

# Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction

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## The PRSP Package

The World Bank and the International Monetary Fund (IMF) claim that the Poverty Reduction Strategy Papers (PRSPs) signal a new approach to tackling the challenges of poverty alleviation and economic development among their low-income clients. Launched in September 1999, the PRSP has replaced the old tripartite Policy Framework Paper (PFP) drawn up between the IMF, World Bank and a country government for concessional loans.<sup>1</sup> Both the IMF and the World Bank are expected to align their respective lending programmes to a country's PRSP: in the case of the IMF, the Poverty Reduction Growth Facility (PRGF)--the old Enhanced Structural Adjustment Facility (ESAF)--and the Financial Programming Framework are expected to derive from the PRSP; with the World Bank, the Country Assistance Strategy (CAS) and all loans and grants must be based on the PRSP.

In this paper, we contend that little has changed in the substance, form and process of World Bank and IMF programmes. "Poverty" is used as window dressing to peddle more or less the same Structural Adjustment Programmes (SAPs) to low income countries that led them into a state of chronic economic crisis to begin with. Stringent policy conditionalities still rule supreme in Bank-Fund operations, the latest of which include an assortment of prescriptions loosely categorised as "good governance." Major international donors, however, appear to have blindly acquiesced to the Bank-Fund model of development, which is encapsulated in the PRSP and which has clearly failed over the past twenty years in numerous countries across Asia, Africa and Latin America. Countries as diverse as Kenya, Ghana, Ethiopia, Bolivia, the Russian Federation, Sri Lanka, Bangladesh and Indonesia were all forced to apply the Bank-Fund development model at one time or another, and all have suffered from deep and shattering economic crises as a result of Bank-Fund policy prescriptions. And yet today, the same policies continue to be supported even more ardently than before by donors, in a new package called the PRSP.

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<sup>1</sup> Concessional loans or assistance refers to World Bank financing through its International Development Association (IDA). IDA provides long term loans with minimal or zero interest to the poorest developing countries; the loan packages, however, come with policy conditionalities that the borrowing country must adhere to in order to qualify for concessional financing.

The PRSP framework was originally conceived as a condition of the Heavily Indebted Poor Country (HIPC) initiative. Countries seeking debt relief through the HIPC programme were required to prepare a PRSP to show how money freed up from debt servicing would be used to alleviate poverty. Since then, however, PRSPs have enlarged in scope and have become the centrepiece for policy dialogue and negotiations in all countries that receive financing from the World Bank's International Development Association (IDA).<sup>2</sup> Countries that urgently require Bank-Fund credits or debt relief can submit an Interim PRSP (IPRSP) for consideration by the Bank-Fund Boards on the condition that that the countries will prepare a full PRSP within a timeline agreeable to the Boards.<sup>3</sup>

Over 70 countries were initially identified by the World Bank and the IMF as required to develop PRSPs. To date, 45 IPRSPs and 22 full PRSPs have been completed and submitted to the Bank-Fund Boards.<sup>4</sup> However, the Bank and the Fund have yet to undertake independent, comprehensive and publicly accessible assessments of the impacts of past SAPs.

In theory, a PRSP is intended to be a document prepared by a country government—under the supervision of Bank-Fund teams—that identifies the incidence and causes of poverty, who the poor are, and strategies for overcoming poverty, including policy and expenditure targets. It is supposed to be “locally generated and owned,” developed through “wide participatory dialogue,” and focused at both the micro and macro policy-making levels. Further, the PRSP framework is expected to “encourage the accountability of governments to their own people and domestic constituencies rather than to external funders,” whereby, “the poor become active participants not just passive recipients”.<sup>5</sup>

Experiences thus far from Asia, Africa and Latin America indicate, however, that in reality, country governments have little control over the structure, content and policy prescriptions in their respective PRSPs, thus making a mockery of Bank-Fund claims of national ownership, public accountability and broad based participation. Despite the rhetoric of “nationally driven” development, the PRSP-PRGF frameworks continue to conflict with local and national priorities of reducing poverty, fostering domestically meaningful economic development, promoting equality and equity, and encouraging popular participation in the design of national development policies.<sup>6</sup>

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<sup>2</sup> For a comprehensive critique of the PRSP and PRGF, see: *Still Sapping the Poor: A critique of IMF Poverty Reduction Strategies*, Charles Abugre, ISODEC, June 2000.

<sup>3</sup> See the World Bank website: <http://www.worldbank.org/poverty/strategies/overview.htm>

<sup>4</sup> Ibid.; see also the IMF website: <http://www.imf.org/external/np/prsp/prsp.asp>

<sup>5</sup> *Participation in Poverty Reduction Papers*, Caroline M. Robb, Africa Department, International Monetary Fund, August 2000.

<sup>6</sup> See, for example:

- *The World Bank and the PRSP: Flawed Thinking and Failing Experiences*. Jubilee South, Focus on the Global South, AWEAPON, Centro de Estudios Internacionales. November 16, 2002.

- *PRSP -Politics, Power and Poverty: A Civil Society Perspective*. Economic Policy Empowerment Programme, European Network on Debt and Development (EURODAD).

## Challenging Sovereignty

Because of the central roles that the Bank and Fund have in global policy making and governance, PRSPs have a leveraging role beyond debt relief and concessional credits. They have become the key policy instruments through which the world's major donors relate with low-income countries, countries undergoing economic crises and those emerging from protracted periods of conflict. Without a Bank-Fund approved PRSP, a low-income country can be virtually cut off from international aid, trade and finance. The United States (US), European Union (EU) and other OECD members have fully endorsed the PRSP framework and agreed to base their respective official aid programmes to low income and crisis ridden countries on the PRSP. Many have also agreed to co-finance poverty reduction credits, grants and technical assistance in conjunction with PRGF and CAS loan packages. The Netherlands and Japan have contributed US \$20 million towards the establishment of a special multi-donor trust fund to build the capacity of countries to prepare PRSPs in accordance with World Bank principles. Additional contributions are expected from other donors as well. The Bank administers the trust fund and final approval for country proposals rests in the hands of Bank, UN and external donors.

Twinned with the HIPC initiative, PRSP prescriptions have grave implications for the economic sovereignty of low income and crisis-ridden countries. As in previous SAPs, PRSPs bind borrowing governments to implement Bank-Fund directed policies as conditions for receiving credits and other support from the Bank, Fund and bilateral donors. Experience shows that Bank-Fund conditions often prove to be more powerful than national laws since deeply indebted and cash strapped governments do not usually have access to alternative sources of development finance. Crucial national policies related to trade, investment, assets ownership, natural resources, fiscal management, banking, public administration, social development and even judicial systems are determined more by Bank, Fund and donor pressures than by domestic priorities and aspirations. In a number of countries, Bank-Fund policy requirements for debt relief and credits have resulted in deep cleavages among civil society, government institutions and national parliaments, and have deepened social unrest and conflict.

In Zambia, the IMF has informed the government that unless it sells the State owned Zambia National Commercial Bank (ZNCB), Zambia will not be eligible for one billion US dollars in debt relief under the HIPC programme. To obtain relief under the HIPC initiative, Zambia must comply with a number of requirements, including the sale of state assets. The Zambian public, the parliament and President Mwanawasa have vehemently opposed the sale of the ZNCB on the grounds that the ZNCB is a successful enterprise and one of the few sources of credit for Zambian people. Selling the ZNCB would result in the loss of thousands of jobs and compromise the interests of the Zambian

people, as has already been the case with past Bank-Fund led privatisation programmes in the country.<sup>7</sup>

In Nicaragua, the Bank and Fund have demanded that the country privatise its water resources—including its hydroelectric dams—as a condition to further loans.<sup>8</sup> The condition comes in the wake of legislation passed by the Nicaraguan National Assembly in August 2002, suspending all water privatisation plans until a national debate on the issue takes place. By insisting on such conditionality, the Fund is disregarding and undermining national democratic process in Nicaragua.

In Pakistan, a range of actors which includes Non Government Organisations (NGOs), consumer rights groups, research institutes, unions, peasant and fisher-folk organisations, political parties, journalists and the Pakistan Human Rights Commission have formally rejected the structure, content and process of the PRSP in Pakistan. In an open letter to the Ministry of Finance, they have pointed out that the PRSP reinforces a previously tried and failed paradigm of development, undermines democratic process and threatens the sovereignty of the state. They object to the imposition of privatisation, liberalisation, deregulation and regressive taxation through the PRSP and the undue influence of International Financial Institution (IFIs)—the World Bank, IMF and the Asian Development Bank—on the Pakistani state.<sup>9</sup>

In the Solomon Islands, the IMF, supported by bilateral donors, refused to provide funds for the country's National Economic Recovery Plan unless the country first agreed to reduce government spending and implement severe job cuts. The retrenchment will result in 1300 job losses—about 30 percent of an already downsized public sector work force—and along with other IMF prescribed austerity measures, will compound the country's already severe economic and social crisis.<sup>10</sup>

Evidently, not much has changed in the *modus operandi* of the Bank and the Fund, despite their promises that borrowing countries will have greater say in determining economic programmes under the PRSP framework. The Bank-Fund use of the carrot-stick tactic undermines publicly accountable institutions of governance such as Parliaments and popular public debate, and weakens the position of national policy making bodies that have to face the Bank and the Fund. Nor have the Bretton Woods Twins moved away from the Washington Consensus. In country after country, they continue to withhold crucial financial resources unless their deadlocked clients agree to impose their pet policies: trade and investment liberalisation, privatisation, deregulation,

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<sup>7</sup> *MPs Stop Zambia National Commercial Bank Privatisation*. December 5, 2002. The Post, Lusaka; *Opposition MPs Against ZNCB Sale*. December 6, 2002. The Times of Zambia; *I Don't Support Any Further Privatisation, Declares Levy*. December 6, 2002. The Post, Lusaka.

<sup>8</sup> *IMF Strong-Arming Debtors Despite New Lending Guidelines*. Emad Mekay, Inter Press Service (IPS), December 10, 2002.

<sup>9</sup> *Letter to Ministry of Finance*. Advocacy Programme, Sustainable Development Policy Institute, No. 3 UN Boulevard, Diplomatic Enclave 1, G-5 Islamabad, Pakistan. December 20, 2002

<sup>10</sup> *Solomon Islands begins implementing IMF demand for severe job cuts*. Peter Byrne, World Socialist. November 21, 2002

reducing government expenditure, restructuring of public services and sectors, low inflation, rapid economic growth, and so on.

## **Blind to Structural Adjustment**

In the 1980s, nearly 70 countries implemented structural adjustment programs under the auspices of the IMF and the World Bank. The first 40 countries that qualified under the HIPC Initiative all underwent various forms of SAPs. Now that the PRSP approach is being implemented in these 40 and most of the original SAP countries, it should not be too much to expect that both the IMF and the World Bank should have done an *ex ante* assessment of the impact of SAPs in these countries. Yet, in their own words,

“(t)he limitation to the analysis of poverty is the absence of an explicit link between the diagnosis and the success (or failure) of past interventions, and implications for the selection of the priority policy areas for the future.”<sup>11</sup>

In June 2001, the World Bank released a report on the two decades of structural adjustment lending.<sup>12</sup> SAPs were originally designed to help countries out of short-term balance-of-payments difficulties. They eventually evolved to cover social, structural and sectoral reforms. According to the World Bank retrospective, the 191 adjustment operations in 64 countries approved in the 1980s had mixed performance records.<sup>13</sup> The major finding extracted from this retrospective and subsequent other research was that “such reforms can be effective only when they are ‘owned’ by the country itself.”<sup>14</sup>

In July 2001, the World Bank concluded a five-year tripartite review (with government and civil society groups) of its SAPs in an exercise known as the Structural Adjustment Review Initiative (SAPRI). While the World Bank would not openly declare the SAPs as a major mistake, it did come close to acknowledging the SAPs’ major weaknesses in the early 1990s. Unfortunately the World Bank’s participation in the recently concluded SAPRI failed to elaborate these weaknesses or produce more nuanced policy learnings.

The tripartite review of SAPs was done in seven countries: Bangladesh, Hungary, Ghana, Uganda, Zimbabwe, Ecuador and El Salvador. The civil society group within the SAPRI also did citizen’s assessments (without World Bank and government participation) in two countries, the Philippines and Mexico. After a process that lasted almost five years, the World Bank came out with a report where it offered three lessons<sup>15</sup>: 1) adjustment is a difficult process; 2) to be successful, adjustment has to be

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<sup>11</sup> Joint (IMF and IDA) Staff Assessment of Bolivia’s Poverty Reduction Strategy Paper, May 2001.

<sup>12</sup> *Adjustment Lending Retrospective*. World Bank Operations Policy and Country Services, June 15, 2001.

<sup>13</sup> *Ibid*.

<sup>14</sup> *From Adjustment Lending to Development Policy Support Lending: Key Issues in the Update of World Bank Policy*, World Bank, Operations Policy and Country Services. June 6, 2002.

<sup>15</sup> *Adjustment from Within: Lessons from the Structural Adjustment Participatory Review Initiative*. The World Bank, July 2001.

‘owned’; and 3) institutions, approach, and safety nets are essential in the adjustment process.

The Bank’s conclusions on the impacts of SAPs were significantly divergent from those of the civil society component of the SAPRI, which gave a much sharper and more comprehensive critique. Overall, the Bank failed to grasp or to even acknowledge the depth and breadth of problems that need to be addressed in its policy based lending. The assessment conducted by the by the Structural Adjustment Participatory Review International Network (SAPRIN) finds that SAPs created and entrenched continuing cycles of impoverishment and inequality, and that the anticipated gains in efficiency, competitiveness, revenues and savings from Bank-Fund prescribed macroeconomic policy prescriptions did not materialise.<sup>16</sup> What is more disturbing, though, is the limited extent these learnings have been absorbed by the Bank itself, or shared among its client governments.

The recently completed World Bank report on the Status of Implementation of HIPC (3 September 2002) shows that the Bank-Fund strategy of countries exporting themselves out of debt through exports of primary commodities has not worked. Debt indicators have particularly worsened for those countries dependant on the exports of cotton, cashew, fish and copper.

HIPC architects appear to have forgotten that it was the failure of two decades of structural adjustment, debt servicing and an export driven economic growth strategy that precipitated the humanitarian crises that called for urgent debt relief measures for highly indebted poor countries. Yet, the very same structural adjustment conditionalities and macroeconomic strategies continue to be at the core of HIPC programming, thereby entrenching chronic poverty in the HIPC programme countries.

## **Ownership, Participation and Quality: Shaky Ground**

The PRSP framework is supposed to result in a long term, comprehensive, results-oriented, country-driven and participatory strategy to reduce poverty. However, experience to date shows that the “quality” of a national poverty reduction strategy acceptable to the World Bank and the IMF is incongruous with the main pillars of the PRSP framework: national ownership, participation and public accountability.

### ***National Ownership***

For the World Bank and the IMF, country ownership of a PRSP means the commitment of a country to implement a strategy that the Bank and Fund approve, come what may. It has little to do with authentically home-grown and nationally relevant strategies based on the socio-economic, historic and geographic particularities of different countries. Experiences across Asia, Africa and Latin America bear this out.

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<sup>16</sup> *The Policy Roots of Economic Crisis and Poverty: A Multi-Country Participatory Assessment of Structural Adjustment*. SAPRIN, 2000. [www.saprin.org/global\\_rpt.htm](http://www.saprin.org/global_rpt.htm).

When advising governments on how to prepare a PRSP, Bank-Fund missions have come prepared with *their* perspectives on the country's poverty situation, *their* analysis of the country's obstacles to economic growth, *their* menu of policy options, and *their* views on how to mobilise resources for the PRSP, including external donor assistance. These perspectives form the basis of all discussion between Bank-Fund missions and borrowing governments about the structure and content of PRSPs. And despite claims that, "causes and solutions of poverty are country-specific,"<sup>17</sup> all PRSPs are expected to contain "core elements" that the Bank and the Fund consider essential to poverty reduction. These include: rapid economic growth, private sector development and expansion, good governance (largely oriented towards facilitating privatisation regimes), deregulation, trade and investment liberalisation, fiscal stability, macroeconomic management, public expenditure management and consultations with selected NGOs.

Claims of national ownership and alignment with national plans are further confounded by the involvement of Bank-Fund staff in various stages of the preparation of a PRSP. In addition to providing "policy advice" on fiscal management, structural, institutional and sectoral reforms, budgetary targets and expenditure priorities, Bank-Fund staff are also involved in joint staff assessments (JSAs) to ensure that the final product can be presented to their Boards for approval. Staffs are instructed to consider whether the document provides a "credible framework within which the Bank and Fund are prepared to design their programmes of concessional assistance,"<sup>18</sup> and to "...discuss with the Authorities any modifications to the strategy that might be considered necessary to allow managements to recommend to the Boards that the PRSP be endorsed..."<sup>19</sup>

The primary criteria for judging the quality and acceptability of a PRSP relate to a government's macroeconomic framework, structural reform policies and strategies for rapid economic growth. Whether this formula reduces poverty in any qualitative and sustained sense appears to be relatively unimportant. Apparently, IMF lawyers have advised Fund staff that their documents must talk about economic growth whenever poverty reduction is mentioned, since the Fund's mandate does not include poverty reduction as a goal.<sup>20</sup>

According to a senior Fund official, three dimensions that the Fund considers essential in order to approve a PRSP are: broad-based consultation; faster, pro-poor growth, and; maintaining macroeconomic stability—i.e. keeping inflation and exchange rate volatility down. In practice, however, broad based consultation does not appear to include apply to the latter two dimensions.<sup>21</sup>

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<sup>17</sup> *Poverty Reduction Strategy Paper-Operational Issues*, IMF-World Bank, December 10, 1999.

<sup>18</sup> *Guidelines for Joint Staff Assessment of Poverty Reduction Strategy Paper*, IMF-World Bank, April 18, 2001.

<sup>19</sup> *Poverty Reduction Strategy Paper-Operational Issues*, IMF-World Bank, December 10, 1999.

<sup>20</sup> *An Independent Guide to PRSP*. EURODAD, 2000.

<sup>21</sup> For example, see:

- *Still Sapping the Poor: A Critique of IMF Poverty Reduction Strategies*. Charles Abugre, ISODEC. June 2000;

Given the high degree of involvement of Bank-Fund staff in the formulation of most PRSPs, it is difficult to believe that the papers would be significantly different if they were written entirely by the staff themselves. Also, countries that have been through past structural adjustment regimes and are now preparing PRSPs know what the Bank and the Fund want to see in such documents. Senior government officials in Ministries of Finance—who usually lead the PRSP process—are often groomed by the Bank and Fund, and have little trouble in reproducing the formula that will trigger the required financing. Although early Bank-Fund documents claim that there is no blueprint for PRSPs and that experimentation in the form of the PRSP must be encouraged, most PRSPs come out looking remarkably similar in both their poverty analyses and policy prescriptions that would purportedly result in poverty alleviation.

The World Bank determines how much money each of its low income clients will get based on three types of ratings: 1) The Country Policy and Institutional Assessment (CPIA); 2) The portfolio performance rating, and 3) Governance rating—including rapid government procurement. Of these, the CPIA counts for 80 percent of a country's overall rating and describes in Bank terms how the country has performed in twenty criteria grouped in four categories: Economic Management, Structural Policies, Policies for Social Inclusion and Public Sector Management, and Institutions. The higher a country's overall rating, the more money the IDA is authorised to lend to it. Taken together, the CPIA criteria, portfolio performances and governance ratings describe a slightly modernised version of a classic Bank-Fund SAP. A PRSP then is already pre-conditioned towards structural adjustment by the Bank's own lending criteria.

The CPIA score, in particular, militates against genuine public participation in the formulation of meaningful poverty reduction strategies and national ownership of domestic development policies. Although the CPIA measures the past performance of a borrowing country in what the Bank and Fund consider “good policies” (e.g. liberalisation, privatisation, fiscal discipline in public expenditure, removal of price controls, etc.), the rating criteria direct the nature of a country's relationship with the Bank and the Fund. If the country rates poorly on key criteria, the Bank offers the country an adjustment loan to “correct” the problems. At the same time, borrowing governments find themselves in a bind if their citizens choose a path towards poverty reduction that does correspond to the Bank-Fund roster of preferred “good” policies.<sup>22</sup>

The PRSP is supposed to be firmly grounded on existing national plans. However, it has a pre-prepared format and is accompanied by a massive, thousand-page source book that spells out how a PRSP should be prepared. If a government insists that existing national plans become the country's PRSP, it is the national plans that adjust to the PRSP requirements and not the other way around. In a document attached to an internal memo of the World Bank, it is clear that the PRSP and related documents such as those

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- *Poverty Reduction Strategies and Coherency of Loan Conditions: Do the New World Bank and IMF loans support countries' poverty reduction goals?* Warren Nyamugasira, Uganda National NGO Forum, Kampala, and Rick Rowden, RESULTS Educational Fund, Washington DC. April 2002.

<sup>22</sup> *News and Notices for IMF and World Bank Watchers*. Volume 2, Number 6, Spring 2002. Citizens' Network on Essential Services, U.S.A.



pertaining to Poverty Reduction Support Credit (PRSC) take primacy over a country's own national medium-term plans. To quote: "The Medium-Term Program supported by a PRSC may be based on an I-PRSP, when the I-PRSP describes a nationally owned broadly framed poverty reduction strategy considered adequate in the Joint Staff Assessment. In this case, the Medium-Term Program will likely be revised in the full PRSP, and the design of the series of PRSCs will also be reviewed and adjusted as appropriate."<sup>23</sup>

In Cambodia, the Lao PDR, Vietnam and Uganda—among others—PRSPs have conflicted with national, medium-term plans for poverty reduction and economic and social development, which are passed through National Assemblies and Parliaments. But since PRSPs are backed by the financial and political clout of the Bank and Fund, capital-hungry governments are both unable and unwilling to put up a fight.<sup>24</sup>

### ***Participation***

Participation is one of the main buzzwords of the PRSP strategy. However, the World Bank exposes its complete lack of understanding of participation when it holds up the document *Voices of the Poor* as a landmark exercise in participation. As long as people are allowed to speak about their hardships, this is considered participation in the eyes of the Bank. What the Bank fails to acknowledge is that given a reasonable degree of political security, people will always be capable of discussing their own situations and of describing the poverty they experience. The interpretation of these perspectives, however, remains a value-laden exercise, and the translation of these perspectives to policy actions remains beyond the reach of most members of society, especially the poor themselves.

PRSP processes have been extremely narrow in both their substance and participation. Participation has by and large been limited to inviting prominent and well-resourced NGOs to offer their perspectives on pre-prepared documents. Unions, workers' organisations, farmer and fisher groups, women's groups, indigenous peoples, medical associations and even academics have not been included in the process. Most PRSP consultations have yet to involve local populations in devising strategies for nationally meaningful development plans, or in monitoring the impacts of past policy reforms and programmes. Moreover, participation has not extended to financial

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<sup>23</sup> *Poverty Reduction Support Credits, World Bank Operations Policy and Country Services*, May 11, 2001, as attached in Operational Memorandum from Joanne Salop, Vice President, Operations Policy and Country Services, dated May 21, 2001.

<sup>24</sup> See, for example:

- *Structural Adjustment in the Name of the Poor: the PRSP Experience in the Lao PDR, Cambodia and Vietnam*. Jenina Chavez Malaluan and Shalmali Guttal. January, 2002;
- The website of the NGO Forum on Cambodia at: <http://www.ngoforum.org.kh>
- *Poverty Reduction Strategies and Coherency of Loan Conditions: Do the new World Bank and IMF loans support countries' poverty reduction goals?* Warren Nyamugasira, Uganda National NGO Forum, Kampala, and Rick Rowden, RESULTS Educational Fund, Washington DC. April 2002;
- *The World Bank and the PRSP: Flawed Thinking and Failing Experiences*. Jubilee South, Focus on the Global South, AWEPON, Centro de Estudios Internacionales. November 16, 2002.

programmes and macroeconomic planning. Bank-Fund claims of capacity constraints among civil society in these areas hold little water given the range of civil society expertise and skills in most countries, and the low levels of competence displayed by the Bank and Fund in monitoring their own programmes. The issue, according to Charles Abugre of ISODEC, appears to be more of exclusion than of capacity.<sup>25</sup>

In a number of countries, initial drafts of the I-PRSP and PRSP were not translated into local languages until the final stages, thus excluding local input into the formulation process. The time allotted to the general public for reading and absorbing the content of draft documents once completed was also limited, making it difficult for even those fluent in English and policy vocabulary to provide substantial comments. As a result, remarkably few people, both within and outside the governments, actually read the IPRSP and PRSP documents in their entirety.

The nature of civil society participation in PRSP processes also allows for the manipulation of civil society by the Bank, Fund and bilateral donors. Bank staff claim that they are helping to open up space for civil society to be involved in national development processes and to interact with bilateral donors. While it is true that civil society participation in the formulation of national development policies is limited in many countries, the Bank's self-assumed mediating role in the national arena has serious implications for national and local democratisation. The insertion of foreign donors and creditors between civil society and capital deficit governments weakens the influence of national-local civil society in setting national priorities, and governments become less accountable to their own citizens than to international creditors and donors. It is also entirely inappropriate for external donors and creditors to be involved in shaping national priorities in third countries that they themselves would fund.

Given the rhetoric of national ownership and participation in the PRSP framework, a question that the Bank and Fund have yet to address is how they assess participation and ownership when formal domestic capacity in national policy formulation is indeed weak. Capacity and political space are significant concerns in countries where modern civil society formations have not taken root as rapidly as modern development structures and practices. The presence of active civic bodies and the existence of sufficient political space provide the ground for meaningful public participation, and serve as checks to possible abuse by creditors, governments, donors, investors and other international institutions.

International donors and creditors have often flagged the "absence of civil society" in low-income countries as a major obstacle to development. What they usually mean is the absence of NGOs who are already familiar with, or can be taught the formal vocabulary of modern development, such as participation, planning, poverty reduction, sustainability, stakeholder analysis, good governance, etc. The response of the Bank and donors to such capacity constraints has usually been to design "capacity building"

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<sup>25</sup> *Still Sapping the Poor: A Critique of IMF Poverty Reduction Strategies*. Charles Abugre, ISODEC. June 2000.

programs for governments in order to facilitate dialogue between civil society and government. But here again, a question that begs attention is whether “improvement” in the nature of dialogue between government and civil society is a role that donors and creditors should appropriate upon themselves.

Past experience shows that the involvement of the Bank and Fund in countries with vibrant and active civil societies has usually hindered meaningful civil society-government relationships. Where civil society formations have achieved a certain degree of maturity, their advocacy traverses a wide spectrum of issues, including the advocacy of policies that directly challenge those prescribed by the Bank and the Fund. And where governments must comply with policy conditions—as in SAPs and PRSPs—the combined political and economic power of the Bretton Woods Institutions (BWIs) pre-empts the ability of civil society to negotiate nationally relevant policies with their governments.

As yet, the Bank and Fund do not have clear standards to evaluate the quality of participation in the PRSPs. This is just as well since the Bank and Fund do not have the required expertise in this area. They have yet to comprehend that that genuine participation is a deeply political process of representation, negotiation and accountability. Instead, by focusing on “capacity building” and “institutional strengthening,” the Bank, Fund and international donors are attempting to reform decision-making processes in their low-income country clients. The wider the gap between policy-making structures and processes and their impacts on ordinary people, the easier it is for the BWIs to push their programmes.

## **Dodging Accountability**

Although SAPs, the PRSP and PRGF are Bank-Fund programmes, they are financially and politically backed by rich and powerful donors. In the name of “untying aid” and “donor coordination,” the G-7 and other OECD members are linking much of their respective Official Development Assistance (ODA) programmes through the PRSP-PRGF. However, given the serious flaws in the very fundamentals of the PRSP, it is not an appropriate framework for coordinating international aid.

Coordinating international aid to low-income countries through the PRSP framework resembles the formation of a massive, powerful and unaccountable aid cartel, whose house rules are based on a development model already proven to be destructive to recipient countries. By channelling their resources through the PRSP, donors ensure that recipient governments are unable to find alternative policy advice and financing for national development. A PRSP dominated cartel will close off much-needed debate about and support for alternatives to the Washington Consensus.

Donor coordination, while important, also raises questions of responsibility and accountability among aid providers. The policy coherence demanded by the PRSP framework is substantive and not simply logistical. If bilateral donors put all their eggs in

the PRSP basket, they must then take equal responsibility for the impacts of bad policy advice, faulty assessments and failed programmes. Experience thus far shows that international donors are unwilling to take such responsibility. More likely, the continued failure of PRSPs in alleviating poverty will once again be attributed to weak capacity, poor governance and “entrenched structural weaknesses” among recipient countries.

If donors are genuinely committed to poverty reduction and national development in low-income countries, they must critically examine the impacts of the Bank-Fund imposed development model. Given their track record, the Bank and Fund cannot claim competence in alleviating poverty, promoting sustainable development or even fostering economic growth. Their policy advice to developing countries must be challenged. Equally important, donors must ensure that there is a publicly accountable system of checks and balances in the international aid industry, with sufficient avenues for redress for bad decisions, harmful policies and faulty programmes. The World Bank, IMF and donors must be accountable to the populations in client countries, who bear the brunt of the impacts of these policies and programmes. Without a wider system of accountability, donor coordination will become akin to countries with money ganging up against countries without money.

Similar flaws are evident in Bank-Fund definitions of good governance, which have become the newest conditions to be imposed on client countries through PRSPs. The Bank’s framework for good governance recommends creating an enabling environment for the private sector and for protecting the rights of corporate, usually foreign, investors. While corruption, collusion, and misuse of public funds are rampant in many low-income countries, they are not absent in donor and creditor agencies, multinational corporate investors and the consulting companies that win lucrative contracts from the Bank and donors. However, the Bank’s governance framework provides no legally binding regulations under which foreign investors, financiers, consultants and aid providers can be held accountable for wrongdoing.

The Bank’s governance framework does not promote the rights of local and national populations to development and self-determination. Instead, the Bank and the Fund generally bypass international human rights conventions altogether. During the deliberations of the 25<sup>th</sup> meeting of the UN Sub-Commission on Human Rights, the IMF claimed that it did not have to abide by human rights standards and is not bound to human rights declarations and conventions and since human rights are not mentioned in its Articles of Agreement.

Studies commissioned by the Sub-Commission show that in both, the HIPC and PRSP programmes, the lack of borrower country participation amounts to a breach of human rights of self-determination and public participation. A report by UN special rapporteurs Joseph Oloka-Onyango and Deepika Udagama criticises the Bank and Fund’s emphasis on free market reforms and conditionalities, saying that it deprives communities of the rights to health, education and basic welfare. Challenging the IMF’s assertions, the report also finds that multilateral institutions are not above international law, including human rights law, and that conditionality requirements breach the human rights

obligations of multilateral institutions, as well as compel States to breach their own human rights commitments.<sup>26</sup>

At the conclusion of its 25<sup>th</sup> meeting, the UN Sub-Commission on the Promotion and Protection of Human Rights resolved that the World Bank and IMF are bound by obligations enshrined in international human rights covenants, and must incorporate human rights considerations in the formulation and review of PRSPs. The Sub-Commission also recommended that governments ensure the realisation of human rights in the implementation of PRSPs. It remains to be seen whether the Bank and Fund are capable of and willing to recognise moral/ethical authority standards higher than their own economic imperatives.

## **A Doctrinaire Approach to Policy Reform: The Policy Matrix**

IPRSPs and PRSPs are accompanied by operational documents in the form of policy matrices. These matrices specify the concrete policy and legislative reforms the country must undertake, including the timelines for when these changes must take place. The policy matrix is translated into a loan document and is in effect, a set of conditionalities for borrowing countries.<sup>27</sup>

Despite a shared historical past—especially one marked by competing colonial powers and deep political conflicts— Cambodia, the Lao PDR and Vietnam face widely differing present-day realities. Yet, the sets of policy matrices for the Lao PDR, Cambodia and Vietnam converge in most major aspects. More remarkably, other policy matrices attached to PRSPs completed in Africa and Latin America share the same common elements.

The striking commonality among policy matrices approved with the IPRSPs and PRSPs is reminiscent of the one-size-fits-all approach to SAPs in the 1980s. As already mentioned, SAPs produced a series of problems and no clear successes. The various financial crises experienced the world over, most notably in East Asia in the second half of the 1990s, also unravelled many of the issues associated with indiscriminate adoption of liberalisation measures in many economies that proved ill prepared for them. Unfortunately, these lessons have not been integrated in the PRSP approach.

The PRSP upholds market-oriented policies to the exclusion of alternative approaches. It promotes open trade, investment and financial regimes, and seeks to rollback the government's direct role in the economy by seeking to abolish state-owned enterprises. Further, its response to critical socio-cultural issues such as access to land and water is narrowly economic, and reforms in crucial areas such as health and

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<sup>26</sup> The Sub-Commission on Human Rights Resolution 2001/5 and Progress Report by Joseph Oloka-Onyango and Deepika Udagama can be found at the UN Sub-Commission on Human Rights website.

<sup>27</sup> For a detailed discussion of how the policy matrices found their way into official loan documents in Asia, see Malaluan and Guttal, *Structural Adjustment in the Name of the Poor*, January 2002.

education are oriented to serve the needs of the market. And all this is done in pursuit of fast economic growth.

### *The Growth Trap*

High economic growth is what the PRSP is about. Growth rates are the most clearly defined targets in the IPRSP and PRSP documents, while poverty reduction projections are not quite so clear. In the transitioning Southeast Asian economies, the projection is to achieve a growth rate of 7 percent by the end of the first PRSP period in 2003. In Africa and Latin America, policy matrices are also particular about growth targets. **Table 1** shows the growth targets for countries with full PRSPs. Some of these targets have already been scaled down from those put down in the IPRSPs.

**Table 1**  
**Medium-Term Growth Targets**  
**in Countries with Full PRSPs**

COUNTRY	DATE OF FULL PRSP	GROWTH (% Real GDP)
Albania	November 2001	7-8%
Bolivia	31 March 2001	5-5.5%
Burkina Faso	25 May 2000	4-5%
Ethiopia	31 July 2002	7.1%
The Gambia	30 April 2002	6.2%
Guinea	31 January 2002	5.2%
Guyana	23 May 2002	5%
Honduras	31 August 2001	5.1%
Kyrgyz Republic	9 December 2002	5.2%
Malawi	April 2002	5.3%
Mauritania	31 March 2002	6.1%
Mozambique	30 April 2001	9.3%
Nicaragua	31 July 2001	5%
Niger	1 January 2002	4.3%
Rwanda	30 June 2002	6.2%
Senegal	31 May 2002	6.5-8%
Tajikistan	June 2002	6%
Tanzania	14 August 2001	6%
Uganda	24 March 2000	7%
Vietnam	31 May 2002	7-7.5%
Yemen	31 March 2002	4.7% average 6.3% for non-oil
Zambia	31 March 2002	4%

Achieving the highest possible growth is not necessarily the same as achieving the highest possible poverty reduction. If a purely income-based definition of poverty were used, poverty indicators would have a high sensitivity to economic growth. Yet while economic growth can make possible palpable improvements in social indicators, it does not automatically address the issue of equity. Growth data do not say anything about distribution, or who benefit or do not benefit from growth. The fixation on growth is based on the concept of the *trickle down effect*, or the belief that if an economy grows fast enough and for a long enough period of time, economic activity will be so stimulated that even the farthest detached will be brought into economic activity to benefit from the creation of income.

Such reliance on the trickle down effect reduces the direct role of socio-economic institutions in reaching the poor, and renders the poor passive participants in the growth process. The growth focus is an inadequate response to poverty, which even PRSP documents acknowledge is a multi-faceted phenomenon.

A deeper understanding of the nature of poverty and deprivation is required to appreciate the need for more directed interventions on the part of the state and other institutions to effectively address specific problems associated with poverty. More than by safety nets and social insurance, growth must be managed alongside the strengthening of economic institutions and governance structures. The East Asian crisis revealed the vulnerabilities of economies that relied on rapid liberalisation to achieve high growth rates throughout the decade before their financial collapse. As a result, much of the poverty gains of past rapid growth were eroded due to the economic shock.

The PRSP approach does not fully address the ills that may come with rapid growth, e.g., problems related to urban congestion, rural migration, environmental degradation, and the overall limits to the carrying capacity of the earth's natural and human resources. Economic growth is an important component of development planning. However, it need not be the major focus of development. A more sensible poverty reduction strategy would prioritise policies that foster equity and address social, economic and political imbalances over growth targets. It is important to formulate anti-poverty and equity enhancing programs *first* and ensure that they are appropriately funded and implemented. And for whatever growth that is produced in this period to be accepted as the limit for this period and stage of the overall poverty reduction program.

### ***Liberalising Trade and Foreign Investment***

Without fail, the PRSP approach calls for trade programs that focus on market access and liberalisation. There is heavy reliance on exports, especially of cash crops and minerals, as means of increasing incomes.

The optimism with trade is evident in the lack of discussion of the two-way character of trade. Being able to export also means that these countries will be compelled to allow imports from other countries. Past experience shows that this is likely to have negative consequences for countries with weak domestic markets, negligible support for

domestic producers and where a significant portion of the population is engaged in subsistence production. The PRSPs make no mention of this, and do not outline policies by which these countries can better deal with the influx of imports because of liberalisation.

There is also little mention of the challenges faced by these countries in terms of market access. Developing country exports, especially of agriculture, fisheries and light manufactures, will face obstacles in developed countries that have yet to shed their protectionist tendencies. The excessive use of sanitary and phytosanitary standards, for instance, will limit developing countries' access to the markets of rich nations. At the same time, producers in low-income countries will find it difficult to compete with rich country producers in their own and other markets. Rich country producers enjoy a range of subsidies and domestic support from their governments, allowing them essentially to dump in developing country markets.

In November 1996, the General Council of the World Trade Organisation (WTO) adopted a decision approving the proposed agreements between the WTO and the IMF, and between the WTO and the World Bank.<sup>28</sup> These agreements were finally signed in December 1996 and in April 1997, respectively. The agreements operationalise the mandate for greater coherence between the WTO and the Bank and Fund. The agreements give observer status to the Bank and Fund, on the one hand, and the WTO, on the other, in each other's official processes. The Bank and the Fund are given observer status in the WTO's Ministerial Conferences, committee meetings, and the General Council meetings. In turn, the WTO may attend the World Bank's Board of Governors and other meetings, and Executive Board meetings of the IMF when trade issues are being discussed.<sup>29</sup>

The policy coherence across the BWIs effectively seals off any opening for alternative policies for Bank-Fund client governments when it comes to trade. It sends a clear signal that the Bank and Fund will not assent to policy pronouncements in trade that will retard or in any way threaten the advance of the global trading system. Trade policies approved must be "in accordance with WTO regulations", and other trading arrangements, regional and bilateral.

A key problem with this policy coherence is the lack of appreciation of the political economy operating inside countries, and the skewed power dynamics in the global trading system. Take for instance the case of Vietnam. The section on trade policy in Vietnam's PRSP policy matrix carries a provision that reads:

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<sup>28</sup> WTO document WT/L/194, dated 18 November 1996 (96-4878).

<sup>29</sup> WTO News: Press Releases 9 December 1996 and 28 April 1997.



“Make active preparation to take part in committed bilateral and multi-lateral cooperation mechanisms. Carry out the bilateral agreement with the United States, paving the way for accession to the World Trade Organization.”<sup>30</sup>

Any which way one looks at it, the provision is loaded. In late 2001, barely weeks after the U.S.-Vietnam bilateral trade agreement was clinched, a law was passed by U.S. Congress disallowing the use of the name “catfish” for catfish other than those grown and caught in the U.S. This has greatly marginalised Vietnamese catfish farmers who export around 70 percent of their produce to the U.S., for use mostly by Vietnamese restaurants there. Since the law was passed, Vietnamese catfish has come to be known as “pacific dory.”<sup>31</sup>

In tandem with trade liberalisation, the policy matrix lists the liberalisation of the foreign investment regime as another major reform area. This is supposedly in response to the dearth of capital in developing countries. Yet the almost obsessive focus on export processing zones (EPZs) as a strategy to attract foreign investments betrays a limited understanding of the behaviour of foreign investments.

EPZs are supposed to capitalise on the locational comparative advantage generated by PRSP countries either as markets or sources of raw materials and other inputs (e.g. labour). Experiences in Southeast Asia and elsewhere, however, show that EPZs have limited success in terms of job creation and technology transfer. Basic infrastructure alone is not enough to guarantee the build-up of local productive capacity to enable domestic firms to move beyond their current roles as sub-contractors to foreign firms. EPZs are likewise notorious for long-term, negative social, environmental and human impacts, such as the exploitation of labour, women and youth, and environmental degradation.

### ***Rolling Back the State Sector***

PRSP policy matrices list a range of privatisation processes. These include: *corporatisation*, or the transformation of a state-owned enterprise (SOE) in line with a corporate set-up; *equitisation*, or the transformation of government ownership into “shares” that can be sold to the private sector; *liquidation*, or the abolition of an SOE, and; *sale, lease, divestiture* and *contracting out*.

Concerns over the restructuring of state sectors are not limited to employment, although impacts on employment are particularly visible. The motivations behind such restructuring are to recast the state’s role in the economy and reconfigure control over national resources. Such restructuring is also always accompanied by other policies that seek to prioritise the functioning of ‘markets’ above all else.

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<sup>30</sup> Socialist Republic of Vietnam, *The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*, May 2002.

<sup>31</sup> See, *The Mississippi-Mekong Catfish Wars*. Shalmali Guttal, Focus on the Global South, September 14, 2002, and; *What do the catfish farmers say? Report of an interaction with catfish farmers in the Mekong Delta of Vietnam*. Action Aid Vietnam. Hanoi, August 2002.

The main drawback of privatisation processes is not only that public assets will be turned over to private hands. It is the unnecessary abandonment of the state as an “inefficient” allocator of resources and implementor of plans. However, a number of examples (most notable are the East Asian dragon economies of South Korea, Hong Kong, Taiwan and Singapore, and more recently, Malaysia and Thailand) point to the promise of the state as an efficient and necessary mover in industrial and development policy, and in ensuring equitable access to crucial assets and opportunities.

**“Private Sector Fundamentalism”<sup>32</sup>**

“Creating a level playing field” is the buzz-phrase for the private sector development part of the policy matrix. The target is to enact, revise or implement a code of commerce (called the Business Law in the Lao PDR, the Law on Enterprises in Vietnam, the Commercial Code in Cambodia, or the Securities Law in Guyana). Changes to Foreign Investment Laws are also targeted, along with new mechanisms to allow private sector participation in the financing of public infrastructure, like the Build-Operate-Transfer (BOT) laws and their many variants.

Bank-Fund led reforms are geared towards creating hospitable environments for *foreign* private investment, and not necessarily towards expanding a responsible and publicly accountable domestic private sector. However, since much of this foreign investment is in public utilities in which a number of foreign corporations from donor countries are interested, and given the fact that privatisation is a *de facto* condition of PRSPs, the true motivations behind such reforms are questionable.

There have been experiences in more developed countries in Asia where the privatisation process has been marred by scandals, controversies, and overtly questionable provisions (as in the case of privatisation that requires legislative changes). Yet donors have not raised questions, giving rise to the suspicion that it is not efficiency that is important for them. The bottom-line in privatisation programmes is for the private sector to take over from government, no matter what.

***Deregulation: Setting Free Key Economic Sectors***

Policy matrices for Asian, African and Latin American client countries dictate varying levels of wide-ranging reforms in the regulatory set-up of key economic sectors. From agriculture to finance, water to power, transport to telecommunications, all the major sectors are covered.

While some reforms in the governance of economic sectors are necessary to do away with problems of corruption and abuse of privilege, poor countries are often not able to oversee economic reforms since they have relatively weak regulatory and institutional

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<sup>32</sup> The phrase was first used by Nepomuceno Malaluan in “*The Philippine Electric Power Industry Reform: A Tragedy of ADB and World Bank Private Sector Fundamentalism and Unaccountable Government*,” a paper presented at a workshop on Power Sector Privatisation in Bangkok, Thailand, October 7-10, 2002.

mechanisms that can address emerging problems. A more serious concern, however, is the abrogation of preferential access or treatment for unprotected domestic constituencies, as in the case of small domestic producers and users of credit when development banking is recast in favour of financial sector reform.

### ***Social Policies via the Market***

Land and water are perhaps two types of resources that income-poor people have the strongest affinity with. Land and water represent multiple values for local populations and larger national and commercial interests.

The PRSP tackles the controversial issues of land rights and access to natural resources through changes in the legal framework for access, use, ownership and transfer of lands and water. Specifically, land titling, tradability and marketability are made possible with the view towards ostensibly reducing uncertainty in land markets and increasing incentives for investments on land. This is the focus for the land resource management in Cambodia and the Lao PDR. In Benin, Ethiopia, Madagascar, Mali, and Uganda, the policy matrices opt for “appropriate pricing policy” for water use either through “cost sharing,” “cost recovery” or “significant users’ financial participation.”

User fees and cost recovery—reminiscent of SAPs are also resurrected in other social services. In health services, they are being reintroduced in Burkina Faso, Ethiopia, Guyana, Madagascar, Malawi, Mauritania, Chad, Tanzania, and Uganda.<sup>33</sup>

### ***Conditionality, Flexibility and the Legislative Route***

The policy matrix enumerates wide-ranging reforms a PRSP country should implement within a given timeline. Many of these reforms require legislative action and a few would even require tinkering with national Constitutions. A number of structural reforms are integrated into the PRGF and the Structural Adjustment Credits as conditions.

Policy conditions that require use of the legislative process are highly inappropriate, especially in light of broader advocacy for stronger national institutions and the principle of sovereignty. When a senior IMF staff was asked in a forum in Manila about this, he responded that this is indeed not an easy task, and that “dictatorships are easier to deal with...but people and institutions must be part of the policy-formulation process.”<sup>34</sup>

The Fund staff’s comment may be seen as over-eagerness, or it may be seen as arrogance. What is clear, however, is that the Fund has missed the point. There are only

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<sup>33</sup> *Policies to Roll-back the State and Privatised? Poverty Reduction Strategy Papers Investigated*. World Development Movement. April 2001.

<sup>34</sup> Quoted from Jack Boorman, Special Advisor to the Managing Director of the IMF, during an open session in forum *The IMF’s Role in the Asia Pacific Region*, July 11-12, 2002, Asian Institute of Management, Makati City, Philippines.

so many roles any institution can appropriate for itself. The IMF, for instance, should at the very least, stick to its core expertise. Structural reforms such as trade and investment liberalisation measures should not be within its jurisdiction. The Fund's views on micro and structural issues should at best be regarded as recommendatory.

The cross-conditionality aspect of the IMF-World Bank relationship is well documented. The IMF is supposed to take on the macroeconomic and short-term stabilisation measures, while the Bank takes care of the longer-term structural measures, all within a twin package supported by both institutions. Over the years, the Bank and Fund have consolidated their policy advice towards market orientation, to the exclusion of alternative policies. They have thus failed to consider varied options for structural reforms. For instance, the fiscal burden of public utilities (at once a macro and a micro concern) can be addressed in many ways. Yet it is only privatisation in one form or another that is always promoted.

No matter how crowded the world of development policy becomes, real options should always be offered and sustained, and alternatives be allowed to flourish. Otherwise, multilateral institutions such as the World Bank and the IMF will continue to dominate national policy environments by imposing conditions, especially structural reforms. Lobbying by government in the national legislature for the passage of far-reaching structural reforms does not benefit the legislative process. More often than not, it leads to horse-trading and jockeying between elected representatives and appointed state actors. Nor does the national environment for policy debate improve when it is clear that reforms are conditions that must be met. And most important, such policy conditions defeat even the rhetoric in PRSPs about national ownership and participation.

## **A Time for New Imaginations**

The neo-liberal paradigm that the BWIs represent started to unravel in the latter half of the 1990s. The myriad critiques against them since then have culminated in a global backlash against the arrogance of policy imposition in the face of many failed experiments.

Structural adjustment was supposed to be the answer to the woes of a developing world that was crippled by a debilitating debt crisis. It was the start of the systematic rollback of what used to be 'state' or 'public,' and was the start of market openness, private sector development and deregulation of key economic sectors. Yet after two decades, SAPs had little to show for them. The Third World was more indebted, and in more ways, than before. Yet unlike the start of the debt crisis, Third World states lost most of their assets to the private sector and relinquished governance and control over crucial sectors to the market. Worse, they were made vulnerable to newer types of financial crises that hit even the more prosperous countries.

The strong reaction against the policy mistakes of the past was perhaps the biggest motivation for the neo-liberal establishment to reinvent itself. Now, "poverty

reduction” has become a shield to dodge fundamental criticisms about the economic model that the establishment is unable to move away from. And in their desperation to latch on to a new paradigm, the rest of the development world has also bought into the poverty reduction rhetoric.

But no amount of makeover can hide the imminent collapse of a system that will not survive another decade. Studies conducted by NGOs, independent researchers and the UN Commission on Human Rights find that PRSP-PRGF policy frameworks mirror SAPs, and that the Bank and Fund are unable to show conclusively how these policies will reduce poverty. Particularly egregious is the PRGF, which is so steeped in fiscal reforms, privatisation, austerity measures and restricting the welfare role of the State, that its connection with poverty reduction is not even illusory. It is this inflexibility, this blind attempt to cling on to a model that did not and will not work, that makes the PRSP a losing proposition.

The HIPC initiative, which parented the PRSP, is not only inadequate, but also misconceived, misdirected and based on faulty advice. The excessive conditions attached to HIPC have extracted a high price from the populations of debtor countries. Countries are paying more on debt servicing than before, not only in money, but also in their future economic potentials. Countries cannot export their way out of the debt trap when they have no control over the markets for their exports, terms of trade, or over their domestic conditions of production. The commodity crisis of the past few years show this only too well. The debt sustainability criteria central to the HIPC are meaningless and inaccurate. Countries that have been through protracted periods of structural adjustment and debt servicing have such massive backlogs of economic, social, technological and institutional capacity that a little extra cash in hand is not going to address their urgent development needs.

The vulnerability created by indiscriminate liberalisation, the corruption of the private corporate world, the hypocrisy of the multilateral trading system governed by the World Trade Organisation, and the continued capture of state power by irresponsible elites despite wide-ranging reforms, all highlight the inability of the neoliberal paradigm to address the real problems of the developing world.

The most crucial weakness of the paradigm has been the continued marginalisation of the greater mass of the world’s population. The creation of poverty is often accompanied by a parallel and simultaneous creation of wealth. Some groups and interests certainly have benefited from the various versions of SAPs and HIPC, and will continue to benefit from the transfer of public wealth to private coffers. These beneficiaries, however, do not include small-scale producers who lose their productive assets because of mounting debts, seasonal migrants who cannot keep their children in school, workers who are forced to work for bottom-end wages under “labour flexibilisation” programmes, women in low-income families whose burden of family care increases because of increased impoverishment, or a growing number of poor families who cannot afford the rising costs of food and healthcare.

It is this marginalisation, this exclusion that is the most damning censure of the structural adjustment era resurrected in the PRSP. Despite its claim of national ownership and participation, underlying the PRSP is a paradigm that is as inflexible and as rigid as it is outdated.

Outdated models are meant to be cast aside and replaced, or at the very least subject to the same competition that they preach. There is such diversity in peoples and cultures, and multiplicity in systems and practice, that it does the world a disservice to constrict it to rigid policy regimes like those prescribed in the PRSP.

Though poverty and extreme poverty, as terms, have been defined as living under a certain dollar amount per day, what causes poverty is often much more complicated. The World Bank defines global poverty as a pronounced and multidimensional deprivation in wellbeing. Not only that, effective poverty prevention and reduction strategies will necessarily include either a multidimensional approach or take place in a network of projects that strive to prevent or reduce poverty on various levels. For instance, Plan Canada, a Canadian-based charity organization founded in 1937, takes a five-step approach in its strategy to prevent poverty worldwide. Plan Canada's Tools for How to Prevent Poverty. PRS/PRSs Poverty reduction strategy/Poverty reduction strategies. TNCs. Transnational corporations. 4 For an overall view of the Poverty Reduction Strategy Paper (PRSP) process, see International Monetary Fund and International Development Association, Poverty Reduction Strategy Papers "Progress in Implementation, September 2003, 67 p., available at <http://poverty.worldbank.org/les/091503.pdf>. 5 Poverty and the International Covenant on Economic, Social and Cultural Rights: statement adopted on 4 May 2001 by the Committee on Economic, Social and Cultural Rights (E/C.12/2001/10), para. 6. The Poverty Reduction Strategy Paper has been developed with the support of scholars, experts, public and political figures, and all those who are interested in eradicating poverty in Armenia. The PRSP development process is not similar to any other program developed previously, since it includes the participatory approach as one of its most important components. See [www.gov.am](http://www.gov.am). 8. Poverty reduction strategy paper. comments and suggestions revealed that they mainly referred to defining priorities in the document and in its structure. It was also considered necessary to harmonize the PRSP with programs being implemented in the country through support from the donor community.