clear influencing agenda for the Africa Commission, MDG stocktake and G8 / EU Presidencies
- Set out implications for how the organisation needs to function differently in light of the country-led approach
- Include guidance on where further evidence on progress is needed

Source: DFID Workshop on Second Generation PRSPs Report, May 2004

Although PRS policy thinking is now located within the new team, as the PRS is so key to DFID's approach expertise on the approach and ways to align with it exists throughout the organisation. The PRSP team's role is therefore one of tapping into this expertise in order to develop coherent guidance and policy positions.²² This process is supported most concretely through the PRS Core Group, an HQ-wide group made up of senior representatives of related Policy Division teams, the

¹⁹ Changing DFID policy over the last year, Report by the Japan Bank for International Cooperation, March 2004

²⁰ RD interview

²¹ DFID Workshop on Second Generation PRSPs Report, May 2004

²² RD interview

International Division, Regional Departments and the Treasury.²³ The Group is chaired by Fiona Shera, head of the PRSP team, and aims to meet at least every six weeks. Its main roles include: contributing to the development of new policy on DFID's approach to PRSPs; guidance on best practice and innovative approaches; and the assessment of progress and evidence.

Regional Policy Departments (RPDs)²⁴

Although a decentralised approach is now the norm for DFID's bilateral assistance programmes (see below for more detail), HQ has the important function of being DFID's organ of accountability to the UK government and people. In fact, although the initial aim with decentralisation was to place almost all country-responsible staff overseas, experience revealed a danger of HQ being out of touch with country office activities. Regional Policy Departments (RPDs) were therefore established to amend the imbalance.

Country offices work closely with the RPDs. With regard to policy work on PRSs, the RPDs play an important role, liaising between central policy teams and country offices, facing 'both ways' – feeding experience into the PRSP team via the PRS Core Group and also passing advice on to country offices. The exact nature of this has changed over the past few years, however, particularly in the Africa Policy Department (APD). Whereas three to four years ago the APD was very active in developing the groundwork for how country offices could engage with PRSs, including the development of the paper mentioned in Box 1 above and exchanging information and advice between offices, this role is now not needed as much as PRSs are relatively well established in most African countries. The focus of the APD, and to a large extent the other RPDs too, is therefore now on getting 'more and better aid' in to support PRSs. Much of current debate and dialogue within the RPDs is focused on when or how Direct Budget Support (DBS) can be introduced.

HQ international engagement

A fundamental component of DFID's overall framework of working towards the achievement of the MDGs is the understanding that they cannot be reached through DFID's actions alone. A key part of DFID's work is therefore aimed at working in partnership and dialogue with other donor organisations and multilateral organisations. This wider influencing agenda was visible in the advocacy role DFID staff thinking played in the development of the approach, as outlined above, and is equally applicable today.

DFID actions to achieve wider international support for the PRS approach contributed to the development of the Monterrey Consensus adopted in March 2002, which clearly reflected the PRS approach by calling for harmonisation of aid under government-driven ownership. DFID also worked with African heads of government at the Rome High-Level Forum, held in February 2003, to advocate good practice in aid harmonisation. The International Finance Institutions Department within International Division works on feeding DFID's experience on PRSs to the IFIs. For

²³ PRS Core Group Terms of Reference, August 2004

²⁴ Draws on email correspondence with Stephen Chard, Deputy Director, Finance Division, DFID (SC comment) and interview with Peter Dearden, Senior Economic Adviser, Africa Policy Department, DFID (PD interview)

this reason a representative of this department also works in the PRS Core Policy Group.

The international influencing agenda is particularly pertinent at present as 2005 is a very important year for the international development community in the UK. During this year the UK government will hold the Presidency of the G8 and the EU, and Tony Blair has made African development one of the key themes for these roles.²⁵ With progress towards the MDGs also being reported, 2005 is seen as a window of opportunity to influence global debate and policy on aid. A team within DFID, the 2005 Unit, has been formed to pull together the strands of work that will feed into this; key lessons and evidence from country experiences of PRSs will be an important component.²⁶ The new PRS policy paper is also likely to become an action plan which DFID may present as part of the discussions at the DAC high level meeting, scheduled to be held in March 2005.²⁷

²⁵ The other focus is climate change.

²⁶ DFID Workshop on Second Generation PRSs Report, May 2004

²⁷ Email correspondence with Matthew Sudders, Policy Analyst, PRS and Aid Harmonisation Team

4. In-country activities to support PRSs

This section will first provide an overview of DFID's decentralized structure and how offices relate to the local Embassies. It will then set out broad differences between DFID's approach to Africa and Asia before outlining some of the results of a recent survey of in-country activities in support of the PRS.

Decentralised, autonomous offices²⁸

DFID began a process of decentralisation 15 years ago with the first fully-devolved country team set up in Bangladesh in 1992. Country offices therefore have a high degree of autonomy and decision-making power but are held 'in check' to the overall corporate strategy by the hierarchy of strategies, targets and performance indicators outlined in Diagram 1. More concretely this translates into freedom to identify, plan and implement means of assistance as long as spending falls within the framework of the Country Assistance Papers (CAPs) agreed every three to four years and the designated financial levels of authority for each office according to programme size. Checks are made a few times a year by the Regional Directors but essentially within the agreed parameters offices have the freedom to respond to the in-country situation. DFID staff confirm that this system of monitoring and assessment against a cascade of interlocking targets seems to work well.²⁹

Budgets are allocated in annual resource allocation rounds. This does not mean that the budget is then fixed for the year, however, as a certain degree of flexibility is built into DFID's system. Quarterly reports on in-country spending against the budget mean that funds can be moved between country offices, should the need arise. It is also possible for resources to be re-allocated between regions. In this case re-allocation is carried out by the Corporate Strategy Group who oversee the regional departments.

Relations between the local DFID office and the Foreign and Commonwealth Office (FCO) representations in country vary widely according to the historical circumstances of the UK's relations with the country and other contextual factors such as the security situation³⁰. As DFID is a fully autonomous department, however, there are no specific requirements for DFID to report to the Embassy. In some countries, though, DFID does not have its own office. In this case the local aid programme is jointly managed by DFID HQ and an in-country representative located in the Embassy. In this situation, the DFID employee will report to the Ambassador. As part of overall ongoing performance assessment procedures, Regional Directors do contact Embassies and High Commissions for feedback on the performance of the local office but this is part of a genuine two-way dialogue process between the two offices.

DFID country offices set their own strategies. These are currently in the form of Country Assistance Plans (CAPs) which replaced longer Country Strategy Papers

²⁸ Unless otherwise specified, information in this section draws from comments made by Pam Jenkins, Head of Director's Cabinet, Asia Directorate, DFID. (PJ interview).

²⁹ Email correspondence with Stephen Chard, Deputy Director, Finance Division, DFID.

³⁰ Where the security situation is poor, for example, DFID's office may be located within the local Embassy.

(CSPs) in 2002, in order to better support alignment with PRSs. CAPs are in the form of a 'business plan', setting out how the office will support the country's own strategy. Recent discussions have considered replacing them with an internal-only business plan which will support a simplified PRS-like policy statement by the recipient government.³¹ As CSPs and CAPs are reviewed every three or four years some offices are still working under a CSP. Annex 2 provides a list of current CSPs, CAPs, Regional Strategy Papers (RSPs) and Regional Assistance Plans (RAPs).³²

As country offices fully align with PRSs there is recognition that this will alter the human resource requirements in country. It is unclear whether staff numbers will change but different skills are increasingly required³³. Project management and sectoral skills are waning in importance in favour of influencing and negotiation skills. Policy influencing skills as well as high interpersonal skills for working in collaboration with other donors are paramount as well as abilities to work with awareness and delicacy within highly complex and political contexts. Due to the growing need for in-depth in-country knowledge as part of the Drivers of Change approach there are also discussions at present within DFID on whether staff specialisations in certain regions or countries should be encouraged.³⁴

Differences in approach to Africa and Asia

Country contexts differ vastly and play an understandably large role in determining what specific activities are undertaken. As an illustration of this, some of the major differences in DFID's approach to PRSs in Africa and Asia are set out here. It must be borne in mind though that once again this is necessarily a 'broad-brush' approach and within this countries are situated on a spectrum between the 'extremes' portrayed here.

*Different contexts*³⁵

PRSs are at a much more mature stage in Africa than in Asia. This is partly due to Africa's higher degree of aid dependency and the consequent relative importance of the IFIs and their instruments there. There are fewer PRSs in Asia and those that exist are still in early stages with few in the implementation stage. Monitoring and evaluation capacities in Asia are therefore in general not being addressed yet. Overall, government capacities are higher in Asia than Africa, which has led some to feel that there may be less need for PRSs. In particular, Asian planning capacities are more developed, central ministries better structured and run, and local ownership of national policies is generally higher than in more fragmented African governments. A number of countries have already developed their own 'PRS-like' strategies, often supported by the Asian Development Bank. An additional contrast is the fact that a number of Asian countries are federal, covering very large populations. Perhaps due

³¹ DFID Workshop on Second Generation PRSs Report, May 2004

³² RAPs focus on areas where DFID country programmes are small and where countries are geographically close together and face similar issues. They also set out the framework for how DFID aims to contribute to the realisation of the MDGs in that particular area.

³³ ODI (2002) *DFID's engagement with national PRSP processes*, PRSP Synthesis Note 2, February.

³⁴ PG presentation and comment by Ann Freckleton, Policy Division, DFID.

³⁵ Draws on: PD interview; PG presentation; Lerche, Jens, Jonathan Pincus and John Weeks (2004) *Poverty Reduction Strategy Process and National Development Strategies in Asia: A report to DFID*, Centre for Development Policy and Research, School of Oriental and African Studies (SOAS), University of London; and ODI (2003) *Experience of PRSs in Asia*, PRSP Synthesis Note 8, July.

to a number of these factors, stand-alone projects seem to have achieved more success in Asia than in Africa. In general there are also fewer donors in Asia than in Africa.

*Different approaches*³⁶

In Africa PRSs have been seen as a 'new way to do business' supported with enthusiasm by DFID offices as offering a way to address long-standing problems of weak government capacity and poor commitment to poverty reduction. The shift to more programmatic modes of aid delivery and coordination to support PRSs has therefore been strong here. With take-up of PRSs much lower in Asia direct support by DFID to PRSs remains a much lower portion of the total aid package. Overall, projects also remain the norm here.

However, DFID does not see PRSs as irrelevant to Asian countries as it believes that such processes are in the best interests of all developing countries, including Asia. In fact, due to the already-existing strong policy-making capacities and PRS-like strategies developed in many Asian countries, the potential for take-up of the PRS principles can be seen to be higher in the Asian context than in Africa (Hanoi presentation). The approach now being taken therefore is to work with what already exists - to improve it, rather than setting up a parallel PRS to an already-existing strategy, for example.³⁷ Some of the potential benefits of PRSs for Asian countries cited are: adoption of a multi-dimensional understanding of poverty; results orientation in policy making and implementation; improved participation and transparency³⁸; pro-poor focus to policy; improved framework for donor coordination and alignment³⁹; and increased predictability and flexibility in funding (Hanoi presentation).

Overall, the picture of DFID's approach to PRSs in Asia is mixed as is to be expected considering the diversity in the region and the lower donor influence relative to Africa. A recent study of PRS processes in Nepal, Vietnam and India commissioned by DFID offered a number of recommendations for DFID's engagement in the region, however.⁴⁰ As a number of these reflect DFID's existing approach they may well be indicative of how support is likely to continue. For this reason, they are briefly outlined here.

Due to the strength of central government capacities, leverage for change is seen to be greatest working at sectoral and sub-national levels; this is already DFID's approach in India and Vietnam. As policy-making capacities in Asia are strong, a further recommendation is that DFID engage in long-term patient support for

³⁶ Draws on: PRSP Synthesis note 2 (see footnote 33); PRSP Synthesis note 8 (see footnote 35); PG presentation; SOAS report (see footnote 35); and 'The Political Economy of Pro-Poor Policies in the Asian Context', presentation by Rosa Alonso I Terme, Senior Economist, World Bank Institute at PRSP Joint Donor Staff Training Program, Hanoi, September 2003 (Hanoi presentation).

³⁷ For this reason, a second generation PRSP will not be developed in Vietnam (Comment by Deborah McGurk, Senior Economic Advisor, Asia Directorate, DFID).

³⁸ One example of increased transparency under the PRS is that of Vietnam where the budget was a state secret until 2002 (SOAS report).

³⁹ Donor coordination, alignment and harmonisation are not as well developed in Asia as in Africa. Strong government leadership in many countries, such as India, indicates that the potential for this to increase, fuelled by adoption of more PRS-like principles, is strong, though.

⁴⁰ SOAS report (see footnote 35).

institutional change rather than more direct policy advice. Within Asia, such direct attempts at influence can easily be counter-productive. This is illustrated by the recent example of India where all but six donor organizations were recently requested to leave⁴¹. Recommended modalities for assistance in Asia are: capacity building with a direct pro-poor outcome; and information dissemination to bring international 'best practice' to the attention of policy makers. Overall, 'undifferentiated' alignment of assistance with PRSs is questioned in this study, echoing an earlier DFID presentation where it was admitted that there is 'likely to be a continuing need for a wide range of instruments'.

Asia⁴² received 47% of all bilateral aid allocable by region during DFID's 2003-04 accounting period, a figure of 787 million pounds⁴³. (Sub-Saharan Africa, on the other hand, received 41% or £716 million.) Although there is currently limited use of sector and budget support, DFID do feel that it is difficult to effectively utilize this level of funds solely through projects. Although proceeding cautiously, DFID is therefore interested in introducing sector level or budget support, where possible - general budget support has been introduced in Vietnam and Pakistan and sector support to some Indian states. DFID's commitment to Asia and to the adoption of PRS-like processes in Asia can be seen to be closely connected to its corporate commitment to the achievement of the Millennium Development Goals (MDGs). As many Asian countries are closer than Africa to the achievement of the MDG targets, DFID feels that support for Asia to exceed its targets may be the best strategy to achieve the goals globally. PRSs, or PRS-like processes, closely connected to the MDGs are seen as the best way to do this.

Details on in-country activities in support of the PRS

The remainder of this section draws heavily from the most recent survey of DFID's engagement with PRSs, carried out by the PRSP M&S project in June 2003⁴⁴. While the situation is constantly changing,⁴⁵ this is the most recent comprehensive overview of DFID's activities available. 30 country offices responded to the largely questionnaire-based survey (see Annex 3 for a full list of participating country offices). The report warns however that some of the conclusions drawn can only be tentative as responses were necessarily subjective and varied in depth.⁴⁶ Also, in some cases, conclusions have been drawn from only a limited sample of countries with similar experiences. In light of these caveats, however, the survey provides a useful overview of the approaches currently taken by DFID's country offices.

Results from the survey are divided here into five subsections, roughly corresponding to the layout of the previous paper (see Annex 4 for a copy of the Progress Matrix from this report which sets out a number of the challenges remaining in these areas).

⁴¹ Comment by Deborah McGurk (see footnote 37).

⁴² This figure includes assistance provided to the Middle East.

⁴³ DFID (2004) Statistics on International Development: 2004 Edition

⁴⁴ The PRSP Process and DFID engagement: Survey of Progress 2003, PRSP Monitoring and Synthesis Project, Overseas Development Institute (ODI), March 2004

⁴⁵ For this reason, some comments on the stage of the PRS process in countries may now be incorrect.

⁴⁶ Examples provided are therefore not necessarily representative of the full range of DFID's experiences as they were dependent upon the degree of detail that respondents provided.

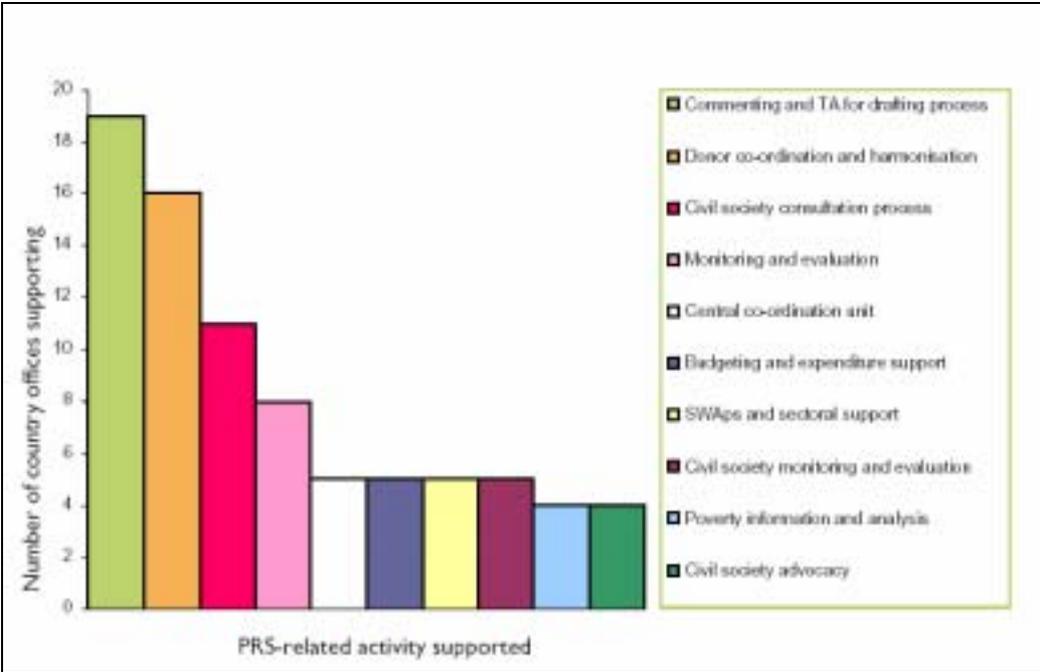
Emerging best practice, country examples and challenges are provided where available. The five sub-sections are:

- Global overview of DFID’s activities in support of PRSs
- Support for the state
- Support for society
- Moving from ‘donorship’ to ownership
- Two emerging issues

Global overview of DFID’s activities in support of PRSs

A rough overview of DFID’s PRS-related activities is provided in Diagram 2.

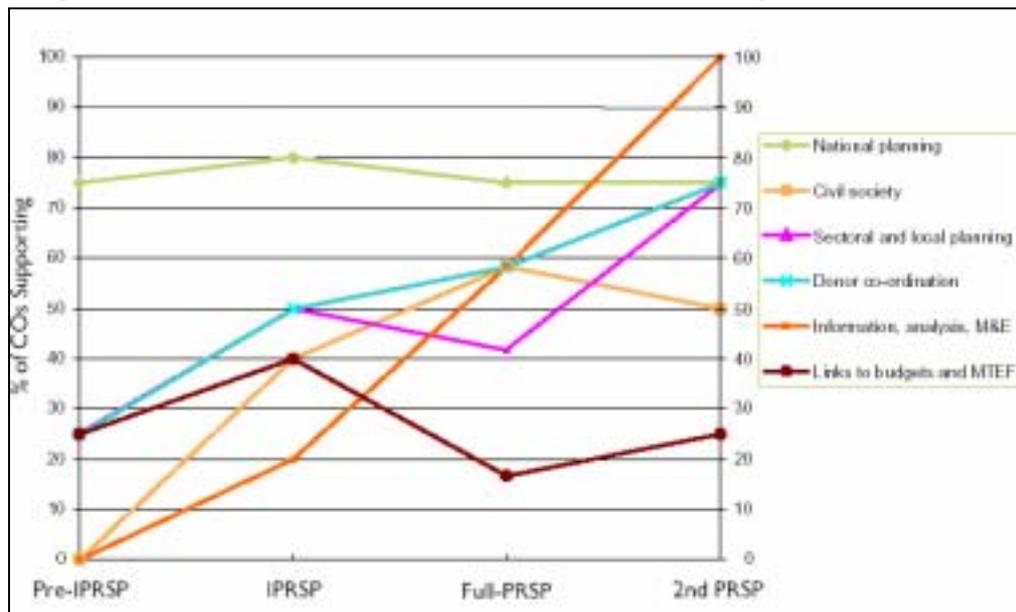
Diagram 2: Top ten PRS-related activities supported by country offices



Source: ODI (2004) (see footnote 44)

As the PRS progresses, however, DFID focuses on different support activities. An overview of these shifts in the type of support offered is set out in Diagram 3.

Diagram 3: Variations in DFID support at different stages of the PRS process



Source: ODI (2004) (see footnote 44)

These changes in types of support are briefly outlined here:

- At the *pre-IPRSP* stage, DFID support focuses on drafting the IPRSP and developing related tools, such as timetables and macroeconomic frameworks;
- Following *completion of an IPRSP*, DFID support focuses on key elements that need to be in place to draft the full PRS: a consultation process; expenditure planning; costing; sector planning; and a central PRS co-ordination unit. Support for donor co-ordination and harmonisation is now a higher priority and remains so;
- Having *developed a full PRSP*, DFID support focuses on monitoring and evaluation (M&E), including support for monitoring by civil society. There is also a shift to more programmatic support and sector working groups;
- Although experience in countries where *second PRSPs* are being developed remains limited, the survey showed a continuing high focus on M&E, including by civil society. Drafting support does not appear to be so necessary the second time round, but sector work appears to increase slightly in importance. Support for donor co-ordination and harmonisation activities remains significant, indicating that alignment concerns remain high on the agenda.

Support for the state

Three issues are covered here:

- Ownership
- Public Expenditure Management (PEM) reform
- Monitoring & Evaluation (M&E)

(i) Ownership

The issue

Poor government ownership outside the central economic ministries remains a significant challenge for PRSs

Emerging best practice:

- Linking the PRS to already-existing national plans and using the PRS to improve them;
- Using institutional incentives such as:
 - The prospect of accessing additional financing;
 - The chance to shape PRS monitoring frameworks;
 - Encouragement to produce sectoral or sub-national plans linked to the national PRS;
 - Associated support for decentralised capacity-building.

Examples of linking the PRS to other national plans:

- **Vietnam's** PRS draws on the government's 10-year economic development plan, but develops it into prioritised goals with clear targets for reducing poverty,
- **Pakistan's** IPRSP references the government's 10-Year Plan and Debt Management Strategy, but gives more weight to human development concerns and has a more realistic costing process.

Challenge in linking the PRS to other national plans:

In some countries existing weaknesses in national plans have ended up hampering the PRS process.

Example of weak existing plans hampering the PRS:

In **Sudan**, the connection made with the 25-year strategic plan through the utilisation of the same consultation material is proving unhelpful because the consultations were not poverty-focused.

Example of successful institutional incentives to deepen ownership:

In **Uganda**, the government is strongly steering the PRS process. In support of this, hard budget constraints are being introduced in the Medium Term Expenditure Framework (MTEF) from 2004. This means that if a \$10 million project is accepted by a line ministry, the MoF will correspondingly reduce the central budget allocation to that ministry. This will encourage line ministries to stop accepting project based financing from donors as MoF funds have fewer strings attached and so will bring greater coherence between line ministry activities and central policies.⁴⁷

⁴⁷ PD interview

(ii) Public Expenditure Management (PEM) reform

The issue

To be maximally effective PRSs need to be closely connected to the budget process as part of a wider process of Public Expenditure Management (PEM) reform

DFID support for improving PRS links with the budget:

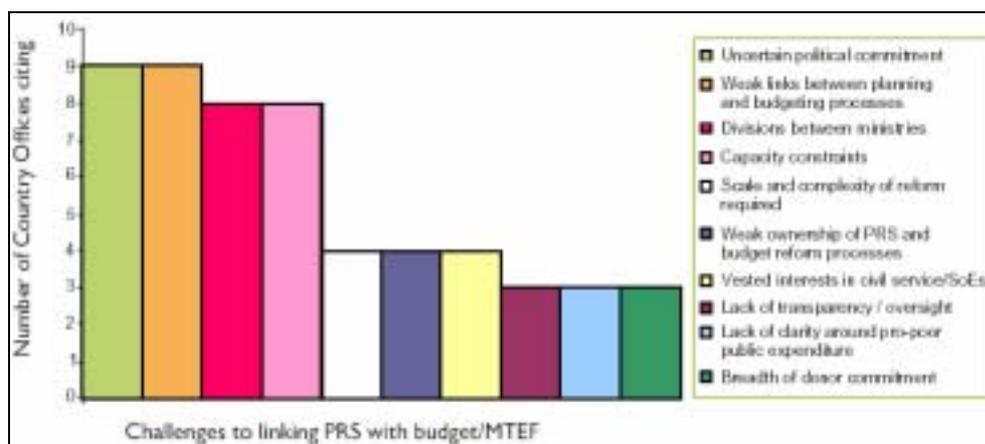
- Technical Assistance (TA) for the prioritisation and costing of PRS policies;
- Some direct funding of central economic ministries and line ministries;
- Priorities are development of MTEFs, PEM systems and Public Expenditure Reviews;
- Partnerships with the IMF, World Bank and other donors through trust funds and co-financed projects and programmes are often used.

Example of DFID support in linking the PRS with the budget:

Vietnam is typical of the type of support increasingly offered by DFID. The World Bank and DFID are working together on a Public Finance Management Reform Project, which includes a component focused on strengthening the Medium-Term Fiscal Framework, and an MTEF in four line ministries. It will also pilot a Medium-Term Expenditure Plan in a limited number of provinces. The project aims to improve the alignment of capital and recurrent budgets, and to strengthen the link between policies set out in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS - Vietnam's PRS) and resource allocation.

The importance of these reforms are widely recognised within DFID country offices, but many obstacles stand in the way of their realisation. The 'top 10' of these challenges are set out in Diagram 4.

Diagram 4: The top 10 challenges for linking the PRS to the budget



Source: ODI (2004) (see footnote 44)

Some differences noted between Africa and Asia:

Uncertain political commitment seemed to be the greatest obstacle in Africa, whereas in Asia divisions between ministries were the main hindrance.

Overall challenge:

The obstacles are both technical and political issues. Political issues are hard to address, therefore country offices are focusing on the technical issues. However, if both technical and political issues are not addressed, country offices are aware that the weaknesses will hinder the effectiveness of the overall PRS approach (and also the introduction of budget support by donors).

A potential solution to the difficulty of addressing political change:

The Drivers of Change approach has recently been introduced within DFID as a means of tackling the complex political issues (see the forthcoming paper for more detail on this approach).

(iii) Monitoring and Evaluation (M&E)

The issue

As more countries enter the PRS implementation stage, poor government capacities and systems are not sufficient to adequately monitor progress

Emerging best practice:

Building on existing systems where possible, while supporting governments and organisations within wider society to address key gaps in capacity and data.

Example of support for improving M&E capacity:

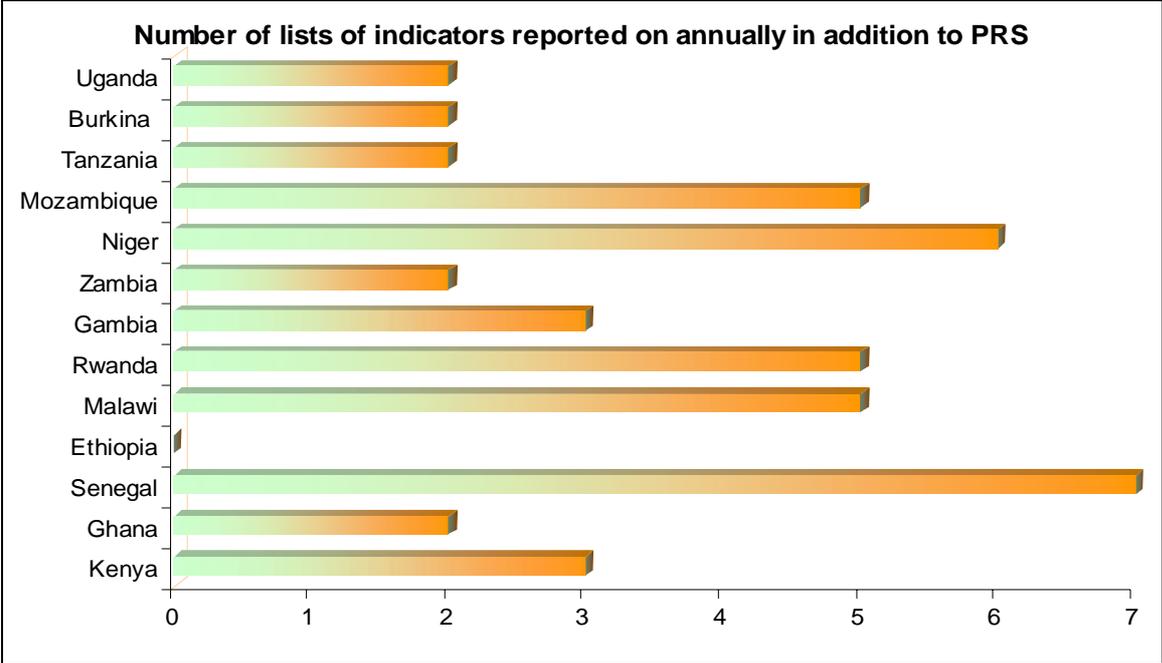
In **Vietnam**, DFID is providing support through the World Bank (as part of a larger trust fund arrangement) to the government's statistics office and has assisted in defining Vietnam's development goals as a basis for M&E.

Challenge in this area (1):

Balancing DFID's performance assessment requirements with the often poor results of national PRS monitoring. In moves to increase programme-type funding, such as SWAs and budget support, there is a particularly strong risk that reporting requirements may increase, rather than decrease, due to this issue. The requirement by the World Bank and IMF to produce a PRS Annual Progress Report (APR) is also placing further stress on weak systems.

The degree to which this is a major problem is indicated in Diagram 5, which shows the results of a recent survey of African countries by the Strategic Partnership for Africa (SPA). Senegal, Niger, Mozambique, Rwanda and Malawi all have five or more additional lists of indicators that donors require them to report against outside the PRS requirements; only Ethiopia has no additional reporting requirements.

Diagram 5: Number of donor reporting requirement lists of indicators reported on annually in addition to the PRS requirements (African countries)



Source: SPA Budget Support Working Group (2004)

A potential solution to this issue:

Monitor process indicators rather than outcome and output indicators.

Emerging examples of monitoring systems that suit both government and donor requirements:

- In **Ethiopia**, the government is driving the PRS process, but has worked with donors to develop a menu of PRS targets and indicators for them to choose from;
- In **Mozambique**, budget-execution reports have been chosen as the central instrument for donor monitoring of PRS implementation.

Challenge in this area (2):

In conflict countries and where governance is weak DFID is having difficulty finding ways to support improvements to national monitoring. This is serving to discourage them from shifting to budget support and SWApS in these countries.

Examples of difficulties in supporting M&E improvements:

In **Kenya**, no clear institutional responsibilities for M&E have been put in place despite recommendations for them from a donor taskforce. However, a monitorable matrix has been appended to the PRS to guide the M&E function.

In **Angola**, donors have consistently reminded the government of the need to include an M&E strategy that engages with a range of stakeholders in their IPRS, but DFID staff do not appear confident that this will materialise.

Support for society⁴⁸

The issue

Wide ownership of the PRS is necessary for it to properly address concerns and be successfully implemented and monitored

During the initial stages of the PRS, DFID support for civil society focuses on facilitating their participation in the content of the PRS.

Activities supported include:

- Funding for Participatory Poverty Assessments (PPAs)
- Awareness-raising activities
- Training and other capacity-building work
- Roundtables and workshops

Channels for support:

- Government, usually as part of a broader package of support for the PRS
- Direct to umbrella NGOs
- Direct to individual NGOs

DFID is now supporting civil society engagement in M&E particularly in Africa and Latin America and the Caribbean (LAC) countries where PRS processes are most advanced. In connection with this there is a shift from the language of 'participation' to the language of 'domestic accountability'.⁴⁹

Emerging best practice:

Working together with other donors to develop a coherent approach to support civil society engagement in PRSs. This reduces duplication of activities and simplifies funding channels. It also serves to counteract donor tendencies to fund organisations that reflect their own agendas, which can skew the strength of national organisations in an unrepresentative manner.

Example of joint donor support for civil society:

In **Nicaragua**, a multi-donor civil-society challenge fund has been set up to encourage donors to develop a common approach to support civil society.

Country offices also contribute to civil society participation through direct dialogue with governments and with civil society organisations themselves.

Example of dialogue with governments concerning wider participation:

In **Ethiopia**, DFID staff described how they and other donors continuously encouraged the government to bring civil society into the process more.

⁴⁸ Here society is used to mean civil society organisations, NGOs and bodies of wider society such as parliaments and the media.

⁴⁹ Presentation by Fiona Shera, Head of PRS and Aid Harmonisation team, DFID, at EURODAD conference, Brussels, 21 September 2004 (FS presentation)

Challenge in engagement with wider society:

A broader group of stakeholders such as parliamentarians and the media are still not adequately included in participation.

Examples of good practice in broadening participation:

- In **Angola**, donors and civil society are attempting to raise awareness of the PRS amongst parliamentarians;
- In **Nicaragua**, DFID and the World Bank recently funded two Assembly Deputies to attend a regional World Bank conference on participation in PRSPs;
- In **Ethiopia** and **Moldova**, academic organisations have been enlisted to provide media training on the PRSP;
- In **Bangladesh**, DFID is working with the government to encourage private-sector participation in the PRS process.

Challenge remaining:

DFID needs to clarify its comparative advantage in this work, relative to other agencies.

Moving from ‘donorship’⁶⁰ to ownership

The issue

The challenge is for donors to step back from the ‘driving seat’ while maximally aligning assistance with the country-led approach

This section is divided into three sub-sections:

- Amount of in-country aid supporting the PRS
- Type of aid used to support the PRS
- Alignment and harmonisation

(i) Amount of in-country aid supporting the PRS

Share of DFID assistance related to PRS support⁵¹

Many African countries and some LAC countries:	90 – 100%
Asia:	Not clear as many PRSPs were not completed at the time of the survey. It is likely that up to 100% support will be provided as PRS processes progress in the region.
Central Asia and other LAC countries:	10 – 50%
Conflict countries and those with weak governance:	Less than 5%

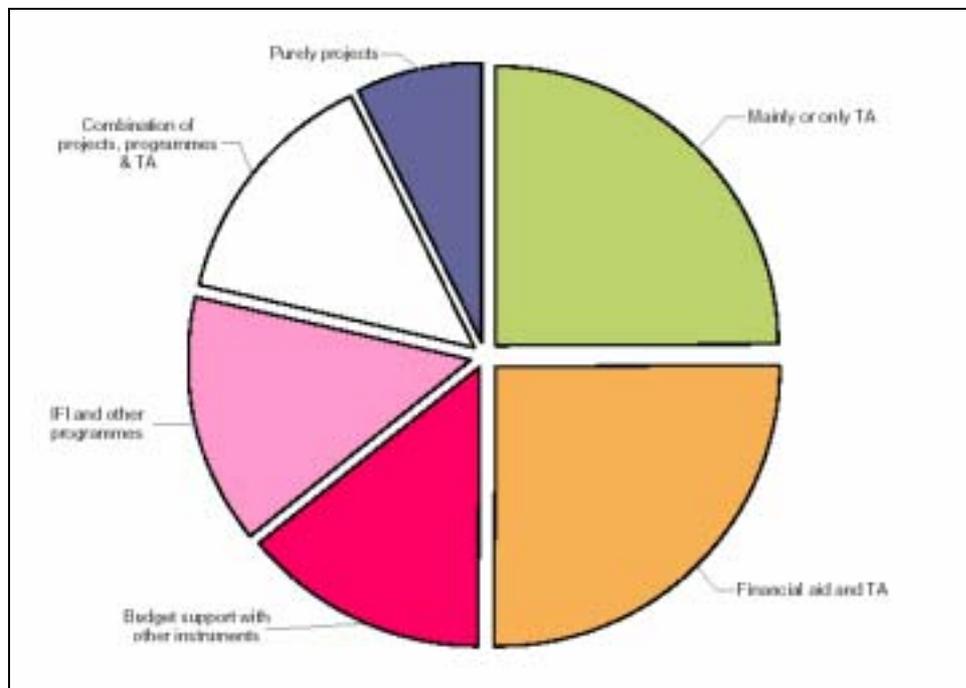
⁵⁰ This term was first coined by John Weeks but received wider recognition in Oxfam’s (2004) paper on second generation PRSPs – From Donorship to Ownership? Moving towards PRSP round two.

⁵¹ In the survey, country offices were asked to indicate the share of country assistance provided as support for the PRS. Most offices included both direct support such as TA for PRS-related processes and wider support provided under the PRS framework within their calculation. Much of this ‘indirect’ funding would have been provided even if a PRS had not been agreed, so it is not possible to truly ascertain the extent of country alignment with the PRS from these figures. However, it is clear that PRSPs are shaping funding decisions within DFID country offices.

(ii) Type of aid used to support the PRS

The survey results revealed a wide variety of combinations of different aid instruments used in support of PRSs. A summary of responses received is provided in Diagram 6.

Diagram 6: Aid instruments used in support of the PRS



Source: ODI (2004) (see footnote 44)

Country-specific details:

General budget support accounts for between 20 and 95 % of total assistance for the PRS in a number of **African** countries and in **Pakistan**, with the remainder provided through projects, programmes or TA. Co-financing of IFI programmes is the instrument of choice in many parts of **Asia**, often alongside SWAps.

In a significant number of countries, assistance for the PRS is provided mainly or only through TA. This group includes conflict countries and those where governance is weak, and also others such as **Armenia** and **Honduras**. Projects alone are used in smaller country programmes, such as **Yemen** and the **Kyrgyz Republic**.

Anticipated changes:

In almost all countries, respondents to the survey indicated that shifts towards increased programmatic funding in support of the PRS are being considered. Although dependent upon governments meeting certain fiduciary requirements, general budget support is being provided or considered in Ethiopia, Ghana, Mozambique, Sierra Leone, Zambia, and Pakistan and several other countries. There is awareness, however, that any shift in this direction will be gradual and is likely to be preceded by the use of other programmatic instruments, such as SWAps and basket-funding arrangements, as has happened in Kenya, Bolivia and Lesotho.

DFID assistance is also increasingly likely to focus on 'Drivers of Change', governance issues and support for CSOs.

Joint-donor financing:

DFID is increasingly active in joint-donor financing arrangements linked to PRSs, such as GBS and SWAp, particularly in Africa. In Asia, participation in joint-donor financing focuses less on GBS and more on SWAp, pooled trust funds and IFI programmes.

Examples of joint donor financing:

In **Ghana**, DFID is engaged in a multi-donor budget support arrangement and a health sector SWAp. These are aligned with the objectives of the PRS and are becoming increasingly aligned with its budget cycle. Performance assessment takes place through a biennial review that will become linked with the World Bank's Poverty Reduction Support Credit (PRSC) process.

DFID **Mozambique** is currently a member of a group of 15 donors providing general budget support.⁵² It also participates in a health SWAp and pooling arrangements for public sector reform and public financial management reform; these reforms are seen as critical for the successful implementation of the PRS. Aligning the objectives of these joint financing arrangements with those of the PRS is proving difficult though, because sector plans have been revised but the PRS has not been updated to reflect this. From 2004, performance assessment will be carried out increasingly on the basis of the PRS review, instead of priority donor concerns.

DFID **Nicaragua** is considering budget support but lacks the budget for this at present. It is leading on a health SWAp and has seconded a staff member to the EC to help it lead education and agriculture SWAp. The education SWAp is most advanced and is aligned directly with the implementation of the national education plan in the PRSP in its objectives and the budget cycle.

(iii) Alignment and harmonisation

DFID's overall corporate commitment is to align country strategies, aid instruments and performance-assessment requirements with the PRS as much as possible.

Emerging best practice:

Working on alignment and harmonisation in partnership with national governments and other donors and, where possible, also working together with the Foreign and Commonwealth Office representatives in country.

Examples:

In **Africa**, DFID has more often than not played a lead role in joint donor groups. In **Asia**, DFID often provides TA and financing for the PRS through the World Bank and the Asian Development Bank.

⁵² Comment by PD

Challenge (1):

Joint-working arrangements with other donors tend to focus on 'like-minded' donors. The danger of this is that aid flows from non-like-minded donors will avoid pressure to align with the PRS.

Possible solution:

Consideration of how non-budget support instruments such as projects and TA can be encouraged to align with the PRS. This would enable non-like-minded donors to engage in the debate on alignment without necessarily changing their aid instruments. The development of new aid instruments could also be a way of addressing the issue of encouraging non-like-minded donors to align.⁵³

Challenge (2):

The need for more predictable flows of aid. This is difficult as donors are subject to their own domestic agendas, priorities and timetables.

Possible solutions:

- Memoranda of Understanding with countries are helping to improve predictability;
- Governments need to be empowered to place more pressure on donors to fulfil their obligations;
- More open acknowledgement by donors of the pressures they are under for domestic accountability;
- Development of mechanisms for mutual accountability between donors and governments.

Examples of improving predictability:

In **Ghana**, multi-year Direct Budget Support is providing a base amount dependent upon continued progress against the IMF programme, and a performance amount based on progress against agreed triggers. DFID is committed to announcing its planned budget support in December 2004 for the following Ghana Financial Year. Other donors are also coming on board.

In **Mozambique**, the G11 and World Bank have agreed to greater transparency in the performance-assessment framework. The G11 have agreed that from 2004 no cuts will be made to budget support in year, but the World Bank may still makes changes in year dependent on the fulfilment of 'prior actions'.

In **Pakistan**, World Bank and Asian Development Bank resources tend to be based on the Government of Pakistan achieving specific policy milestones before disbursement. Allocations are therefore sometimes delayed if milestones have not been met. Over the last year, the size of Pakistan's budget and reserves meant that these delays have not necessarily resulted in severe problems in expenditure programmes, but the temporarily increased government financing requirement is not desirable. DFID are trying to improve this through four-year health-sector budget support.

⁵³ FS presentation

Challenge (3):

Getting other UK government departments on board to support the PRS.

Although still relatively weak, some examples of progress in this area are:

Joint working at a conceptual level between DFID, FCO and the Ministry of Defence on approaches to countries affected by conflict. This is predominantly through the Global Conflict Prevention Pool which develops and implements conflict prevention strategies for target countries. Work on building joint strategies is underway in **Nepal** and **Sri Lanka**, but seems to be de-linked from the overall PRS process (Asia paper).

Joint working has also increased between DFID and the FCO under the new Drivers of Change approach, where the FCO is also welcoming deeper analysis of country-specific contexts and, in particular, the key political forces for change.

Two emerging issues

The two issues that will be covered briefly here are:

- Politics matters
- Content concerns

Politics matters

DFID is increasingly recognising that political and institutional change is crucial to the realisation of the potential of the PRS approach. Achieving such change is not easy however, but awareness of the need to better understand how political change occurs contributed to the development of the Drivers of Change approach (to be covered in the next paper). The aim of this is to better understand local contexts and work with awareness of political factors in complex environments. There has also been recent questioning of whether weak political commitment may be linked to weak capacity. If this is the case, there may be a need to reconsider appropriate sequencing of interventions.⁵⁴ More research is needed in this area. DFID is aware that politics can be seen as a problem or a solution and its growing focus on increasing space for the long-term development of domestic accountability indicates its desire to embrace the latter of these perspectives as far as is possible.⁵⁵

Content concerns

Poverty and Social Impact Analyses (PSIA) aim to address concerns that PRSPs do not set out the reasons why their policy proposals and actions will work better than actions taken in the past. The analyses look at the impact of policy reforms on different stakeholder groups, particularly focusing on the poor and vulnerable.

DFID has been one of the most active donor organisations in providing funds for such analyses, funding the greatest number of PSIAs in LAC, and also some in Africa, Asia and the Middle East.⁵⁶ Many DFID country offices were planning PSIAs at the time of the survey: Ghana; Mozambique; Sierra Leone; Zambia; Indonesia; Nepal; Pakistan; Sri Lanka; Vietnam; Yemen; the Kyrgyz Republic; Bolivia; Guyana; Honduras; and Nicaragua.

⁵⁴ ODI (2004) (see footnote 44)

⁵⁵ DFID Workshop on Second Generation PRSs Report, May 2004 Workshop.

⁵⁶ The World Bank has also been very active in this area.

Most PSiAs aim to address more than one policy area, either relevant to the IFI lending programmes or the PRS.

Examples of PSiAs:

In **Sri Lanka**, DFID is keen to use PSiAs to mainstream conflict sensitivity into reform programmes that are part of PRGF- (Poverty Reduction and Growth Facility) and PRSC-supported programmes.

In **Zambia**, PSiAs looking at poverty analysis, land, fertilizer and HIV/AIDS are being planned. These will feed into the PRS.

Challenge:

Two-thirds of the DFID offices reported that the PSiAs are not yet well embedded in government policy processes.

Examples where PSIA work is well embedded:

In **Sierra Leone**, members of the Economic Planning and Research Unit are carrying out the PSIA analysis themselves.

In **Ghana**, the government led the process of selecting the topics for PSIA. This stemmed from the development of a M&E framework where it became clear that there was a need for better understanding of the link between policy and poverty reduction. The PSIA work will be put to competitive tender, managed by the Government of Ghana's Planning Commission, in collaboration with core government, CSO and donor stakeholders.

DFID's way forward:

The PRSP team in DFID are working on helping country offices support PSIA as part of an integrated approach to national capacity-building.

5. Conclusion

DFID was one of the key drivers behind the development of ideas that led to the PRSP approach. Consequently, it has had strong corporate commitment to supporting the 'country-led approach' from its inception.

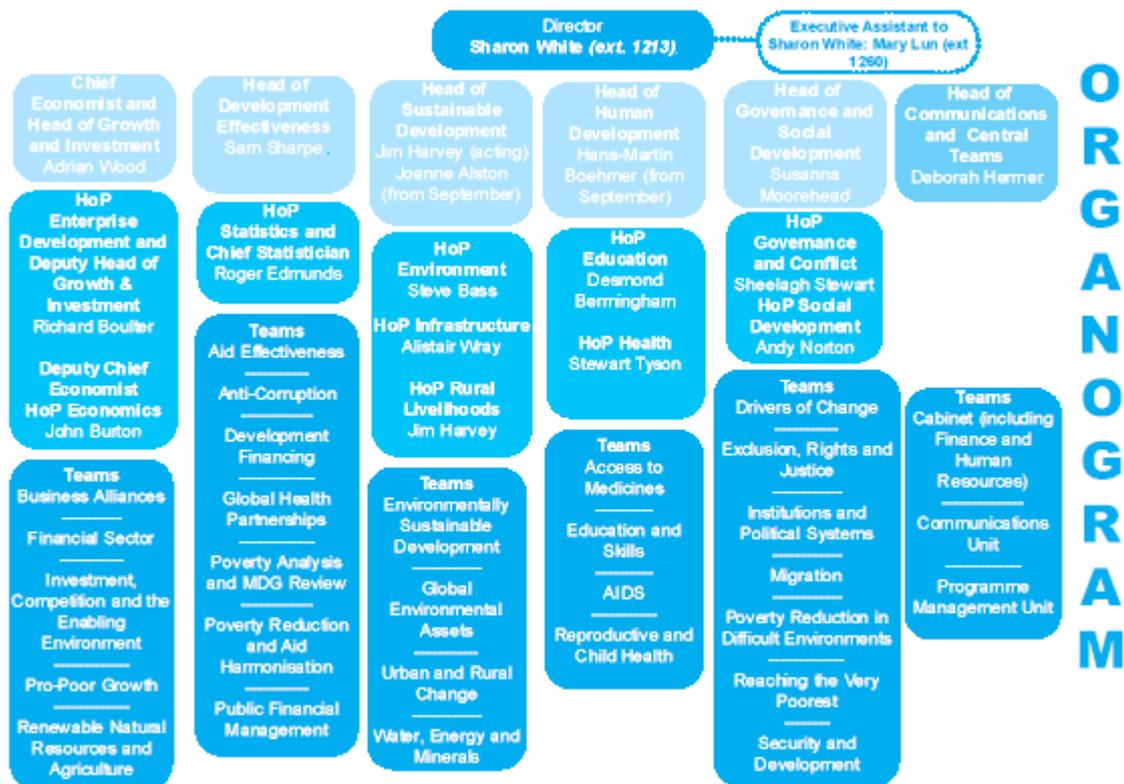
DFID headquarters support to enable country offices to maximally assist and align with the new approach has evolved as the PRS processes have progressed. Whereas in the early stages there was great need for exchange of information and experiences between offices, many country offices, particularly in Africa, are now familiar with the approach and are concentrating instead on more country-specific contexts and challenges that are arising during the implementation stage. Two of the main issues offices are currently concentrating on are: (i) how to address the fact that political change is key to the success of PRSs; and (ii) when and how new aid modalities, such as Direct Budget Support, can be introduced to maximally support PRSs. DFID's Drivers of Change approach aims to address the first of these issues.

The challenges now arising are far from simple to resolve, and require careful analysis and close work in partnership with other bilateral and multilateral organisations, as well as with non-governmental organisations and recipient governments. As experience with PRSs increases, generalisations across countries become increasingly difficult to make. This paper, however, has been an attempt to show some aspects of DFID's current work in a wide variety of countries and contexts.

DFID's new 'PRSP team' in its restructured Policy Division is currently working on a policy paper to set out a corporate vision of DFID's approach to PRSs as they enter their second generation. Insights and experience from countries are currently being compiled and analysed, and are likely to feed into DFID's input to the G8 and EU Presidencies, the review of PRSs and the MDGs and the DAC High-Level forum, all occurring in 2005. For this reason it is hoped that this paper can provide some initial background material on DFID's current experience and thinking, enabling Japan (and other donors) to understand DFID's likely position at these fora.

Donor dialogue, coordination and harmonisation are key elements of the current aid agenda. For this reason, British development researchers and practitioners are keen to engage with other development agencies and practitioners. Frank exchange of views and experience within this initiative are one element of this process. We welcome any comments and feedback on the contents of this paper and any others. In this way, dialogue can be two-way, building a basis for better collaboration between Tokyo and London as well as in-country.

Annex 1: DFID Policy Division organogram, August 2004



Source: DFID Policy Division Directory, August 2004

Annex 2: List of current DFID Country Assistance Plans (CAPs), Country Strategy Papers (CSPs) and Regional Assistance Plans (RAPs)
 (As at 27 Sep 2004)

Country Assistance Plans (CAPs)

Bangladesh	Nepal
Burma	Nigeria
Ethiopia	Palestinian
Ghana	Peru
India	Rwanda
Iraq	Tanzania
Kenya	Uganda
Malawi	Vietnam
Mozambique	Zambia

Country Strategy Papers (CSPs)

Albania	Croatia
Baltic States	Czech Republic
Bolivia	Jamaica
Brazil	Romania
Bulgaria	Sri Lanka
Cambodia	Slovak Republic
Cameroon	Uganda
China	Ukraine

Regional Assistance Plans (RAPs)

Caribbean
Central Asia, South Caucasus and Moldova
Middle East and North Africa

Regional Strategy Paper (RSP)

Central America

Source: DFID website

Annex 3: DFID country offices who participated in the PRSP Monitoring and Synthesis project survey, June 2003

Region	Country offices	Stage reached as at mid-July 2003 ⁵⁷
Africa	Angola Burundi Ethiopia Ghana Kenya Lesotho Mozambique Nigeria Sierra Leone Sudan Tanzania Uganda Zambia	Pre-IPRSP (conflict) Pre-IPRSP (conflict) Full PRSP July 2002 Full PRSP February 2003 IPRSP July 2000 Preparation Status Report December 2002 Progress Report February 2003 Pre- IPRSP PSR February 2003 Pre-IPRSP (conflict) Second PRSP March 2003 Third PRSP expected shortly Full PRSP March 2002
Asia and Yemen	Bangladesh Cambodia Indonesia Nepal Pakistan Sri Lanka Vietnam Yemen	IPRSP March 2003 Full PRSP December 2002 IPRSP March 2003 PRSP May 2003 Preparation Status Report January 2003 Full PRSP December 2003 (conflict) Full PRSP May 2002 Full PRSP May 2002
Balkans	Bosnia-Herzegovina Serbia-Montenegro	IPRSP October 2002 IPRSP June 2002
Latin America & the Caribbean	Bolivia Guyana Honduras Nicaragua	Full PRSP March 2001 Full PRSP November 2001 Full PRSP August 2001 Progress Report November 2002
Central Asia	Armenia Georgia Moldova	Preparation Status Report September 2002 Preparation Status Report May 2002 Preparation Status Report April 2002

Source: ODI (2004) (see footnote 44)

⁵⁷ World Bank data.

Annex 4: PRSs Progress Matrix from Synthesis Paper 1 – UK research on PRSPs

(previous paper in this initiative)

Progress Report Summary Matrix (Process issues)

	Progress made	Challenges remaining
<p>State</p> <p>‘The PRS process must not fall victim to the institutional challenges it seeks to address’</p>	<ul style="list-style-type: none"> • Poverty reduction higher on national agendas • Plans less fragmented • Improvements in linking planning and budgeting processes • Multidimensional understanding of poverty • Increasing focus on poverty monitoring 	<ul style="list-style-type: none"> • Line ministry and local government involvement limited • Institutionalisation and political ownership critical • Public expenditure management (PEM) reforms remain in early stages • Need to improve national monitoring systems
<p>Society</p> <p>‘Wide ownership of the PRS is necessary for it to properly address concerns and be successfully implemented and monitored’</p>	<ul style="list-style-type: none"> • Space opened up for civil society engagement and input • Civil society mobilisation and networking increased 	<ul style="list-style-type: none"> • Limited involvement of parliaments, audit offices and media • Need to institutionalise CSO participation • CSO capacity and accountability issues
<p>Donors</p> <p>‘Aid alignment as well as coordination and harmonisation between donors are all crucial for the PRS to have a chance of success’</p>	<ul style="list-style-type: none"> • Increasing dialogue on donor alignment • Increased awareness of the need for coordination and harmonisation • Some progress in these areas 	<ul style="list-style-type: none"> • Transaction costs remain high • Much aid still off-budget • Aid predictability concerns • Joint Staff Assessments undermining ownership

Source: Based on Booth (2003), Driscoll (2004), IEO (2004), OED (2004) and Oxfam (2004) (see original report for detailed references)

Annex 5: Interviews and Email correspondence

Interviews

- Peter Dearden, Senior Economic Advisor, Africa Policy Department, DFID
1 October 2004
- Ruth Driscoll, PRSP Monitoring and Synthesis Project, Overseas Development Institute
23 September 2004
- Pam Jenkins, Head of Director's Cabinet, Asia Directorate, DFID
14 October 2004 (by telephone)
- Deborah McGurk, Senior Economic Advisor, Asia Directorate, DFID
1 October 2004

Email correspondence

- Stephen Chard, Deputy Director, Finance Division, DFID
- Christine Edwards, DFID Public Enquiry Point
- Matthew Sudders, Policy Analyst, PRS and Aid Harmonisation Team, DFID