

Background Information on Poverty Reduction Strategy Papers and the Water Sector

The aim of this introductory guide to PRSPs and the Water Sector is to provide professionals and the interested public with an overview of the key characteristics and challenges surrounding the water sector in countries which have PRSPs as their main policy framework. The guide is divided into the following sub-topics:

- What is a Poverty Reduction Strategy Paper?
- How did Poverty Reduction Strategy Papers come about
- Principles and Processes guiding PRSPs
- How does the PRSP process work?
- Linking Poverty Reduction Strategies to National Budgeting
- Limitations of PRSPs
- What are Sector-Wide Approaches?
- Implications for the (Water) Sectoral Level
- How has the water sector featured in PRSPs so far?
- Constraints towards including WSS in PRSPs
- Issues for further research
- Bibliography

What is a Poverty Reduction Strategy Paper?

A Poverty Reduction Strategy Paper (PRSP) is a national document that analyses the causes for poverty in a country and sets out a strategy to overcome them. A Poverty Reduction Strategy is meant to be a national process steered by the government and involving domestic stakeholders as well as external development partners. The PRSP is also increasingly becoming the basis for multi- and bilateral donors aid allocation and is seen as a means of improving the effectiveness and efficiency of development assistance.

How did Poverty Reduction Strategy Papers come about?

The framework for Poverty Reduction Strategy Papers was adopted by the Executive Boards of the World Bank and International Monetary Fund in September 1999 as a mechanism for linking poverty reduction with debt relief under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC)¹.

¹ The aim of the HIPC Initiative is to provide debt relief to poor countries facing an unsustainable debt burden. All those countries whose level of debt-to-exports is over 150% after traditional debt relief (or, in the case of very open economies, where the debt-to-fiscal revenues are above 250%), are considered as having an unsustainable debt burden. In order to qualify for HIPC, countries are further required to develop a track record of reform and sound policies under IMF and World Bank-supported programmes and to formulate a PRSP.

The PRSP approach was the International Financial Institutions' (IFIs) response to a number of growing challenges and criticisms. This included that the mandates of the IFIs were being challenged: the IMF particularly in light of the Asian crisis in 1997 and the 1998 Reviews of Enhanced Structural Adjustment lending framework; the World Bank Group, for their part, were put into question for their Structural Adjustment Programmes especially in connection with deteriorating growth in Sub Saharan Africa.

The pressure for debt relief applied by NGO movements such as Jubilee 2000 contributed to the creation of the HIPC Initiative. The PRSP approach provided an opportunity to link debt relief for these countries to poverty reduction policies.

The PRSP initiative is also a reaction to a more general debate on international development in the 1990s. The 'traditional' project-based development cooperation was criticised for undermining national capacity by creating parallel systems, weakening country-ownership through conditionality of aid and for falling short of poverty reduction goals. It was asserted that structural deficits within government systems, together with operation and management deficits of projects and the fragmentation of donor approaches, created an unsustainable working environment.

The aim of the PRSP framework is, therefore, to provide an overarching policy document for planning and implementing poverty reduction strategies in a given country. PRSPs have now become the basis for policy dialogue in all countries receiving concessional lending from the IFIs and are increasingly used as an overall reference for donor lending operations.

Over the last five years, many more - non-HIPC - countries have adopted the PRSP as their central policy framework. There is, however, an argument that PRSPs are likely to remain more effective in the most poor and aid-dependent countries.

Principles and Processes guiding PRSPs

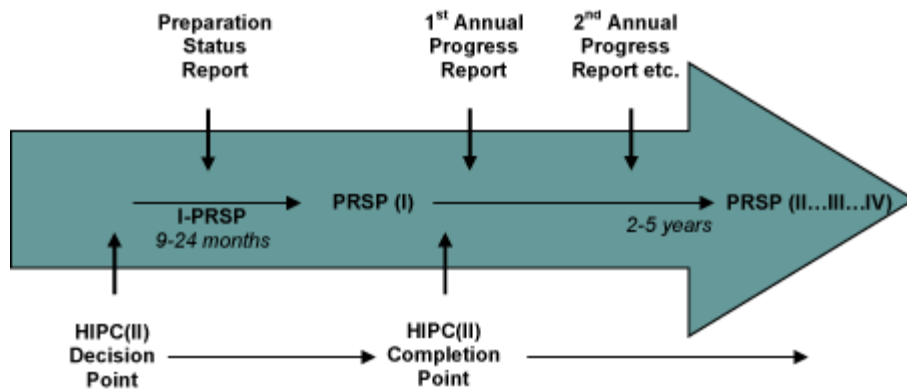
Five core principles guide Poverty Reduction Strategy Papers. These principles are derived from the Comprehensive Development Framework set out by the President of the World Bank, James Wolfensohn, in early 1999 as a new conceptual aid framework with the aim of achieving more effective poverty reduction.

PRSPs are intended to be:

- (1) country-driven: steered by the government based on a broad participation by non-governmental actors including civil society;
- (2) results-oriented: focusing on and monitoring outcomes that benefit the poor;
- (3) comprehensive: integrating macro-economic, sectoral, structural and social dimensions of poverty;
- (4) partnership-oriented and participatory: involving all relevant stakeholders in formulating and implementing strategies; and
- (5) long-term: reforming institutions and building capacity based on a long-term perspective of poverty reduction.

How does the PRSP process work?

Usually, the PRSP process starts by setting out an Interim PRSP (I-PRSP). This document is drafted by the national government, with some form of consultation and advice from any combination of representatives from the IFIs, other donors, various parts of the government, the private sector and civil society. The I-PRSP is intended to become a road map for the drafting of the full PRSP, which can take from 9 to 24 months. This process should involve poverty analysis based on stakeholder participation and the prioritisation and costing of actions.



Both the I-PRSP and full PRSP are reviewed by the staffs of the World Bank and the IMF, who summarise their views in Joint Staff Assessments (JSAs). The JSA provides feedback to countries for improvement of the PRSP and recommends to the Executive Boards of the IFIs that the PRSP document provides a sound basis for concessional finance or debt relief.

Debt Relief is provided in two stages under the Enhanced Heavily Indebted Poor Countries Initiative . When reaching the Decision Point², a country receives substantial effective debt relief. Under the Completion Point a country obtains an irrevocable reduction in debts stock. The Interim and Full PRSPs respectively are triggers for this.

Governments are required to formulate Annual Progress Reports of PRS implementation in order to meet the reporting requirements of the World Bank and the IMF. These reports are also meant to enhance the countries' performance on poverty reduction and accountability to their citizens. The intention is that the PRSP is revised after 2 – 5 years. Low-income countries are now at various stages of their PRSP processes. While some are still finalising their Interim PRSPs, others have already formulated 2nd and 3rd generation PRSPs.

Between March to September 2005, the World Bank and the International Monetary Fund conducted the second Comprehensive Review of experiences with the PRSP initiative. With input from other stakeholders, the staff of the IFIs intend to analyse how conducive and effective the PRSP has been in achieving the Millennium Development Goals.

The future direction of PRSPs will also be affected by the recent decision of the G8 summit in Gleneagles related to further debt relief.

Linking Poverty Reduction Strategies to National Budgeting

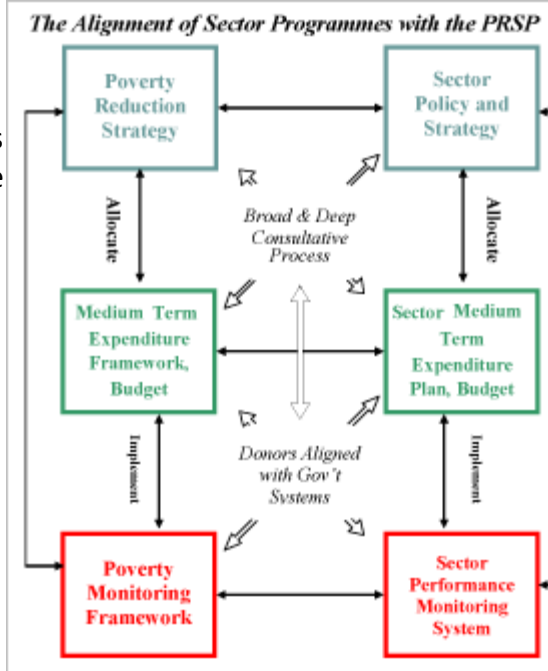
A key issue is how the process of preparation and implementation of the PRSP relates to two key financial instruments at national level: the Budget; and the Medium Term Expenditure Framework (MTEF). The figure on the right illustrates this.

² A country reaches Decision Point when it has formally been considered eligible for debt relief under HIPC by the Executive Boards of the IMF and the World Bank following sufficient progress in meeting the criteria including the preparation of a PRSP. Once a country reaches Decision Point, it begins to obtain an interim relief on its current debt service.

The MTEF is a planning tool, typically over 3 years, in which an estimate is made of the resource available for public expenditure, together with indicative plans for allocating those resources between competing priorities. The intended role of the MTEF is that of a “linking framework to ensure expenditure driven by policy priorities and by budget reality” .

The priorities stated in the PRSP clearly need to be reflected in expenditure of funds and since the national budget is the key instrument for public funds, successful implementation of the PRSP entails designation of resources in national budget for poverty reduction objectives.

Each sector which is concerned with poverty reduction needs to make its case in the budget process by enunciation of why the investments it proposes are appropriate. For further information on MTEFs see the [ODI Briefing Paper](#).



years, in ‘envelope’ with between MTEF is disciplined to be the allocating PRSPs budgets reduction with clear

What are the limitations of PRSPs?

First and foremost, it is important to recognise that PRSPs are not a panacea which alone is capable of changing aid relationships overnight. They are based on an iterative process that has the potential to transform national and development relationships. But the approach is only 5 years old and, therefore, it remains to be seen whether PRSPs are capable of fulfilling their potential towards lasting reforms. What is evident to date, however, is that the transformation of donor-recipient relationship, strengthened domestic accountability and the change of donor behaviour is yet to be fulfilled in most countries.

PRSPs are often treated as technical planning exercises although they are inherently political and therefore need to be closely linked to budgetary and other decision making processes.

In practice PRSPs have been variously criticised for further centralising policy processes, focusing on outputs rather than outcomes, and emphasising donor-recipient relationships rather than government-citizen accountability. On the other hand, there have been some noticeable achievements. The PRSP has put poverty reduction firmly on the table of many low-income countries, it has flagged up public financial and public expenditure management issues and it opened up the policy space to different stakeholders more than it had been previously.

For further information visit the [PRSP Monitoring and Synthesis Project](#).

What are Sector-Wide Approaches?

Initially concentrated in the social and more donor-dependent sectors such as health and education, Sector-Wide Approaches (SWAs) have become the common focus for sector reforms and sector-wide policy planning and implementation. The SWAp framework overlaps with the PRSP framework in that it follows similar principles and aims at gearing activities towards poverty-reducing output-based policies. SWAs are supposed to be linked to the MTEF and thereby to the PRSP, but this is not always the case. Sector-wide approaches have remained rare in the water sector, partly because the sector is not so easy to categorise as either ‘social’ or ‘productive’ and there is less consensus around models of service delivery, as compared with health and education.

What are the implications of PRSPs for the Water Sector?

With the introduction of PRSPs the emphasis of development cooperation has substantially shifted

from a project-by-project approach to programme-based aid. The aim is to change the modalities of funding for sectors so that financial resources are directed through PRSP processes and/or sector-wide programmes in a coordinated manner and thereby are better targeted to poverty reducing outcomes. For the water sector, where off-budget funding predominates - more than half total sector finance and in some cases up to 70% – this poses a serious challenge, particularly where sector-wide planning, budgeting and monitoring has been weak.

How has the water sector featured in PRSPs so far?

In sub-Saharan Africa, Water Supply and Sanitation services have consistently been ranked as one of the top three priorities in Participatory Poverty Assessments³. Nevertheless water supply and sanitation and water resources management fare poorly in PRSPs compared to i.e. the health and education. Although in many PRSPs reference is made to water supply and – to a lesser extent – to sanitation in general, statements in early chapters of PRSPs are not adequately reflected in targets in action plans or schedules in later sections of those same PRSPs and with weak systems for budgeting, and Monitoring & Evaluation, targets have not sufficiently been operationalised. Often, sector financing strategies remain unclear and proper Monitoring and Evaluation tools are not in place. Reviews of the level of incorporation of water resources management aspects in PRSPs have shown that this is even weaker than WSS.

For a detailed analyses read the [ODI – WPP Briefing Paper](#), the [Full Research Report](#) or the [report by the Water and Sanitation Program – Africa](#)

What are the constraints behind the weak incorporation?

A number of factors that characterise the water sector contribute to the weak integration of water supply and sanitation services in PRSP processes.

The water sector is highly fragmented: water sub-sector issues are compartmentalised between urban water supply, rural water supply, water resources management and sanitation and respective policies are not always coherent. Consequently, overall sector planning and costing remains fragmented.

There is a lack of clear sector financing plans: Compared to health and education, the water sector in low income countries is still often dominated by large off-budget donor-led projects. As a result, Ministries of Water have lower incentives and a weaker bargaining position when lobbying for budget allocations with the Ministry of Finance.

Sector data is poor and inconsistent: The collection of routine data on access to water and sanitation services remains poor in many countries. In addition, data provided under the PRSP is at times not consistent with information from other existing national data bases. This hampers the prioritisation of scarce resources and the achievement of tangible results.

Poverty-growth analysis remains shallow: The productive and welfare benefits of improved access to water supply and sanitation are increasingly recognised as ‘self-evident’ but meaningful analysis of returns relative to investment in e.g. health or education is rare. In particular, there is little understanding of how WSS sector policies affect outcomes in other sectors.

³ A Participatory Poverty Assessment (PPA) is an instrument for including poor peoples’ views in the analysis of poverty and the formulation of strategies to reduce it through public policy (Norton – ODI 2001). The goal of the PPA is to render public policy actions more conducive to poverty reduction. PPAs are generally carried out as policy research exercises and are linked to governmental policy processes such as the PRSP. Their intention is to inform the formulation of public policy by poor people’s priorities for improving their livelihoods.

Social sectors are favoured at the expense of productive sectors: The emphasis on poverty reduction has resulted in a high visibility of domestic water supply and sanitation services at the expense of water resources management issues. But, success in relation to water supply and sanitation targets is highly dependent on improved water resources management, which is more contested between different stakeholders.

Difficult choices are being avoided: Investments in WSS have tended to focus on ‘quick wins’ i.e. technical aspects of infrastructure development thereby neglecting the more complex institutional reforms required to improve the sustainability of services delivered.

Issues for further research

Decentralisation: As PRSPs move further towards implementation, new questions arise. In many countries, PRSP processes operate in parallel to decentralisation processes such as local government reforms. In this situation, financial resources may be directed to local administrations in the form of block grants, which overrides priorities set at the centre. How can specific performance targets with regards to water and sanitation be upheld in this process? In other cases, local government reforms may imply a move towards increased local revenue generation, which entails less central government support to local authorities. What new opportunities and threats arise from the increased fiscal autonomy of local governments and what does this entail for citizens?

Sanitation: Sanitation has been the ‘poor stepchild’ of water supply but since it has been incorporated in the Millennium Development Goals in 2002, the contribution of sanitation for poverty reduction is increasingly being recognised. However, sanitation is not accommodated under a specific sector and as a result often has no separate budget line which results in it being neglected. In Uganda, and recently in Ethiopia, inter-sectoral working groups on sanitation have been established with the aim of defining institutional roles responsibilities more clearly and improving cooperation between the different sectors. What can we learn from these new approaches? Would this outcome-based approach lend itself to overcome sub-sectoral divisions in the water sector?

Reconciling the productive and the social aspects of water supply development? The emphasis in PRSPs on domestic water supply has downplayed questions around distribution of water resources between different user groups. However, productive uses of water, including agriculture, are a fundamental component of pro-poor growth. Important questions surround how to balance protection of basic needs and rights with increased efficiency in water management and use. What role can productive efficiency (more crop per drop) and allocative efficiency (allocation of water resources to most economic outputs) play in this process?

Water governance reforms: Experience from the water sector suggests that substantial questions still remain to be answered with regards to water governance reforms. How can consensus be generated around the ‘logic’ of sectoral reform? How can sector reform processes be connected to wider generic processes of budgetary and political reform? Can the water sector provide a useful entry point for wider governance reforms? How can win-win situations be created between water sub-sectors, i.e. the productive and the social side of water supply? How does the PRSP strategy impact on sector policies, i.e. the formulation and implementation of sector reforms?

Bibliography

Brocklehurst, C (2004): [The Case for Water and Sanitation. Better Water and Sanitation Make Good Fiscal and Economic Sense, and Should be Prominent in PRSPs and Budget Allocation.](#) Water and Sanitation Programme – Africa

Christiansen, K and Hovland, I (August 2003): [The PRSP Initiative: Multilateral Policy Change and the Role of Research.](#) ODI Working Paper 216

Driscoll, R with Evans, A (2005): Second Generation Poverty Reduction Strategies: New Opportunities and Emerging Issues. In: [Development Policy Review, 2005, 23 \(1\)](#): 5 – 25

Driscoll, R with Christiansen, K (2004): [The PRSP Approach. A basic guide for CARE International](#). ODI

Driscoll, R and Evans, A (2004): [PRSP Annual Progress Reports and Joint Staff Assessments – A Review of Progress](#). Briefing Note 9. Overseas Development Institute

Foster, M (2000): [New Approaches to Development Co-operation: What can we learn from experience with implementing Sector Wide Approaches?](#) ODI Working Paper 140

International Monetary Fund (2005): [Debt Relief under the Heavily Indebted Poor Countries \(HIPC\) Initiative](#).

Mehta, M and Fugelsnes, T (October 2003): [Water Supply and Sanitation in Poverty Reduction Strategy Papers in Sub-Saharan Africa: Developing a Benchmarking Review and Exploring the Way Forward](#). Water and Sanitation Program

Newborne, P (2004): [Report on Water and Poverty Reduction for the Water, Poverty and Development Project of WWF Living Waters](#). Final Draft. March 2004, ODI Water Policy Programme

Norton, A (2001): [A rough guide to PPAs - Participatory Poverty Assessment: An Introduction to Theory and Practice](#). ODI

Shepherd, A. and Fritz, V. (forthcoming 2005): Key issues in sharpening the rural focus on Poverty Reduction Strategy Processes. Draft Literature Review for IFAD Issues Paper.

Slaymaker, T and Newborne, P. (August 2004): [Implementation of Water Supply & Sanitation Programmes under PRSPs. Synthesis of research findings from sub-Saharan Africa](#). WPP Research Report N. 2

Williamson, T. (forthcoming 2005): Integrating the Water and Sanitation Sector in PRSPs – A Roadmap. WSP Working Paper

Williamson, T. et al (2004): [Towards better integration of Water and Sanitation in PRSPs in Sub-Saharan Africa. Lessons from Uganda, Malawi and Zambia](#). WPP Briefing Paper No 5, ODI Water Policy Programme.

World Bank (2005): [The Enhanced HIPC Initiative](#).