Growth and Trade in Africa's Second Generation Poverty Reduction Strategies

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Study commissioned by DFID[1]

July 2007

1 The study is funded by the UK DFID; but the authors are responsible for any remaining errors and views expressed

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1 Introduction

Aid to Africa is expected to rise steadily if the pledges at the G8 meeting in Gleneagles in 2005 will indeed lead a doubling of aid to Africa by 2010. Judging by the pledges, Aid for Trade is also likely to increase in response to last year's WTO Ministerial in Hong Kong and the Aid for Trade Task Force created in 2006. Rising aid flows, particularly when directed at increasing a country's capacity to trade, are crucial steps to achieving the economic growth that is needed for poverty reduction in Africa.

There are also potential challenges in the relationship between aid and growth, especially in Africa where aid is increasingly channelled directly into the national budgets of a small number of favoured countries. Aid can damage export industries and growth prospects if increases raise the real exchange rate, reduce the competitiveness of the country's export sector, and lead to so-called Dutch disease effects. This would be the case if aid financed consumption rather than productive investment with no returns and inflationary effects. Aid can also crowd out private sector investment directly by taking the place of domestic, private sector opportunities, for instance by using food aid.

Overcoming these risks depends on aid being spent effectively in ways that enable private investment and trade to take place. The effect of an appreciation in the real exchange rate will be neutralised if aid serves to increase efficiency and reduce costs in activities that provide inputs to exporters, for example through investment in infrastructure. The main framework for aid management at country level used by donors in Africa is the Poverty Reduction Strategy Paper (PRS) process, so it is likely to play an important role in determining whether aid is used in this way.

The PRS initiative was launched in 1999 as a new form of conditionality for debt relief and concessional lending from the World Bank and IMF, but it was grounded in lessons about the failures of previous development efforts in Africa. It included an emphasis on poverty reduction through social sector expenditure rather than the earlier emphasis on structural adjustment. A focus on country ownership and a more equal partnership with donors would help ensure that agreed policies were implemented and that aid was used to strengthen governance and national institutions. Multi-sectoral, results-oriented and long-term plans were conceived as a means of improving poverty and growth outcomes over the long-term.

Within a few years it was clear that the link to debt relief was having unforeseen and undesirable consequences. Tight deadlines for debt relief were contributing to flawed and rushed consultations in which national stakeholders such as the private sector, producers organisations and trade unions played little part. Strong donor preferences and the tracking of social sector expenditures was resulting in widespread neglect of growth and trade policies in PRS documents. New aid instruments such as general budget support and sector wide approaches (SWAPs) were strengthening Ministries of Finance, health and education, but not those for agriculture, trade and infrastructure.

The influence of the Highly Indebted Poor Countries Initiative (HIPC) has now waned significantly. Most African countries have now reached Completion Point and progressed beyond, and the new multilateral debt initiative does not have the same mechanistic link to the PRS. Many countries are choosing to link their second strategy much more closely to their own national traditions or rename it as a national development plan. Yet the essence of the PRS approach continues to be pursued believing this is the most effective means of delivering the Millennium Development Goals at country level.

At the same time, growth and trade are rising up the international agenda. In 2005, the UK's Commission for Africa pointed to growth as key to achieving the Millennium Development Goals in Africa. The New Partnership for Africa's Development (NEPAD) delivered a similar message, its efforts given added impetus by the failure so far to conclude a successful Doha development round at the WTO. The context in which PRSs are unfolding has changed significantly, but their potential for addressing growth and trade has remained ill understood.

This paper seeks to address two questions:

- Has the growth and trade content improved between the first and second generation of PRSs[2] or their national development plan equivalents?
- What are the underlying opportunities and constraints for addressing growth and trade in PRS and national development plan processes?

The findings presented are drawn from three background studies, which are outlined more fully in the Annexes:

<u>A review of literature on growth and trade in PRSs</u>

The review covers literature relating to both the content and process dimensions of PRSs. It draws on both academic and informal sources such as donor reviews and reports from NGOs. The PRS approach is seven years old and has generated a limited body of academic literature so this was supplemented with other sources.

<u>An analysis of the growth and trade content of second generation PRSs or national development plan equivalents</u>

Drawing on findings from the literature review, a list of questions was drawn up about growth and trade policy content. The list of questions was answered in relation to second generation PRSs or plans from Burkina Faso, Ghana, Kenya, Nicaragua, Tanzania, and Uganda.[3] The results were aggregated using quantitative and qualitative methods. Associated sector strategies and budget documentation have not been examined in depth, so conclusions related to particular countries remain tentative.

[2] The term 'first generation PRS' is used throughout to refer to the first PRS produced by a country. The term 'second generation PRS' is used to refer to the second PRS or its national development plan equivalent.
[3] Countries with a PRS or plan in draft form were excluded from this sample (e.g. Ethiopia, Malawi, Zambia).

Background interviews

Semi-structured interviews with donor staff aimed to obtain 'real time' information about opportunities and constraints for addressing growth and trade at country level. It is recommended that a more diverse range of views be sought in subsequent research in this area.

This paper is organised in four parts. Part 2 focuses on the treatment of growth and trade in the content of the first and second generation of PRSs and their national development plan equivalents. Part 3 examines the opportunities and constraints for addressing growth and trade in PRS and national development plan processes. This closes with some general policy conclusions, with a particular emphasis on the role of donors.

Executive Summary

Comparing the content of the first and second generation of PRSs highlights the following:

- There is a much more prominent role for growth in second generation PRSs.
- Optimistic growth targets feature as much in the second round as they did in the first.
- Increased use is made of sectoral modelling in growth targets in the second generation.
- Growth strategies in both rounds of PRSs are characterised by a stronger emphasis on measures to address vertical (within sector) challenges than horizontal (cross-sectoral) ones.
- There is increased attention to growth-poverty linkages in the second generation through distributional analysis and attempts to adjust growth policies in ways that benefit poor people and vulnerable groups.
- Analysis of constraints to growth within sectors and links between this analysis and policy actions has improved. Analysis of constraints across sectors remains weak.
- Trade has a more prominent place in second generation PRSs but they retain the earlier emphasis on export promotion rather than market access issues.
- Discussion of trade policy options and trade-offs for poverty reduction continues to be weak.
- Both first and second generation PRSs focus much more on supply-side constraints to trade than demand-side constraints, although there is still a lack of clear connections between supply side factors and trade opportunities.

Early explanations for the relative neglect of growth and trade policies in early PRSs centred on the role of donors in prioritising social sector expenditure, but three other factors also appear to play a significant role in shaping constraints and opportunities at country level:

1. Pro-poor reforms to growth and trade are politically more difficult, especially in Africa's low-income, aid-dependent countries which have some of the characteristics of neo-patrimonial states. The PRS approach has sought to address patronage politics by encouraging a more open and consultative form of policy-making and this has led to some improvements. However, more fundamental political reform is not always suitable for external initiatives and is unlikely to be achieved over a short timeframe.

   This points to a need for greater realism about the prospects for promoting pro-poor growth and trade in Africa. Expectations of immediate results would be better replaced by a medium- to long-term trajectory. Aspirations for wholesale policy transformation need to be countered by acceptance of the incremental nature of reform and a focus on the limited number of policies that it is feasible to reform in favour of poor people.

2 Lessons from East Asia suggest that the key to economic development may lie not in the broader dimensions of good governance but in state capacity to develop effective policies for growth and trade in a limited and specific number of areas. Unfortunately, current donor efforts to support the development of effective growth and trade policies are not focusing on specific areas of state governance.

An alternative approach would involve extending lessons about aid effectiveness in the social sectors to national systems and institutions directly affecting growth and trade. The role of aid in determining growth and trade outcomes is necessarily limited, while programmatic instruments such as general budget support and SWAPs are proving more effective for social causes such as health and education.

3 In squaring the circle between political constraints and policy gaps on pro-poor growth, there continues to be a clear role for bringing evidence to bear in the decision-making process at country level. Yet donors themselves have historically provided to be notoriously weak at drawing on evidence as a basis for their own policy positions on growth and trade. Instead of advocating policies tailored to country context and based on quality research, their efforts have all too often been driven by political dogma and national self-interest. This has contributed to a climate of mistrust between governments and donors in dialogue around growth and trade.

More effective donor support for pro-poor growth and trade in Africa is likely to depend on reforms at a number of levels.

- First, there is a need to reform trade diagnostics initiatives such as the Integrated Framework to ensure they are much more closely sequenced with national political, planning and budget cycles, and allow space for national decision-making.
- Second, where appropriate, there may be a case for extending programmatic aid modalities beyond the social sectors to include neglected sectors and cross-cutting issues directly affecting growth and trade (e.g. through SWAPs).
- Third, there is a need to support further research into what works for pro-poor growth and trade at country level, ideally in collaboration with other donors.

Beyond these immediate challenges lie more fundamental obstacles to improving donor support for pro-poor growth and trade in Africa:

- Perceived pressure from domestic taxpayers to deliver tangible and immediate results from aid spending is currently creating a climate of expectation which is particularly unrealistic in the context of politically contentious growth and trade reforms. More effort is needed to educate citizens in donor countries about the incremental and long-term nature of development efforts in Africa.
- Divisions between development and trade and industry ministries in donor governments can create inconsistencies between the policy positions taken at country level and those pursued through international fora such as the WTO. More work is needed to ‘mainstream’ development thinking across governments and ensure greater coherence between aid and trade policies.

- The internal organisational structure of most donor agencies, particularly at country level, is highly conducive to creating sector and instrument 'silos' which discourage joint working between those responsible for supporting broader national planning and budget processes and professional specialists such as trade advisers. DFID's recent internal reforms aimed at overcoming these divisions. On the other hand, purely national development programmes are unlikely to be fully consistent with cross-border issues related to trade and Aid for Trade.

2 Trade and Growth in PRS Content

Introduction

This part of the paper compares the growth and trade policies contained in the first generation of PRSs with those contained in the emerging second generation. Since its launch in 1999, the PRS initiative has generated a number of studies devoted to particular dimensions of policy content. These typically take as their starting point a checklist of desirable policies for a given sector or cross-cutting issue and then asses whether the documents conform to this ideal.

This approach can be problematic in two respects. First, the PRS model was designed with the explicit aim of enabling countries to formulate their own policies rather than adopting a "one-size-fits-all" policy prescription. It is therefore inappropriate to evaluate them using a standard checklist. Below, we have sought to avoid this prescriptive approach by asking a number of open questions about the relative prioritisation of growth and trade, and the quality of diagnostics, policy design and implementation arrangements.

Second, these studies often assume that the PRS should have transformed longstanding shortcomings in policy design in poor countries within a very short space of time. This is clearly unrealistic and it would be more reasonable to assume that some of the pre-existing flaws will be carried forward into PRS documents, at least in the early rounds of PRS formulation. For this reason, we have here sought only to ascertain if there is evidence of a trajectory of improvement over time.

Third, it has become evident over many decades of research that very little is known about what exactly causes and sustains economic growth. It is possible to draw up lists of possible causes, but much more difficult to understand which factor is important when, why and how. There is no blueprint for growth, and there are no simple growth stories.

This part of our paper is organised into three sections. First, the links between growth, trade and poverty are briefly summarised as a way of understanding what might be usefully included in the policy content of a PRS. Second, key findings from the literature about the growth and trade content of the first generation of PRSs are outlined. Third, new analysis of the policy content of six second generation PRSs is introduced, along with an assessment of whether their treatment of growth and trade differs in key respects from the first round.

Growth, trade and poverty policies

A review of the literature on growth, trade and poverty reduction conducted as background to this study[4] highlights a number of lessons which can be used to inform an analysis of growth and trade in PRSs.

1. **Economic growth is the single most important factor influencing poverty**. Growth has the potential to shift large parts of the population across the poverty line and to create fiscal space for poverty reduction policies (Fafchamps, Teal and Toye, 2001). This potential is realised statistically through a one to one relationship between growth and poverty reduction. In line with earlier studies, the recent Operationalising Pro-Poor Growth research programme found that on average, a 1% increase in GDP per capita led to a 1.7% decline in poverty in 14 countries during the 1990s (World Bank et al, 2005; Dollar and Kraay, 2000; White and Anderson, 2001).

2. **The degree to which growth affects poverty depends crucially on the distributional pattern of growth between or within sectors**. First, **patterns of growth** matter. There may be tradeoffs between growth and inequality or equity could actually be growth enhancing if it increases the productivity of the poor and increases public support for growth-oriented policies (Ravallion 1997; Perotti 1996; Deininger and Olinto, 2000). Second, the **sectoral composition** of growth matters. If growth is concentrated in sectors where most of the poor are concentrated, such as agriculture in many African countries, it is likely to have a greater immediate impact on poverty, but over the long run links are more complex and a more diversified economy which includes services and manufacturing might be better (Bourgignon and Morrison, 1998; te Velde, 2004).

3. **The relationship between trade and poverty reduction is more contentious than previously assumed**. Theoretical models assume that trade helps a country to achieve allocative efficiency gains and thus temporary growth. Cross-country studies have suggested that trade liberalisation can also improve growth prospects more permanently by enhancing productivity through more efficient resource allocation, and through the import of modern technologies and effects on competition. Trade protection is therefore often identified as a key factor behind low economic performance by a country or region such as Africa (Collier and Gunning, 1999; Sachs and Warner, 1997). These findings have however been disputed on both methodological and historical grounds (Rodriguez and Rodrik 1999; Rodrik, 2000; Chang 2002). A consensus remains that wealthy countries did not become so through isolation and that trade outcomes and growth are positively correlated.

4. **In the long run, liberalisation is thought likely to have a positive impact on poverty levels by contributing to stronger growth but in the short run, it could affect adversely**. Poverty levels could increase overall or for particular vulnerable groups through effects on consumer or producer prices. These effects can be mitigated through careful sequencing of the reforms as part of a broader development process and the provision of social safety nets for those adversely affected, identified through a poverty and social impact analysis (PSIA) of proposed reforms (Hoekman et al, 2002).

[4] Full details are contained in Annex A.

5. **Designing policies to achieve growth and trade is a challenging task**. Some of the factors affecting growth are "given" or are insensitive to policies e.g. weather or natural resource endowments. Some are more responsive but slow to change e.g. low domestic saving rates or poor infrastructure. Others are subject to more flexible control e.g. fiscal and monetary policies, exchange rate competitiveness (Killick 1998). Policy-makers need to combine: macro policies e.g. privatisation, low budget deficits, facilitation of trade; sectoral policies e.g. improving local capabilities; horizontal or functional policies e.g. investment in education and infrastructure; and policies to improve governance. They also need to consider the appropriate roles of the public and private sectors and there is very little consensus amongst policy-makers on this question (Te Velde, 2004).

6. **Historically, policy prescriptions for growth have passed through a number of distinct phases**. In the 1950s and 60s "big push" industrialisation, planning and import-substitution policies were advocated. In the 1970s these policies began to be replaced by ones which centered on the price system and outward orientation while in the 1980s policies based on the Washington Consensus were advocated. These centred on fiscal discipline, tax reform, reorientation of public expenditure, interest rate liberalisation, unified and competitive exchange rates, trade liberalisation, foreign direct investment, privatisation and deregulation (Rodrik, 2006).

7. **The original Washington Consensus list has been augmented with greater attention to regulation of the market and poverty concerns in recent years**. Additions to the original list of prescribed policies centre on corporate governance, anti-corruption, flexible labour markets, adherence to WTO disciplines, international financial codes and standards, prudent opening of capital markets, non-intermediate exchange rate regimes, independent central banks and inflation targeting, social safety nets and other targeted measures to reduce poverty (Rodrik, 2006).

8. **The concept of a "one-size-fits-all" approach has also been called into question** (Rodrik 2004). Countries which followed the "right" reforms of the Washington consensus arguably did not experience the anticipated benefits, whereas countries following "wrong" policies such as China, India and Vietnam have experienced positive economic outcomes. Some have attributed policy failures to "partial reform syndrome", the idea that reforms were incomplete or badly done due to weak national ownership, but others point to the importance of tailoring solutions to fit specific country contexts. The central message is that "there is no universal set of rules" which can inspire pro-poor growth within a particular country (World Bank et al, 2005).

9. **The emerging consensus is in favour of a country-specific package of reforms aimed at achieving basic essentials.** These include macro economic stability, well defined property rights, an investment climate and incentive framework conducive to growth, well functioning factor markets and access to infrastructure and education (World Bank et al, 2005). The recent Global Monitoring Report supports this consensus, arguing that particular attention needs to be paid to strengthening infrastructure and the investment climate in Africa (World Bank 2006).

On the basis of these findings, a number of questions can be asked about the growth and trade content of a PRS or its national development plan equivalent:

1. **Is economic growth treated as important?**

   Given its central importance for poverty reduction, a strong emphasis on economic growth might be expected.

2. **Is there a vision for achieving growth?**

   This could include appropriate targets drawn from sector growth projections as well as a broad-based approach to growth across a range of sectors.

3. **Does the growth strategy take into account poverty considerations?**

   This might be achieved through distributional analysis, decisions about sectoral composition, or specific measures to assist poor people.

4. **Is there an analysis of country-specific constraints to growth?**

   This could include horizontal (cross-sectoral) analysis e.g. macroeconomic stability, property rights, investment climate, incentive framework, factor markets. It could also include vertical (within sector) analysis e.g. within sector infrastructure, education, trade, as well as other country-specific analysis.

5. **Is trade treated as important and is there a commitment to trade liberalisation?**

   Links between trade liberalisation and poverty reduction remain open to some debate so PRSs may not conform to the international consensus in favour of liberalisation.

6. **Is there a discussion of trade policy options that takes into account poverty considerations?**

   This might involve attention to policy sequencing, poverty and social impact analysis (PSIA) or the inclusion of specific measures to help poor people or vulnerable groups affected by reforms.

7. **Is there an analysis of country-specific constraints to trade?**

   This could include both demand and supply side factors.

Table 1: Key Findings on First vs Second Generation PRSs

	1st generation	2nd generation
Economic growth treated as important?	Growth is not one of the most important factors in poverty reduction and its policy determinants are not emphasised.	Growth is a major focus in all the 2nd generation PRSs analysed. It is defined either as the main objective of the strategy or one of the most important goals.
Is there a vision for achieving growth?	Over-optimistic growth targets set without realistic analysis of the sources of and constraints to growth. Some improvements occurred in late 1st generation documents.	Growth targets set are usually quite ambitious relative to the recent historical records. Almost all documents identified specific sectoral growth rates needed to achieve the overall target growth rate.
Does the growth strategy take into account poverty considerations?	Early PRSs draw on inadequate links between policies to promote growth and broader poverty reduction goals (considering growth models which assume "trickle down" effects on poverty). Better poverty analysis features in late PRSs.	Estimation of the expected fall in national poverty rates if the country meets the target growth rate. More extensive use of distributional analysis and more extensive attempts to adjust policies in ways that benefit poor people and vulnerable groups than in the first generation.
Is there an analysis of country-specific constraints to growth?	Country-specific analysis of constraints largely absent with the only obstacles to growth mentioned being low levels of domestic saving and a lack of technology transfer.	Little country-specific analysis of constraints to growth at the horizontal level. However, more thorough analysis of constraints is usually carried out at the vertical level, within specific sectors.
Is trade treated as important?	There is no important role for trade and in the few PRSs which feature a section on trade, this was subsumed within a broader discussion of the macroeconomic environment.	Trade is treated as more important than in the first generation (e.g. most documents have at least one section on trade), but the policies remain heavily focused on export promotion rather than market access issues.
Is there a discussion of trade policy options that takes into account poverty considerations?	Wherever present the links between trade policies and poverty reduction are inadequate (with some exceptions being Ethiopia, Nicaragua, Vietnam and Zambia).	In general the PRSs do not establish an analytical link between trade and poverty reduction, although two of them (Nicaragua and Uganda) make passing reference to the importance of increased exports for poverty reduction.
Is there an analysis of country-specific constraints to trade?	Most discussions on constraints are confined to supply-side constraints to trade.	Similar to 1st generation, there is much more extensive analysis of supply-side constraints relative to those on the demand side.

Growth and trade in first generation PRSs

In applying these questions to the first round of PRSs, we have drawn on findings from a broad review of secondary literature including academic, donor and NGO sources.[5] In the summary presented below, a distinction is drawn between early PRSs (those produced within the first three years of the initiative's launch in 1999) and later PRSs (those produced from 2002 onwards) in order to capture historical changes within the first generation.

1. Is economic growth treated as important?

A prominent place for economic growth as the single most important factor influencing poverty is largely missing from the policy content of first generation PRSs. They place little emphasis on measures to deliver growth other than the maintenance of macroeconomic stability and the development of human capital through the social sectors (OED, 2003). Box 1 describes how Ethiopia's first PRS is one of few exceptions to this rule.

Box 1: Ethiopia – an exception to the rule

Ethiopia's first PRS gives a more prominent place to growth than most other first generation PRSs. It argues that economic growth is essential but not sufficient for poverty reduction. It considers both past Ethiopian growth performance and future potential for economic growth linked to its effects on income distribution and poverty in short and long term horizons. The growth history analysis in Ethiopia attempts to understand and identify the main sources of growth, sectoral growth performance, macro-determinants of growth and micro level production estimates in the past. It uses both cross country and time series analysis. Several policies in the PRS are coherently based on the results of these growth accounting exercises. Trade policy is also specifically covered as an identifiable section in the PRS. The trade policy in the first Ethiopian PRS is not consistent with the World Bank and IMF line on trade policy. The Agricultural Development-Led Industrialisation (ADLI) national strategy constituted a significant departure from the international consensus by pursuing the use of protection with offsetting policies for exporters. For most donors, such an approach is viewed as second best to a liberalised import regime.

Source: Federal Democratic Republic of Ethiopia (2002).

2. Is there a vision for achieving growth?

Growth targets in early PRSs are overly optimistic and not grounded in realistic analysis of the sources of and constraints to growth. The PRSs were found to feature growth targets of between 5 and 8%, without an accompanying analysis of how such growth would be sourced. Growth rates achieved by countries in the past appear alongside projected future growth rates with few clear links established between the two (ODI 2002). The growth figures presented for particular countries exceed historical 5-year averages by an estimated one percentage point per year (World Bank and IMF, 2005b). There is some evidence of gradual improvement over time in this area however, with growth rates incorporated in later PRSs described by World Bank and IMF reviews as optimistic but achievable (World Bank and IMF 2004).

Growth projections at the sector level and overall growth targets are weakly aligned in early PRSs. Links between growth levels analysed at the sector level tend to be macro derived or drawn from estimated projected improvements. Exceptions to this pattern include Vietnam's and Ethiopia's first PRSs, which

[5] Full details are contained in Annex A.

explicitly derived their aggregate growth targets from projections of sectoral inputs and targets (Nagarajan and Mutharam, 2003).

First generation PRSs generally lacked a strategy for broad-based economic growth and instead focused largely on policy actions and public expenditure in the social sectors as a means of poverty reduction. Productive sectors such as infrastructure, manufacturing and agriculture were less visible than health and education in both the policy actions and the budget allocations attached to early PRSs. This narrow breadth is linked to weak analysis of the sources of growth (World Bank and IMF, 2005). Macroeconomic stability is consistently identified as a precondition for growth and agriculture as a source of pro-poor or broad-based growth, but less attention is paid to other factors (Driscoll with Evans, 2004; World Bank and IMF, 2004). Table 1 below shows how subsequent PRSs have gradually extended the breadth of their growth analysis to include more analysis of regulatory reforms and trade as sources of growth.

Table 2: Factors Identified as Source of Growth in PRSPs[6] (%age of PRSPs completed between July 2003 and June 2004)

Source of Growth	Past	Present
Macro Stability	65	93
Trade	47	67
Regulatory Reforms	48	80
Agriculture	53	73
Health and Education	47	67
Infrastructure	87	47
Tourism	10	60

Source: World Bank/IMF (2004)

3. Does the growth strategy take into account poverty considerations?

Early PRSs draw inadequate links between policies to promote growth and broader poverty reduction goals. The growth model implicit in many of them appears to be of a “trickle down” nature and is weak on distributional analysis and lacking in specific measures to adapt macroeconomic and structural policies in ways that would benefit poor people (Stewart and Wang, 2003). First round PRSs do not normally make use of alternative macroeconomic scenarios to map out how the PRS could be used to achieve the Millennium Development Goals (Oxfam, 2004; World Bank, 2005). A range of policies for rural development are included, but greater weight is normally given to the growth implications of these, with little consideration of trade-offs for poverty reduction (Shepherd and Fritz, 2005; Xenogiani and Shepherd, 2005). Infrastructure policies also feature, but without a discussion of how to ensure the poor will be able to use that infrastructure (Murooka, 2004).

PSIA does not generally underpin early PRSs (Hamner and Hendrie, 2002) and even later ones do not generally use it to adapt growth-oriented policies in ways

[6] Countries which completed PRSPs between July 2003 and June 2004 are: Armenia, Bosnia and Herzegovina, Djibouti, Kenya, Lao PDR, Madagascar, Moldova, Mongolia, Pakistan, Serbia & Montenegro

that benefit poor people. Later PRSs do however show signs of improvement and include more extensive distributional analysis as well as measures aimed at increasing the productivity and income generating potential of the poor, increasing their access to assets and reducing their vulnerability (World Bank and IMF, 2003).

4. Is there an analysis of country-specific constraints to growth?

A conversation on the specific constraints to growth at country level is also missing from first generation PRSs. They contain only limited discussion of the factors that constrained past economic performance and the most binding constraints on future performance. The only obstacles to growth mentioned in 11 PRSs completed before July 2002 were low levels of domestic saving and a lack of technology transfer. Relevant demand-side constraints to growth such as trade barriers imposed by developed countries, problems of debt sustainability and setbacks to growth targets from external effects such as a recession are not considered (ODI, 2002). Even where constraints to growth have been analysed in some depth, they have not necessarily had an impact on policies contained in PRSs (World Bank and IMF, 2005). For example, capacity constraints are commonly identified as a constraint on growth, but rarely impact on planned timelines for achieving productive outcomes (World Bank and IMF, 2004).

5. Is trade treated as important and is there a commitment to trade liberalisation?

A study of 17 PRSs produced before June 2003 found that although trade was mentioned in all of them, it was not generally treated as an autonomous section of the document. Instead, discussions of trade were spread thinly through discussions of other sectors such as agriculture, tourism and infrastructure. In the few PRSs which did feature a section devoted to trade, it was normally subsumed within a broader discussion of the macroeconomic environment. The trade policies were supportive of broadly defined liberalisation, but there was much greater coverage of export promotion measures than liberalisation of imports (Hewitt and Gilson, 2003).

In contrast to growth, the literature on the trade content of PRSs does not suggest a trajectory of improvement over time. A review of the trade content of all PRSs produced before June 2005 indicates continuing failure to integrate trade adequately (World Bank and IMF, 2005). IMF analysis of the trade content in PRSs finds it lacking in coherence, with mention of both export promotion and import substitution measures in the same document (IMF, 2005). Particular weaknesses exist around policy content on trade in services in PRSs (IMF, 2005). Operational measures for a substantial number of trade priorities listed are not included except in the case of issues related to WTO accession where specific reforms were related to tariff and non-tariff barriers. The macro linkages of trade reform are also analysed weakly with little consideration of trade related opportunities and vulnerabilities (World Bank and IMF, 2005).

6. Is there a discussion of trade policy options that takes into account poverty considerations?

About half of the sample of 17 early PRSs discuss trade policy options, but these discussions are generally only about how to enhance the export performance of particular sectors such as agriculture, manufacturing and tourism and not about broader trade-offs between growth and poverty concerns. About half of the PRSs acknowledge that trade policy options differ from sector to sector, while only two differentiate between producers and consumers in urban and rural environments (Hewitt and Gilson, 2003).

Inadequate links between trade policies contained in PRSs and poverty reduction attract particular attention in the literature. PRS trade policies are criticised as largely silent on both the income and non-income aspects of poverty reduction. There are some exceptions to this pattern such as the PRSs for Ethiopia, Nicaragua, Vietnam and Zambia. These place some emphasis on trade policy being used for poverty reduction, for example to assist the rural poor, benefit female entrepreneurs, and benefit vulnerable smallholder farmers (Hewitt and Gilson, 2003).

A review of early PRSs noted that except for Mozambique and Honduras none of the documents had adequately linked trade liberalisation reforms to both growth and poverty reduction (World Bank and IMF, 2002). Early PRSs fail to make use of stress tests, sensitivity analyses or multiple scenarios to deal with the poor's vulnerability to change or exposure to shocks. From the PRSs completed before 2004, Cambodia seems to be one exception. Its PRS stresses the risks linked with multilateral liberalisation and the importance of sequencing the reduction of rice import tariffs given their impact on farmers' livelihoods (World Bank and IMF, 2003). International trade related conditions such as fiscal reform or tariff reductions are not grounded in ex-ante analysis of the probable impact on poverty. For example: only one out of 17 PRSs completed before 2003 seemed to recognise that trade policy could differ in its effects on different sections of the economy while only two considered trade and gender linkages (Hewitt and Gilson, 2003).

7 Is there an analysis of country-specific constraints to trade?

Most early PRSs feature a discussion of supply-side constraints to trade such as ports, telecommunications, road, rail and air networks. They also feature a more limited discussion of demand-side constraints with a particular focus on existing or planned regional trade agreements. About half of early PRSs discuss restricted access to foreign markets due to failure to meet product standards or inability to compete due to high transport costs. WTO commitments are discussed by countries in the context of existing or recent applications for membership (Hewitt and Gilson, 2003).

Growth and Trade in Second Generation PRSs

This section summarises new analysis of the growth and trade content of six second generation PRSs or their national development plan equivalents.[7] The countries considered are Burkina Faso, Ghana, Kenya, Nicaragua, Tanzania and Uganda.[8] For reasons of brevity and because the distinction between second generation PRSs and national development plans is not always clear, the term PRS is used here to refer to both.

In contrast to our findings on the first round, those presented here on the second generation are based on a much smaller sample and could be biased towards better performing countries, as these are likely to have progressed more rapidly into a second generation PRS. The limited time and budget available for this study also means that we have not been able to analyse supporting documentation such as sector strategies and budgets, so conclusions related to particular countries should be treated as tentative.

[7] Full details are contained in Annex B.
[8] Countries with a PRS or plan in draft form were excluded from this sample (e.g. Ethiopia, Zambia, Malawi).

Table 3: Examples of policies contained in second generation PRSs[9]

Macroeconomic

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Strengthen macroeconomic and financial stability. Support the development of private investment in the rural sector, which should take over from the Government in several areas Increase the political reforms related to the privatisation program and market liberalisation	Ensure macroeconomic stability, especially by containing inflation within single digit Reduce cost of investment loans as incentives for stimulating investment in support of private sector-led growth Contain fiscal deficits Pursue prudent debt management Ensure monetary policy that is flexible enough to respond to external shocks, promote growth and ensure price stability Ensure real interest rates that enhance effective mobilisation of savings and make credits affordable to the private sector Pursue relatively stable real exchange rates	Maintain a stable macroeconomic framework Reduce fiscal expenditure	Reduce the fiscal deficit Manage the internal debt problem Make progress in the structural reforms still pending Reduce the social impact of the high oil prices	Ensure a predictable macroeconomic environment Maintain fiscal and monetary sector reforms Promote exchange rate stability Guarantee sufficient foreign reserves Maintain macro-economic stability Sustain efforts to contain inflation to a level comparable to that of major trading partners Ensure that monetary policy continues to focus on price stability, Narrow the gap between deposit and borrowing rates Expand credit to the private sector	Maintain inflation at 5% Promote private sector-led growth Ensure stable macroeconomic management Reduce fiscal deficit Maintain stable exchange rate Carry out the pension reform

[9] Note that the policies in the Table 3 may fall into more than one category, although we have classified each of them into only one category (according to their relevance to that category).

Property Rights

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
	Develop appropriate policies and legislation that protect property rights, promote fidelity to contractual agreements and boost investor confidence Review the Land Administration Project to recognise the importance of property rights to MSMEs Enforce the Land Title Registration Law of 1985 as a means of ensuring security of tenure of small land holders, especially women and the youth	Implement an Investment Code that consolidates into one Act all incentives, property rights' protection and institutional arrangements in order to reduce the red tape and cost of bureaucracy	Reduce the uncertainty about the rights and legal order for property ownership and improved financial services Modernise and expand the cadastre and registry, integrating them functionally Support legal ordering of property, a process to clear up, certify, and issue titles	Guarantee personal and property rights and security and enforcement of contracts	Implement systematic demarcation which offers an opportunity to strengthen the property rights of the poor

Investment Culture

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Reduce transaction costs to doing business (e.g. delays in the handling of applications, bribes paid to circumvent these delays)		Establish a Commission to review all business-related regulations, covering both legal and institutional aspects	Promote a regulatory framework that fosters clear rules for competition and a legal framework that would establish and guarantee private property rights in a market economy Promote paperwork simplification, legal reforms reinforcement, Facilitate private sector transactions Improve the policy for export promotion and attraction of investments Develop a legal and institutional framework for the implementation of the policy for competitiveness Identify and eliminate anti-competitive practices Strengthen municipalities´ capabilities for conflict resolution that benefit producers and consumers Include the theme of competition in the primary and secondary curriculums	Reduce bureaucracy and corruption, crime and absence of peace and tranquillity, which scare away large domestic and foreign investments Ensure a stable investment and regulatory climate Scale up reduction of administrative hurdles due to complicated licensing and taxation system, harassment by tax and local administration, replacing them by simple, "one-stop" mechanisms to reduce the high "costs of starting and doing business" due to red tape	Avoid driving up prices of non-tradable investment goods relative to output prices, or crowding out private sector credit Improve the investment climate by creating a conducive regulatory framework, enhancing the efficiency of the registration and trade related services Ensure the adoption of principles of regulatory best practice, including: • Sensible, practical laws and policies that support enterprise growth and competitiveness while at the same time protecting essential public interests: • A systematic process for analysing and consulting on new policies and regulatory proposals that have significant economic, social or environmental consequences, before they are introduced

			Implement a system of information at the service of the consumer Establish an integrated system for quality that includes standardisation, accreditation, and metrology		• A system to monitor the legal framework to ensure that it is delivering increasingly positive returns to business, and that laws once passed are continuing to work well

Incentives

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
		Review taxation measures that adversely affect the sector with an aim of providing incentives to the private sector		Promote investment through establishment of Special Economic Zones (SEPZ) with special incentives to accelerate growth Support domestic firms, including SMEs and encourage them to be innovative, pay attention to product development, quality and appropriate marketing strategies	

Factor Markets

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Increase the supply of microfinancing Strengthen the implementation of the Agrarian and Land Tenure Reorganisation Improve the quality and security of access to land Integrate the management of soil fertility	Deepen financial sector reforms, including the continuous implementation, monitoring and evaluation of the Financial Sector Strategic Plan (FINSSP) Identify and agree on a small number of key private sector development targets within the FINSSP Develop and implement a fully functioning system that provides labour market information and statistics to support relevant decision making Re-examine existing variations in access and control over land in different communities to promote easy access and ensure equity to all, especially to usufructory holdings Improve the system of land registration to protect the interests of small holders.	Review the institutional framework with a view to encouraging development of institutions that are well placed to provide credit to agriculture Enforce the laws aimed at promoting health and safety standards and protecting workers from occupational hazards by implementing surveillance and hygiene audits at work places	Integrate the multiple governmental funds for credit Promote the development of new (financial) products that will develop the market, balance risks, and improve conditions Expand access to credit for small and medium business and low-income groups, via: i) the establishment of a new legal and supervisory framework for microfinance activities that includes the approval of a law for associations ii) the application of a normative framework to improve credit information systems, along with the strengthening of the system for a risk bureau of the Superintendence of Banks (SIBOIF) and the promotion of competition for credit information markets in the private sector	Enhance access to credit by the private sector, particularly SMEs and rural areas. Increase financing and expand higher education and research Carry out financial sector reforms and specific micro-finance programmes targeting poor areas and the poor groups (e.g. women, youths, unemployed etc)	Deepen the economy from a financial point of view Ensure the improved functioning of the land market Establish the Labour Market Information System and Network to improve the functioning of the labour market

			iii) the development of a legal framework for protection of consumers of financial services iv) the design of technical assistance programs for microfinance institutions v) the establishment of a modern legal and regulatory framework for the development of the financial cooperatives activities Establish a system of information on real estate prices and transactions, reforms to the taxation framework so that favors the intensive and efficient use of land Strengthen second-floor financial institutions so that they provide quality services with value added for MIPYME, Develop efficient mechanisms for acquiring rural properties, and expanding financial services to small and medium producers through property regularisation		

Infrastructure

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Provision of special electrification or solar-powered lighting programs (incl. subsidies for the poorest) to enhance electrification in the less developed regions	Improve overall road maintenance, and rehabilitate farm-to-market roads, bridges and ferries Ensure provision of affordable and accessible transport system that recognises the needs of people with disabilities Ensure increased access to modern forms of energy to the poor and vulnerable		Reduce the legal and administrative barriers that hinder the entry of investors into the energy sector	Expand and maintain rail, marine, air and road transport networks Promote investments in physical capital, focussing on efficient and cost effective provision of infrastructure for transport, power, ICT, with special attention to opening up rural areas and areas with economic potentials in order to address regional inequalities	Ensure intervention to support rural communications Strengthen the infrastructure network

Human Capacity

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Build the capacities of professional organisations Improve staffing by resuming or continuing civil service hiring for the ministries involved in rural development;	Train unemployed in competency-based, demand-driven skills, including the STEP programme Promote and establish production units in all vocational training centres Set standards for vocational training and entrepreneurial development Intensify co-operative education and its practice in collaboration with stakeholders	Strengthen the recently established National Productivity Centre with a view to institutionalizing a productivity measurement process and internalizing the same in labour policy formulation process especially as relates to wage setting; Improve Labour-Employers-Government interaction and policy understanding through the National Economic and Social Council	Strengthen the programs for training and technical assistance	Strengthen linkages between higher education, S&T and R&D institutions and local communities in agriculture, industry, SMEs, trade and social development etc.	Intensify efforts to increase the supply of a more educated workforce into the labour market Improve funding of public technical and vocational training institutions Encourage the private sector to establish collective agreements that are performance-related to enable employers in the private sector link wages to productivity

Trade Policies

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Improve market access by renovating, organizing, and managing livestock markets and by building up infrastructures, such as refrigerated slaughterhouses, in order to promote meat exports Strengthen the accompanying regional solidarity measures to ECOWAS and WAEMU to ensure cohesiveness and synergy between national and regional poverty reduction policies Encourage the diversification of export products and export potential Promote deeper integration with both WAEMU and ECOWAS Develop inland container depots (dry ports) with large storage, handing, and parking capacities. Support to operators engaging in tourism related activities, such as hotels, restaurants, moneychangers, and travel agencies.	Reduce the constraints associated with export and import procedures; Minimise the incidence of “dumping” Diversify and increase the export base, promoting new areas of competitive advantage Take full advantage of Ghana’s preferential access to international markets (AGOA, EU-ACP) Engage fully in multi-lateral trade negotiations, Establish an effective information system to track and measure progress Support local companies to participate in foreign and domestic trade shows, fairs and exhibitions Provide concessionary export finance facilities to exporters; Promote competition in airport cargo handling;	Put in place measures to expedite settlement and arbitration of trade disputes to promote industrial harmony	Promote free trade agreements and the consolidation of regional integration processes Push for the legal framework for standardisation and operation of the quality system, Strengthen the Center for Information on Technical Obstacles to Trade (CIOTC) and the national prize for quality Implement the international system for units (SI) and expansion of the national metrology laboratory Promote the establishment of the Customs Union	Improve customs administration Strengthen the capacity to handle various issues, including commitment to WTO agreements and international negotiating capacity; Strengthen the capacity to participate fully in regional markets such as SADC and EAC Strengthen cooperatives and Export Credit Guarantee Fund for cooperatives and other farmers’ organisations Promote export trade for both traditional and non-traditional exports Foster innovative and competitive capacity of the economy,	Institutionalise quality management in industry, enforcement of standards, quality assurance and procurement of market information Strengthen capacity building in trade negotiations within the relevant institutions such as the Ministry of Tourism, Trade and Industry Improve access and quality and to reduce disparities at all levels of education Focus on garments or clothing manufacturing to take advantage of the AGOA market. Promote active participation in regional and international integration and cooperation schemes such as EAC, COMESA Review axle load control system in consultation with other member states within COMESA and EAC regional framework

	Encourage private sector investment in construction and operation of cold chain facilities from production point to the port Facilitate the provision by private sector of well organised container terminals with security, equipment, effective operators and computerised tracking Facilitate trade through Ghana's borders to reduce costs and improve ease of trade Construct three major highways to connect trans-ECOWAS Highway Promote the adoption of Intermediate Means of Transport (IMT) Encourage general aviation and aviation support services such as the use of micro light aircraft in agriculture, passenger transport and health delivery, Promote subregional transport systems including air transport that ensures efficient movement of goods and persons across borders			Address supply-side constraints, diversification of the "export basket" by stimulating value-added activities, investments in export-oriented activities and boost the competence of private sector participation in regional and world markets Use Trade-related assistance to increase the capacity of domestic producers, particularly SMEs and rural producers in processing, packaging, financing, managerial and marketing skills and information about international market standards, patenting, shelf-life, labelling and other conditions	Maintain current trade policy, which is broadly liberal

	Ensure that Ghana's national interests are secured by fully participating in negotiations and rule setting in multilateral trading fora; Create a fair, transparent and equitable trade regime Ensure the removal of technical barriers in the way of key current and potential export products Assist exporters to comply with international standards required by selected export markets				

Sectoral Strategies

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
Provision of institutional support to farmer organisations and local communities through appropriate training programs Support and advice for producers, along with research and development; Improve the agricultural water supply; Development of agricultural water systems, with a priority given to lowland development in order to intensify small-scale irrigation; Development of growth industries; Development of agro-processing and the marketing of agricultural products; Development of agricultural mechanisation;	Establish agri-business zones Promote land banks		Foster investment in tourism by improving infrastructure, sanitary systems, waste management, and paperwork procedures at border posts, among other actions. Promote and market tourism in order to position Nicaragua in international markets Improve the capacity for commercializing differentiated coffee through the promotion of quality coffee at national and international events Promote associations among producers, roasters, and exporters Promote foreign investment in the coffee sector Promote the development of clusters in specific geographic zones	Promote budgetary allocations for social programmes (HIV and AIDS) for vulnerable groups Address barriers that hinder communities to access and benefit from natural resources (e.g. wildlife)	Launch the Agricultural Zoning Initiative which will contribute to the realisation of the objectives of Strategic Export Promotion and the NAADS enterprise development component by ensuring the selection of zonal commodity enterprises based on factors that go beyond agro-ecological conditions

Develop and implement a program to support private initiative in the areas of agro-processing, small animal breeding, off-season crops, and services in rural areas Revitalise the mining, manufacturing, and energy sectors (incl. government support to reduce factor costs and enhance their competitiveness) to open them up to the private sector Development of technology packages to suit the target crops, and food crops in particular Support policies to keep the young in the countryside Support the development of small and medium enterprises/small and medium industries Build the technical and operational capacities of government agencies; Provide government agencies with access to the New Information and Communications Technologies			The rural development strategy makes a balance of the different strata of producers, giving them differentiated treatment to enable buffering the negative effects of trade opening on the smallest, upgrading those with the opportunity to do so, and maximizing advantages for the most efficient		

Public Sector

Burkina Faso	Ghana	Kenya	Nicaragua	Tanzania	Uganda
	Ensure private sector development is mainstreamed within the Public Sector Reform programme Develop pro-business tools within the Public Sector Reform Programme, including service-focused training programmes for public servants; Develop pro-business 'Customer Charters' and anti-corruption action plans for key private sector-related MDAs; Conduct a review of tax policy and administration in relation to micro and small enterprises; Develop a regulatory impact assessment methodology for all proposed new laws and regulations with significant private sector impact				

1 Is economic growth treated as important?

Growth seems to be a major focus of all the 2nd generation PRSs analysed. All the documents have at least one statement which defines economic growth either as the main objective of the strategy (Ghana, Kenya, Nicaragua and Uganda) or one of the most important goals (Burkina Faso and Tanzania). Half of them feature references to the economy or growth in the title – the Ghana Growth and Poverty Reduction Strategy, the Kenya Economic Recovery Strategy for Wealth and Employment Creation, and the Tanzania National Strategy for Growth and Reduction of Poverty. Economic growth and related expressions are mentioned frequently throughout the documents, though health and education are mentioned between three and ten times more often. This treatment seems to point towards a much more prominent role for growth in second generation PRSs.

2 Is there a vision for how to achieve growth?

All the documents set a specific target rate of growth, which is usually quite ambitious relative to the recent historical record of the country. These rates are in the order of 6-8% per annum, except for the more conservative estimate for Nicaragua (4.5%). Optimistic growth targets appear to feature as much in the second generation PRSs as they did in the first.

All the PRSs except Nicaragua's provide specific sectoral growth rates needed to achieve the overall target growth rate. The sectoral decomposition is described with a greater level of detail in the cases of Burkina Faso, Kenya and Ghana, which include target rates for sub-sectors. However, the bases on which these operational sectoral rates are calculated are often not clear. First generation PRSs tended to derive sectoral growth targets from the macro target or estimated project improvements. Increased attention to sectoral modelling of growth targets is a step forward relative to first generation PRSs.

The growth strategies contained in the PRSs rely heavily on the agriculture sector on the grounds that this is where the poor are concentrated. Some attention is also devoted to the tourism sector (especially in Kenya and Tanzania). Less attention is paid to other productive sectors such as services and manufacturing. Horizontal (cross-sectoral) constraints to growth such as an inadequate regulatory environment are also less extensively covered. Although these constraints are regarded as more important in the second generation PRSs, analysis of them remains rather limited in depth and scope. The strong focus on a limited number of sectors and particularly agriculture within growth strategies was also a feature of the first generation of PRSs.

3 Does the growth strategy take into account poverty considerations?

All the second generation PRSs explicitly acknowledge that growth is essential for poverty reduction. Such acknowledgement stems either from an historical analysis of the poverty and growth trends in the country (e.g. in the case of Uganda), or it is assumed as a commonly accepted fact. The expected consequences of growth on poverty rates are discussed in half of the PRSs (Kenya, Nicaragua and Uganda). These documents provide an estimation of the expected fall in national poverty rates if the country meets the target growth rate. There is evidence of more extensive use of distributional analysis and more extensive attempts to adjust policies in ways that benefit poor people and vulnerable groups than in the first generation of PRSs.

Income inequality and its relationship with the growth objective is a concern in only two cases (Burkina Faso and Nicaragua). Both highlight the importance of an inclusive pattern of growth in order to reduce inequality, which is seen as a major constraint for sustainable development. Inequality across space is considered to be an important issue for the growth strategy in half the PRSs (Burkina, Nicaragua and Tanzania). These are mainly concerned about the effects of regional and rural-urban inequality on the growth and development prospects of the countries.

The majority of the PRSs draw links between growth policies and vulnerable groups such as women and youth (Burkina, Ghana, Nicaragua, Kenya, Tanzania). The major constraints for these groups (relative to the rest of the population) seem to be the lack of access to productive inputs (credit and land) and the particularly difficult access to the labour market. Nicaragua's PRS differentiates constraints to rural development according to the different type of rural families classified on the basis of their net capital.

4 Is there a discussion of country-specific constraints to growth?

The second generation PRSs do not generally feature a country-specific analysis of constraints to growth at the horizontal level, only more generic statements such as "A sound economic framework which is conducive to private sector investment is vital to Uganda's growth strategy" (Government of Uganda, p. 34). More thorough descriptions of constraints is usually carried out at the vertical (within-sector) level, which usually features country-specific considerations and more precise action plans. Weak analysis of constraints to growth and links between that analysis and policy actions was a feature of first generation PRSs. The addition of more nuanced analysis of constraints to growth within sectors and better links between this analysis and policy actions represents a relative improvement on first generation PRSs.

- **Macroeconomic stability** is considered to be an important pre-condition for growth in all the PRSs, which have at least one section dedicated to it. Some PRSs (Uganda, Kenya, Nicaragua and Tanzania) set specific macroeconomic targets to meet in the future, although the basis on which these are calculated is unclear. There is a generalised lack of country-specific analysis of macroeconomic constraints, with a tendency instead to list a standard package of policy measures.

- All PRSs except Burkina Faso mention the importance of a **well defined system of property rights** for the growth prospects of the economy. Half of these (Tanzania, Kenya and Uganda) do not develop any analysis of either the extent to which the country lacks such system or the way in which this is likely to constrain the growth process in the country. Some context-specific analysis is present in the documents of Ghana and Nicaragua, mainly at the vertical level (within sectors).

- **A good investment climate** conducive to private investment and private sector development scores high in the list of priorities to achieve growth in all the PRSs. Most refer to general needs such as easing bureaucratic procedures for business and minimising government 'red tape'. However, such claims are not accompanied by an analysis of specific constraints to investment in that country. The only exception is Uganda's PRS, which presents some analysis of the results of a survey carried out among firms on the constraints posed to businesses by heavy regulatory procedures.

- There is only a limited discussion in the documents of the relevance of **an attractive incentive framework** to promote investment and growth. Only Tanzania, Uganda and Kenya include a passing reference to the development of incentives to encourage private investment. In Kenya's case this relates to tourism whereas Tanzania proposes to create economic zones "with special incentives to accelerate growth**"** (Government of Tanzania 2006, p. 28)**.**

- Policies directed at improving **the functioning of factor markets** are discussed at some length by all PRSs, both at horizontal (cross-sectoral) and vertical (within sector) levels. The constraints to the three main factors (labour, capital and land) are in general analysed in a very country-specific way. This is particularly the case for Burkina Faso, Ghana and Uganda. Such analysis is used as a basis for identifying priority policy actions which tend to centre on removing credit constraints, deepening of financial markets, improving labour regulation, improving information exchange within labour markets, and improving access to land, especially for poor people.

- All the PRSs consider **broad access to infrastructure and education to be** an important element of a successful growth strategy. In particular, the improvement of transport and energy infrastructure, universal primary education and secondary education more in line with labour market needs feature prominently amongst policy priorities. While these objectives are only generally stated in the majority of the PRSs, those for Tanzania and Uganda feature more detailed analysis of the constraints to growth posed by infrastructure at country level.

- All the PRSs recognise **increased trade** (interpreted as export development) as an important condition for economic growth (see below for a more detailed analysis of trade content).

- Most of the PRSs indicate **other country-specific constraints** to growth as important. These include lack of security (Burkina Faso and Uganda), HIV/AIDS (Burkina Faso), a difficult socio-demographic structure (Ghana), large influx of foreign aid and external shocks (Tanzania).

5 Is trade treated as important and is there a commitment to trade liberalisation?

All the PRSs except Tanzania's include at least one specific sub-section on trade policy and/or export promotion.[10] The trade section generally appears in the discussion on economic management, product competitiveness or industrial policy. There are also frequent references to trade throughout the documents, in particular within sector strategies. The trade section usually contains a fairly clear view on the way trade policy could contribute to growth and outlines measures to increase exports and access to markets, with a strong emphasis on the former. This treatment suggests that trade is treated as more important than it was in the first generation, but the policies remain heavily focused on export promotion rather than market access issues.

6 Is there a discussion of trade policy options that takes into account poverty considerations?

All the PRSs except Tanzania's include some discussion of trade policy options at the sectoral level but there is a very little discussion of broader trade-offs between different policy options. In general the PRSs do not establish any analytical link between trade and poverty reduction, although two of them (Nicaragua and Uganda) make passing reference to the importance of increased exports for poverty reduction. Discussions about options are only weakly informed by consideration of implications for poverty levels or vulnerable groups. Exceptions include some mention of possible economic risks for the poor in the regional integration process facing Burkina Faso, for farmers in Uganda with respect to volatility in commodity process and for urban poor in Tanzania following trade liberalisation. Thin discussions of trade policy options that are not routinely informed by poverty considerations were also a feature of first generation PRSs.

7 Is there an analysis of country-specific constraints to trade?

In common with the first generation, second generation PRSs include more extensive analysis of supply-side constraints relative to those on the demand side. There is an improvement in the quality of analysis, but weak links remain between the analysis of the supply-side and trade policy.

Supply-side constraints

All the documents discuss at some length supply-side constraints to domestic industry (in particular in the sectoral strategies) which undermine the export potential of the economy. There is a general recognition that market access is not sufficient for the development of the export sector, and that market access should be accompanied by other measures strengthening the domestic productive system, including infrastructure development, marketing activities and productivity improvements. The recognition of the importance of such measures was already present in the first generation documents. Only the Tanzanian document makes reference to diagnostics support through the Integrated Framework to private sector participation in international trade.

By contrast there is a lack of awareness and appreciation of regional constraints and solutions on the supply side, see box 2.

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[10] Tanzania had already undertaken significant trade policy reform including measures to liberalise access to markets as a condition of earlier structural adjustment programmes.

Box 2: Regional and cross-border issues in PRSs

Several PRSs feature a discussion on regional integration (in our review 3 out of 6), but this is often limited to a discussion of being a member of a regional trade agreement or the notion that regional integration leads to an enhancing demand for national products. By contrast, there seems to be a lack of awareness and hardly any appreciation of the gains of working together on regional approaches to improve the supply side thereby fostering trade and competitiveness.

Regional approaches complement national approaches Te Velde (2007) discuss a rationale for regional approaches to support trade and competitiveness:

- *To support the provision of regional governance public goods.* Effective international economic governance promotes economic development. Some challenges are best met at the national or multilateral level, but some policy making occurs at a regional level in parallel to national trade policy making. There has been an increase in regional policy making and in the number of Regional Trade Agreements over the past decades and as regional agreements evolve to consider deeper regional integration, particularly the liberalisation of sensitive service sectors or the provision of social projects (which make sense in a regional context, see te Velde, 2006), there is a need for regional institutional development and regional governance.
- *To provide regional knowledge public goods*. A regional approach facilitates learning and sharing of information related to trade development and trade policy. This could be relevant when national aid for trade programmes have include common elements. For instance, a regional discussion on trade in services and appropriate regulatory frameworks and regulators might benefit all stakeholders.
- *To overcome other market and co-ordination failures, and the provision and co-ordination of activities with strong regional externalities*. Many competitiveness challenges are regional in nature; for instance, a landlocked country is dependent on appropriate infrastructure in other countries for trade in goods. Some externalities are not geographically limited to a region, but others relate to riparian states only. National programmes will not normally consider activities with strong international externalities, so that some aid for trade programmes which are regionally optimal may not be suggested at a country level or may not take place because the benefits cannot be fully appropriated nationally. World Bank/IMF (2006) discusses a power project benefiting Malawi, but with a need for finance in Mozambique.

Unfortunately *regional* approaches to improving competitiveness and trade receive very little attention in *national* PRSs. While there has been a lot of attention on the lack of mainstreaming aid (for trade) in national development programmes (Prowse, 2006), relating to such issues as the lack of capacity in ministries or the differential timing between concluding trade needs assessments and the conclusion of national development programmes, the lack of trade at the regional level faces further challenges.

IMF/World Bank (2006) highlights the difficulties of securing regional loans for trade related issues: "Lending for regional trade-related projects is limited owing to the difficulties in securing agreement between countries and the appropriate guarantees for multi-country loans… More fundamentally, a key issue is that regional projects are less likely to find their way into national development plans as a result of coordination problems." Several regional development banks have some funding available for regional issues, but multi-country programmes constitute only 2-6 percent of the portfolio of Regional Development Banks. Only $1 billion out of $34.4 billion of IDA-14 is earmarked for regional projects. There is a new multi-donor trust fund in the World Bank to address regional infrastructure gaps. But the trade-related parts of World Bank lending for regional projects in the past few years amount to around one percent of total lending.

There are very few regional needs assessments and without them it is difficult to assess what aid for trade could in practice be best co-ordinated or delivered at the regional level. It is likely that the trade needs at a regional level will be more than the sum of the regional needs mentioned in national approaches.

Demand side constraints

Ghana, Nicaragua and Uganda's PRSs include a brief discussion on the demand side constraints for their export, which are usually addressed via pledges to promote regional integration and market access to high income countries. Ghana's PRS is the exception in that it considers non tariff barriers as the main demand constraint to its export. Strengthening regional integration in particular features as an important element of trade policy in four of the six countries (Burkina Faso, Nicaragua Uganda and Kenya), although only Nicaragua's document seems to prioritise one regional agreement (DR-CAFTA) over the others.

Box 3: Evidence from selected submissions to the Aid for Trade Taskforce

The WTO's recent Aid for Trade Task Force requested submissions on a number of key questions relevant to those considered in this study: Has trade been adequately addressed in countries' development plans and poverty reduction strategies? If not, what are the main reasons and how could this be corrected? What are the lessons learned? The following answers were received:

World Bank:
Focus on trade is correlated to focus on growth in PRSPs; however, trade strategies are not operational because of lack of capacity and intra-ministry coordination. The enhanced IF should be undertaken at the same time as the PRSP to maximise results.

ITC:
No, for three reasons. Links between trade, development and poverty reduction have not been proven to national policy makers (economic vs. social goals). Lack of link between development programmes and trade expertise. Insufficient awareness of trade opportunities for SMEs.

IMF:
Focus on trade is correlated to focus on growth in PRSPs; however, trade strategies are not operational. DTIS can have a positive impact on the quality of the trade information included.

UNIDO:
Have not incorporated trade sufficiently, in part because donor agencies have a hard time justifying aid for private sector development.

UNCTAD:
Needs to be better integrated into development strategies. Lack of capacity to articulate in country trade policy formulation. IF should be linked to national development strategy.

UNDP:
Shortcoming with the analytical approach – there are projections but no follow through with trade strategies. These are more short term than long term strategies.

Source: Official documents on the WTO website www.wto.org 2006.

Conclusions

Conclusions from this analysis are necessarily tentative for two reasons. First, we have been unable to do a thorough analysis of the country context for each PRS. In particular, it has not been possible to study related material such as sector strategies and budget papers which would have enabled a better assessment of the extent to which the PRS is actually shaping policy, planning and budget decisions in practice. Second, while the assessment of the first generation of PRSs draws on a broad range of reliable and representative secondary evidence, the sample of second generation PRSs used here had to be much smaller and is likely to be biased towards better-performing countries.

Despite these limitations, a number of broad conclusions do emerge. The first of these relates to the role of growth and trade in the country's broader poverty reduction or national development plan. On the positive side, growth and trade appear to be higher priorities for public policy-making now than they were even three or four years ago when the PRS initiative began. There has also been a steady improvement in the quality of policy design, as seen in increased use of sectoral modelling as a basis for growth targets and greater attention to country specific constraints and opportunities, for instance.

Weaknesses persist, however, in both the depth of analysis and the quality of policy design used in PRSs and national development plans. Cross-cutting challenges such as creating an enabling environment for growth receive little attention, but are likely to prove crucial for increasing private sector investment over time. The absence of any analysis of the implications of WTO negotiations or Economic Partnership Agreements on development (apart from references to accessions) is of concern for the more immediate future. The continuing presence of optimistic growth targets across the board raises questions about realism and merits further analysis.

The picture on links between growth, trade and poverty reduction is equally mixed. Increased use of distributional analysis and attempts to adjust policies in ways that benefit poor people and vulnerable groups point to incremental improvements in this area over time. Yet trade-poverty linkages continue to receive very little attention and further work is needed to ensure that the selection of trade reforms, decisions about sequencing and complementary policy-making are all made to maximise the benefits to poor people.

Beyond these broad conclusions, further research is needed to obtain a deeper understanding of public policies for growth and trade in second generation PRS countries Key questions to consider through more country-specific studies include:

- Links between the PRS or development plan vision of growth for the country and other national visions, sector strategies and budget documents;
- The depth of the analysis of constraints to growth used as a basis for public policy-making, including the extent to which it is tailored to country context;
- The quality of policy design for growth and trade, including economic policies and the realism of growth targets in a given country context;
- Plans for and progress made in implementing the growth and trade policies contained in the PRS, including through both budgetary and non-expenditure measures;

- The evidence on whether specific policies (e.g. technology promotion in a sector) and/or general policies (e.g. macroeconomic stability, reducing barriers to investment etc) have worked; and
- The effects of international trade policies/commitments.

A picture of steady but unspectacular progress in improving the prioritisation, quality and poverty focus of growth and trade in PRSs and national development plans is perhaps unsurprising, but worth underlining in a context of increased international pressure to demonstrate immediate and tangible results from aid spending at country level. It points to a continuing need for donors and other stakeholders to be realistic in their expectations of the pace of change, and to remain engaged for the long haul if they wish to support the emergence of quality growth and trade policy in resource-poor contexts.

The next part of our report examines why growth and trade issues were relatively neglected in the first generation of PRSs, and opportunities that exist for donors and other stakeholders to address this neglect in future national development processes.

3 Growth and Trade in PRS processes

Introduction

This part of the paper is concerned with processes surrounding the formulation and implementation of PRSs and national development plans at country level. It draws on two pieces of background work. A review of literature on growth and trade in the PRS process was produced, covering academic, donor and NGO sources. Background interviews were also conducted with DFID staff engaged in the growth and trade dimensions of PRS processes at country level.[11]

Two research questions are considered:

1. Why have growth and trade been relatively neglected in the content of first generation PRSs?

2. What opportunities exist for addressing this neglect in future PRS and national development planning processes?

Growth and trade did not feature prominently in first generation PRSs but health and education did. Where growth and trade policies did feature, they were weakly linked to poverty reduction goals and often badly implemented. This anomaly was not easily explained away. “Jobs” had been identified as a top priority by citizens in most consultations about what should feature in the PRS. The central importance of growth for delivering sustainable poverty reduction had been empirically proven. The World Bank and IMF had stipulated that the plans should be multi-sectoral, featuring policies for both social and productive sectors, and based on partnerships between the government and key stakeholders such as the private sector.

Early explanations for this omission centred on the role of donors. The PRS was designed as a new form of conditionality for debt relief under the enhanced HIPC initiative and concessional finance from the World Bank and IMF. Governments had been asked to allocate ‘savings’ from debt relief to the social sectors. The World Bank and IMF were tracking expenditures on health and education by recipient governments. Clear donor preferences for the social sectors were manifest in the Millennium Development Goals and new patterns of aid allocation, and countries seeking finance had to respond accordingly (OED, 2003). Donors were reacting to well-founded criticism that structural adjustment had severely compromised access to basic social services in poor countries (World Bank 1993; Mehotra and Jolly, 1997) but they were also attracted by the prospect of ‘quick wins’ (OED 2003).

These explanations form part of the story of why growth and trade have been relatively neglected, but not the whole story. Below, it is argued that three other factors are also proving to be significant in shaping opportunities and constraints for growth and trade:

- Pro-poor reforms to growth and trade are politically more difficult, especially in Africa’s low-income, aid-dependent countries which have some of the characteristics of neo-patrimonial states. The PRS approach has yet to prove successful at addressing patrimonial **politics,** perhaps because they are principally a product of Africa’s low level of economic development.

[11] Full details are contained in the Annexes.

- Lessons from East Asia suggest that the key to economic development may lie not in the broader dimensions of good governance, but in state capacity to develop effective and specific **policies** for growth and trade. In the face of Africa's weak capacity, donors have responded with incoherent, inconsistent policy prescriptions over which recipients have little sense of ownership.
- The key to improving policy-making on growth and trade lies in strengthening Africa's national **institutions**. The PRS approach is contributing to stronger Ministries of Finance, health and education but further work is needed to extend the benefits to institutions and systems directly affecting growth and trade.

Politics

Pro-poor or broad-based reforms of any kind can be politically difficult but growth and trade reforms are notoriously so. Reform of the social sectors in favour of poor people generally involves some reallocation of public expenditure but this does not have to be highly visible. Reforms to the health and education services in favour of poor people were also made easier by the availability of additional donor funds during early PRS processes (c.f. Canagarajah & Diesen, 2006, on Uganda). By contrast, reforms to growth and trade in favour of poor people can have tangible effects on consumer prices or incomes. The losers are likely to be more aware of their position and resist the reforms. Box 4 describes how trade liberalisation can be especially difficult.

Box 4: Pro-Poor Trade Reform

Trade liberalisation is likely to benefit poor people in the long-term by increasing growth, but it is often resisted by wealthier people who benefit from the status quo. The sectors that receive the greatest protection under the existing system are aware of the benefits they enjoy and oppose reform. The gains from liberalisation are likely to be economy-wide and diffused, making it difficult to identify clear winners who can make a supporting case through political lobbying. Recent work by the WTO points out that producers whose interests are compromised by a particular accession-related policy reform are proving highly likely to lobby for government consideration and support.

Barriers to trade often benefit powerful interest groups, not the poor. This is particularly the case for non-tariff barriers, which result in transfers from consumers to licence holders. Tariff barriers allow the government to collect the revenue that results from a difference between the world price and the tariff-inclusive domestic price, but non-tariff barriers result in companies and individuals receiving these rents through holding a licence to import. Import licence holders are often amongst the wealthiest in the population and they seek to obtain licenses and to influence policy in their favour.

The politically powerful also tend to use price stabilising policies to shift the long-term price in their favour. Commodity marketing boards and parastatal monopolies have often stabilised prices at lower levels relative to world prices, implying the heavy taxation of small farmers and the transfer of resources to governments and local processing interests, with adverse repercussions for rural poverty. For import substitutes, the forces of the political economy generally point in the opposite direction, with interventions originally justified in the name of price stabilisation often becoming de facto price support schemes keeping prices artificially high

Source: Adapted from Rodrik, 1998; Krueger, 1974; Hoekman et al , 2002; WTO, 2005.

In sub-Saharan Africa, most PRS processes are unfolding in low-income, aid-dependent countries which share at least some of the characteristics of neo-patrimonial states (Sandbrook, 2000; van de Walle, 2001 and 2003; White and Killick, 2001). Booth (2005) describes these as including:

- Many or most of the key decisions are made informally, by small groups of politicians linked together by networks of clientelism and patronage.
- Governments are not well-unified and well-co-ordinated actors. To the extent that there is effective accountability, it operates through the patronage system, and follows criteria other than those formally agreed.
- Formal decision-making processes, including the national budget and the PRS are from a political point of view window dressing, or largely ‘theatre’.

The combination of contentious subject matter and neo-patrimonial politics is creating a particular political dynamic around growth and trade at country level, which can be seen in three areas:

Informal decision making by a narrow elite

National policies on growth and trade are often decided by a narrow political elite which is linked through patronage to an equally narrow business elite at national level. In Malawi, when the Banda era came to a close, the Press Corporation was the only major private business in the country and it was run by politicians close to the new President who created it. In Sierra Leone, the distinction between political and business elites is extremely blurred, with government ministers or their close relatives heavily involved in private sector businesses, including mining.[12] Even governments which appear to have a hostile relationship with the private sector due their historical origins, such as NDC-led government in Ghana and the CCM-led government in Tanzania, still tend to be highly responsive to those interest groups with whom they have personal links (Booth et al, 2004).

Weak accountability mechanisms which operate through patronage

Formal mechanisms for holding the government to account on growth and trade are frequently ineffective because accountability operates on the basis of patronage instead. Mechanisms for private sector participation in PRS processes have been introduced in a number of countries. They typically involve representative organisations being asked to participate in consultations or sector working groups, but the close relationships between business and political elites constrain their ability to either act as an independent check on government or be truly representative. In Rwanda, for example, a Private Sector Federation was created three years ago with the aim of representing business interests in the PRS process, but its new Director is a government employee. The Federation’s membership fee and requisite skill set exclude the vast majority of Rwandan SME and microenterprises.

[12] Drivers of Change Study (2006).

PRSs and national development plans as 'theatre'

Growth and trade policies in the PRS are often presented as serving broader poverty reduction goals when they are actually designed to benefit the national political and business elite. Sierra Leone's PRS, for example, makes the case for input provision and support to small-scale farmers on food security grounds while it is commonly acknowledged that many government ministers own sizable farms and will benefit disproportionately from such support, as well as from opportunities to provide agricultural inputs such as seed rice to smallholders

Opportunities for pursuing pro-poor growth are extremely limited in neo-patrimonial contexts. Modern forms of accountability do co-exist with those forms based on patronage (c.f. Lawson and Rakner, 2005 on Tanzania) and occasionally these have been exploited successfully. In Lesotho, for example, extensive public consultations resulted in a clear signal from poor people that "jobs" were their top priority and this was translated into employment targets in the PRS. Small-scale garment businesses are also using government openings to make the case for special protection from competition arising through trade liberalisation (McLeod, 2004). Other opportunities lie in accidental co-incidences of elite interests with those of poor people. For instance, in Ethiopia the government's commitment to agricultural co-operatives is thought to be driven by their history of bolstering political support for the ruling party, but also brings benefits for small farmers. Neat co-incidences of this kind are extremely rare.

The PRS approach and associated aid instruments such as budget support and SWAPs were conceived with these sorts of challenges in mind. Governments were required to hold public consultations as a way of establishing a direct link between decision-makers and civil society. This link could be used by citizens and interest groups to monitor progress in implementation and hold the government to account for results. Donors were expected to 'step back' from demanding that governments account to them for use of aid funds and instead channel their assistance directly into sector and national budgets so that governments could focus on being accountable to their own citizens instead. Over time, it was thought that these changes might help address longstanding governance weaknesses in low-income, aid-dependent countries (Piron with Evans, 2004).

Recent evidence suggests that this is one set of challenges which the PRS approach has not successfully addressed. Budget support is not delivering improvements to government accountability to citizens and it was perhaps unrealistic to expect that it would (c.f. Lawson et al on Tanzania, 2005). The PRS participation model has been described as 'naïve' in its assumption that neo-patrimonial politics could be so easily overcome (Booth, 2006; p.46). Weak governance is a product of countries being at a particular stage in their economic development. Low-income, aid dependent countries do not have the large newspaper readership and effective press which are needed for an informed public opinion and effective parliamentary scrutiny. To function well, the institutions of universal-franchise democracy require a degree of urbanisation, literacy and depeasantisation that is unusual at this level of economic development (Booth, 2005).

Policies

Most African countries have yet to reach the level of economic development coinciding with the political conditions necessary for pro-poor policy-making on growth and trade. The PRS approach to building good governance is not succeeding in its attempts to circumvent this fact. The question therefore becomes whether and how Africa can achieve a higher level of economic development. Recent years have seen the emergence of a number of studies devoted to understanding the success factors behind the Asian 'tiger' economies (Wade, 1990; Ishikawa, 2005; Wood, 2002). Africa's per capita GDP has remained largely unchanged in the last thirty years, whereas a group of countries in East and South East Asia have successfully increased theirs by 5.5% a year every year between 1965 and 1990 (Lockwood 2006).

In seeking to understand the differences between Asia and Africa, a number of explanations have been presented including levels and types of aid spending (Ishikawa, 2005), initial conditions and factor endowments (Wood, 2002) and differential access to international markets (Wade 1990). Despite these differences, a broad consensus has emerged about the central importance of the 'developmental state' in explaining East Asia's success. These states were characterised not by good governance across the board, but rather by specific 'transformational' state capacities. Capacities were used, often in highly interventionist ways, to assist the creation and growth of entrepreneurs, help the acquisition of technology and build tax and spending to maintain political stability and provide critical infrastructure (Khan, 2006).

Designing policies to achieve growth and trade is a challenging task. Some of the factors affecting growth are "given" or are insensitive to policies, such as weather or natural resource endowments. Some are more responsive but slow to change, such as low domestic saving rates or poor infrastructure. Others are subject to more flexible control, for instance fiscal and monetary policies, exchange rate competitiveness (Killick 1998). Policy-makers need to combine macroeconomic policies with those aimed at strengthening governance or national institutions. The policy needs to feature actions within sectors, for example to deliver education, and across sectors, for instance to create a good investment climate. It also needs to consider the appropriate roles of the public and private sectors (te Velde, 2004). By contrast, health and education policies tend to involve mainly public sector actors operating within a single sector.

Box 5: New challenges in trade policy

WTO accession requires the preparation of detailed memoranda on foreign trade policies and practices and a show of commitment to implement the relevant agreements. For new members this is without the benefit of long implementation lags that were available to members of the WTO when the agreements were first negotiated. Bilateral trade bargaining with important trade partners also has to take place to ensure that they 'pay' for the rights that they will get as WTO partners. Controversial demands from existing members that new members achieve greater openness than what is presently required also make it difficult for governments to know what should be included in the policy (WTO, 2005).

Trade in services now accounts for a quarter of all global trade but trade is often associated with primary commodities rather than services. Officials are having to inform and sensitise service providers and civil society organisations about the new role for services in national trade policies. There is often a lack of information in government about services markets or evolving services agreements. Trade issues related to tourism require particular attention. Tourism ministries and agencies have tended to have a close relationship with the private firms that they have promoted and with them have formed something of a policy enclave which has not interacted well with mainstream policy making processes.

Sources: Adapted from WTO (2005) and Singh (2005).

Many African countries have a history of poor quality policy-making for growth and trade. The quality of policies for intervention in markets by African states in the decades since independence has been described as 'terrible' (Lockwood, 2006; p. 285). The over-taxation of agriculture through price-setting by parastatals is a typical example. Parastatals such as marketing boards were frequently loss-making, drawing off scarce public resources from other possible uses. Exchange rates were over-valued at levels which punished exporters. African industrial policy, where it exists, has also been described as 'abysmal' (Lall, 2000 p.31). Policies tended to compound rather than overcome problems of small and fragmented local markets, poor infrastructure, a small entrepreneurial base, and weak human capital. Industrial policy was characterized by a lack of clear policy objectives, excessive and prolonged protection not offset with export promotion measures or incentives for learning or upgrading technology, and a lack of coherence between product and labour market policies (Lall, 2000).

On trade in particular, the international community has responded with a strong focus on diagnostics support in its trade-related assistance. Trade-related assistance is provided by the IMF, International Trade Centre, UNCTAD, UNDP, the World Bank, and the WTO, as well as a large number of specialized agencies, and the regional institutions and development banks. In common with other forms of development aid, this field has been characterized by a multiplicity of institutions with little co-ordination (OECD, 2001). The result has been widespread duplication and inefficient delivery at country level. The 'Integrated Framework' announced at the WTO Ministerial in Hong Kong in 1996 was designed to improve co-ordination between these institutions in their support for trade, as well as ensuring a more coherent response to countries' requests for trade-related assistance.

Three years of implementation highlighted serious problems with country ownership of the Integrated Framework. Only trade ministries were involved in the process so a narrow set of needs was identified which was not set in the broader context of the PRS (Rajapatirana et al, 2000). This led to revisions and today the Integrated Framework continues to be main mechanism for trade-related assistance in PRS countries. The model entails a lead donor working with the government to commission a Diagnostic Trade Integration Study (DTIS) at country level. The analysis covers the link between trade development and poverty reduction, the impact of trade reform on economic growth and development, and the complementary policy agenda necessary to support reform, as well as market access issues. A matrix is then drawn up of prioritized capacity-building and technical assistance needs within the context of the PRS.

The general view amongst donors is that the new Integrated Framework is a useful means of addressing the problems of weak government policy-making for trade at country level. It is credited with having improved the knowledge of trade issues and increased awareness of the complementary reforms needed for trade integration (World Bank 2005a). Serious problems persist however in persuading governments to fully adopt the recommendations contained in the analysis. Key to understanding these are the lessons of the PRS approach on the importance of country ownership.

Weak alignment of the DTIS with national processes

The DTIS continues to be donor-driven in many countries. Although trade ministries are supposed to lead the process, in practice it is often the lead donor agency that commissions and manages a team of international consultants to carry out the analysis. The relevant staff member within the lead donor agency is rarely the same person who is tasked with broader support for the PRS process (World Bank 2006) and this results in a failure to link the two processes together. The most tangible consequence of this is poor sequencing of the DTIS with national electoral, planning or budget cycles. It tends to take place at a time which suits the consultants and the donor agency. This is rarely the moment when it could be most effectively linked to political party manifestos, broader national development plans or budget allocations.

Government mistrust of donor approaches to growth and trade

Governments often take a cynical view of donor driven approaches to growth and trade because donors have a track record of inconsistency and incoherence. Major historical shifts have taken place in donor thinking since African independence, from ‘big push’ industrialisation in the 1950s and 1960s through the 1970s emphasis on the price system and outward orientation, into the Washington consensus in the 1980s. In the present day, disagreements exist between agencies who advocate social democratic models and those who believe in free markets. Productive sector policies continue to shift rapidly, for example from livelihoods to market-based approaches in agriculture (Maxwell, 2003). There are also inconsistencies in the policies adopted by different parts of the same agency, for example between aid and trade agendas in the EC, with the latter often driven by domestic concerns (Stevens, 2006; Velde et al, 2006). Box 6 describes one example of shifting donor policies at country level.

Box 6: Changing donor policies on maize in Malawi

In the 1970s, the World Bank initially supported Malawi's policy of strong state control of the maize market. Subsequently, the Bank became concerned about the low relative prices of smallholder cash crops and inefficiencies in the farms marketing board, ADMARC, and stopped advocating state control. During the 1980s, Malawi signed up to structural adjustment conditions which included a requirement to improve the relative price of cash crops and reduce agricultural subsidies. These moves coincided with external shocks and contributed to a serious food crisis in 1987. The Government subsequently reversed its policy by raising maize prices and reinstating fertiliser subsidies. ADMARC was placed under considerable financial strain and the government had to end its quasi-monopsony power and undertake swift market liberalisation. Towards the end of the 1980s, the Bank recognised the restrictions of 'pricist' policies and instead adopted a 'structuralist' approach, focused on structural impediments to growth in the agriculture sector. It advocated inputs subsidies as a competent use of government resources. In 1994, the new government embraced agricultural liberalisation more quickly and positioned ADMARC as a buyer and seller of last resort.

In 1997, the Bank changed its stance on agricultural policy again, arguing that food security should be achieved through imports and all subsidies should be removed, with ADMARC becoming a commercial operation that would be privatised. The Government agreed to set up a National Food Reserve Agency in 1999, but was unwilling to comply with the other policy prescriptions as agricultural policy was a politically contested issue. In 2001, the Government was advised by the IMF to retain a minimum level of maize reserves but reduce them due to high storage costs. The maize reserves were sold off by the government during a period of good harvests when maize prices were already low. This sale combined with low maize yields and delays in importing maize from other countries to create another food crisis during 2002.

Source: Adapted from Moller (2006).

Marginalisation of national decision makers

The DTIS presents a closed list of priority problems and needs is presented. This reduces the room for ministers and senior officials to discuss different policy options or sequencing of reforms. Instead, they are presented with a comprehensive package on a 'take it or leave it' basis. This risks marginalizing senior officials and ministers whose role is to make decisions about which policies to pursue. Marginalisation is especially problematic in trade reforms, which generally involve difficult political decisions about trade-offs between different interest groups and timing of complementary measures. Consultants from outside are asked to present technically optimal policy packages which may not be politically feasible in that country at that particular moment in time. Box 7 describes some of the political considerations which national decision makers are taking into account in Ethiopia and Ghana.

Box 7: Legitimate political considerations?

In Ghana during the 1990s, the government was criticized by donors for a tendency to pursue policies aimed at meeting the needs of all communities, instead of prioritizing amongst these to ensure reforms were fiscally sustainable. The main political parties in Ghana have historically had strong links to particular ethnic groups but nowadays these divisions are giving way to more class-based political identities. Broad-based appeal has become a key criteria in government policy-making.

Sources: Adapted from Aryeetey and McKay (2004) and interviews.

Addressing these challenges depends on the adoption of two sets of reforms. First, there is a need to end the professional and instrument 'silos' which characterize the internal organisational structures of donor agencies. DFID is one example of an agency which has already moved away from a model built around teams of people with the same specialism towards one shaped around thematic priorities at both headquarters and country level. Some of its country offices have been restructured into teams supporting the priority pillars of the PRS instead of teams based around the same area of expertise such as budget support or trade. These changes augur well for enhanced alignment of trade diagnostics with national processes in the future.

A second set of reforms is needed to the traditional trade diagnostics model exemplified in the Integrated Framework. Box 8 describes how Ghana's trade policy was developed through an alternative approach which allows a more central role for national decision makers and interest groups. Presenting policy options rather than prescribing a package of reforms is likely to be more time-consuming and could delay the process of policy formulation. These risks should be set against the improved prospects for policy implementation which are likely to result from stronger country ownership.

Box 8: An alternative approach to trade policy development

A new government was elected in 2002 in Ghana on a manifesto promising 'The Golden Age of Business'. Ghana had successfully pursued a structural adjustment program and the new government was looking to the private sector as the engine of growth. Its own role would be that of providing an enabling environment for trade and private investment.

A key part of this agenda would be the development of a new trade policy. The Minister began the design process by forming a team of senior directors. Donors funded an ODI Fellow inside the Ministry and an international consultant to provide diagnostics support. A key difference from the classic consultancy approach was that this team was tasked with developing policy options rather than prescriptions. For example, the final report included three different policies on accession to ECOWAS, with analysis of the costs and benefits of each.

Donors financed the process but took a back seat and were to some extent kept in that role by the Minister himself. Extensive and lengthy consultations were also held with private sector representatives, civil society interest groups, other ministries and national research institutes. These delivered a strong message to government about the urgency of tackling competitiveness constraints which proved highly motivational for government decision makers.

Directors and the Minister determined the content of the trade policy, which was approved by Cabinet in October 2004. The policy is generally judged to be among the best in Africa, though some donors have argued that it would benefit from further prioritisation. This policy development phase is now being succeeded by a programme of capacity building and institutional reform.

Source: Adapted from Jones (2006).

A third challenge relates to the paucity of analytical work on pro-poor growth at both country level and internationally (OED, 2003). The recent Operationalising Pro-Poor Growth Study is one example of the type of global syntheses of experience that are needed to fill this gap (World Bank et al, 2005). Donors could also play a role in facilitating learning directly between countries, especially those with similar political and economic traditions. In Ethiopia, for instance, a study tour to Vietnam has been organised for government officials to learn about the Vietnamese approach to pro-poor agriculture. Better research and more country-to-country learning will help provide a body of evidence for a more consistent international approach. It could also be used to make the case against donor policies that are driven by ideology or self-interest.

Institutions

Behind the problem of weak government policy-making on growth and trade lie weak national institutions in Africa. Delivering policies for growth and trade involves more complex institutional arrangements than those for health and education. Success in the productive sectors may depend on effective joint working across a range of government and private sector institutions, rather than a single package delivered vertically across one sector (Foster et al 2001). Developing international trade policy involves coordinating several ministries and a high degree of expertise (Singh 2005). General weaknesses in government monitoring systems have particularly acute implications for the productive sectors due to the complexities of data collection outside the public sector (Cabral, 2005).

There also a change management challenge inherent in the switch from interventionist policies of the past to the enabling role advocated for government in relation to growth and trade today. The most useful ministry activity may be to reduce its role in the productive sectors, but there are few incentives for staff to do so (Brown et al, 2001). Officials in rural development and agriculture ministries are used to playing an interventionist role, for example through agricultural extension or marketing activities, which brings with it opportunities to supplement low salaries with travel allowances and an element of job security. When asked to consider the staffing implications of their new enabling function as part of broader civil service reform processes, officials in some countries are proving highly resistant (Cabral, 2005). Trade reforms focused on improving customs clearance face particular resistance because they jeopardise opportunities for rent seeking and corruption by officials (Hoekman et al, 2002).

The combination of PRS plus budget support and SWAPs was conceived with the aim of strengthening national institutions in low-income, aid dependent countries. Earlier forms of development assistance had contributed to a weakening of national planning and budget systems because aid was delivered by a multiplicity of agencies that imposed heavy reporting demands, flows were kept off the national budget and managed through parallel project implementation units. These units were designed to protect donor funds from wastage or corruption associated with weak government systems, but they had the effect of further weakening systems by drawing capacity away from national institutions. By better co-ordinating donor efforts and channelling funds through the national budget or financial and technical assistance in support of a government-led sector programme, it was hoped that donors could help strengthen national systems and help build government capacity over time.

The PRS approach has been associated with improvements to national planning and budget systems in Africa. The PRS-plus-budget support equation has strengthened Ministries of Finance and catalysed broader efforts to improve public financial management (World Bank, 2004). PRSs have both facilitated and been strengthened by Medium Term Expenditure Frameworks (MTEFs) (Holmes and Evans, 2003). The combination of the PRS and Sector Wide Approaches (SWAPs) has helped to build the capacity of social sector line ministries, especially those for education and health (Driscoll with Evans, 2005).

The productive sector line ministries have not generally been direct beneficiaries of institutional strengthening through SWAPs and budget support. Many Ministries of Trade, for example, have instead been caught in a spiral of decline. In Rwanda, Lesotho and Tanzania, responsibilities such as trade diagnostics and management of large projects have gradually been transferred to Ministries of Finance as the latter became better equipped with human and financial resources. The Ministry of Trade is then left with a thin policy portfolio, which makes it even more difficult to attract financial or capacity-building support in future.

In other areas, however, the PRS is presenting significant opportunities to build national institutions in ways which can support growth and trade:

Strong Ministries of Finance

Ministries of Finance are well placed to co-ordinate joint working across the range of public sector institutions because they already co-ordinate the range of government agencies through the national budget process. Their 'birds eye' view offers insights into appropriate sequencing of policies and the full range of complementary reforms.
Ministries of Finance are also an important interlocutor with the private sector and often have pre-existing relationships with groups such as private sector federations, trade unions and producer organisations. This makes them an essential player in facilitating a joint public-private sector effort.

Their role as a gatekeeper of recurrent financing makes them a key champion of efforts to reform the civil service that involve downsizing, for instance in Rwanda the Ministry of Finance has overseen a programme of reform which has cut the civil service by one third. The role as an overseer of the national budget is a vital one in managing potential risks to trade such as Dutch disease effects arising from increasing aid flows.

Ministries of Finance play a significant role in managing investments for growth in the national interest. Although many public sector policies for growth do not depend primarily on public expenditure, such as creating an enabling environment for growth, others, such as removing supply-side constraints through strengthening infrastructure, are likely to require significant financing. These investments increasingly take the form of public-private or government-donor partnerships in which Ministries of Finance play a crucial role in creating 'rules of the game' to reduce fiduciary risk and ensure productive outcomes.

SWAPs for growth

Experiments are already underway to take the lessons from SWAPs in the social sectors and apply them to the productive sectors, as well as to addressing cross-cutting constraints to growth. This is not a straightforward process, as certain areas of policy are inherently less suited to SWAPs than others. Infrastructure projects, for instance, are normally large-scale but involve a small number of donors and therefore the need for donor co-ordination is less pressing. SWAPs are also easier to design where there is a more clearly defined role for the public sector, whereas growth often depends largely on action within the private sector. Further experimentation and research is needed to ascertain whether SWAPs can be successfully applied to strengthening productive as well as social systems.

Conclusions

Early explanations for the relative neglect of growth and trade in PRS processes focused on the role of donors and their prioritisation of social sector expenditure as the most important route to poverty reduction. Above, it was argued that other factors are also significant in explaining the relative neglect of growth and trade. Each of these carries clear implications for governments, donors and other stakeholders engaged in PRS processes at both country and headquarters levels.

The neo-patrimonial nature of politics in many African countries is not conducive to broad-based policy reforms, especially in contested areas such as growth and trade. Early experiences with the PRS approach sought to address patronage politics by encouraging a more open and consultative form of policy-making and they have led to some improvements. However, more fundamental political reform is proving to be largely outside the gift of external initiatives and is unlikely to be achieved over a short timeframe.

This points to a need for greater realism about the prospects for achieving pro-poor growth and trade in Africa. Expectations of immediate results would be better replaced by a medium- to long-term trajectory of change. Aspirations for wholesale policy transformation need to be countered by acceptance of the incremental nature of reform and a focus on the limited number of policies that it is feasible to reform in favour of poor people.

Patronage politics appear to be a product of low levels of economic development, and lessons from East Asia suggest that building ‘developmental states’ with the capacity to develop effective policies is likely to be key to turning around Africa’s fortunes. Unfortunately, current donor efforts to support the development of effective growth and trade policies are not focusing on specific areas of state governance.

An alternative approach would involve extending lessons about aid effectiveness in the social sectors to national systems and institutions directly affecting growth and trade. The role of aid in determining growth and trade outcomes is necessarily limited, while programmatic instruments such as general budget support and SWAPs are proving more effective for social causes such as health and education.

In squaring the circle between political constraints and policy gaps on pro-poor growth, there continues to be a clear role for bringing evidence to bear in the decision-making process at country level. Yet donors themselves have historically provided to be notoriously weak at drawing on evidence as a basis for their own policy positions on growth and trade. Instead of advocating policies tailored to country context and based on quality research, their efforts have often been driven by political dogma and national self-interest. This contributes to a climate of mistrust between governments and donors in dialogue around growth and trade.

More effective donor support for pro-poor growth and trade in Africa is likely to depend on reforms at a number of levels.

- First, there is a need to reform trade diagnostics initiatives such as the Integrated Framework to ensure they are much more closely sequenced with national political, planning and budget cycles, and allow space for national decision-making. DFID Ghana's recent experiment in supporting trade reform through well-timed provision of policy options rather than a prescribed package of reforms offers an example for others to follow.
- Second, where appropriate, there may be a case for extending programmatic aid modalities beyond the social sectors to include sectors and cross-cutting issues directly affecting growth and trade. Early experiments with SWAPs for growth and trade in countries such as Tanzania merit closer attention.
- Third, there is a need to support further research into what works for pro-poor growth and trade at country level, ideally in collaboration with other donors. The Operationalising Pro-Poor Growth Study is one such initiative but more country case studies and cross-country studies are needed to improve international understanding of the challenges and opportunities for broad-based reform in Africa.

Beyond these immediate challenges lie more fundamental obstacles to improving donor support for pro-poor growth and trade in Africa:

- Pressure from domestic taxpayers to deliver tangible and immediate results from aid spending is currently creating a climate of expectation which is particularly unrealistic in the context of politically contentious growth and trade reforms. More effort is needed to educate citizens in donor countries about the incremental and long-term nature of development efforts in Africa, particularly those aimed at delivering the growth on which poverty reduction depends.
- Divisions between development ministries and trade and industry ministries in donor governments often create inconsistencies between the policy positions taken at country level and those pursued through international fora such as the WTO. More work is needed to 'mainstream' development thinking across governments and ensure greater coherence between aid and trade policies if mistrust between donor and recipient governments is to be overcome in future.
- The internal organisational structure of most donor agencies, particularly at country level, remains highly conducive to creating sector and instrument 'silos' which discourage joint working between those responsible for supporting broader national planning and budget processes and professional specialists such as trade advisers. DFID's recent internal reforms aimed at overcoming these divisions offer an example that other agencies could usefully follow. On the other hand, purely national development programmes are unlikely to be fully consistent with cross-border issues related to trade and Aid for Trade.

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Annex A

Literature Review on Growth and Trade in Poverty Reduction Strategies

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[1] Special thanks to Dirk Willem te Velde and Massimiliano Cali for their suggestions on literature and comments on drafts of this paper.

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1. Introduction

This literature review is one component of a study commissioned by the UK Department of International Development from the Overseas Development Institute in London. The study focuses on growth and trade in Africa's country-led national development strategies and has two objectives:

- To trace changes in policy content on growth and trade between first and second generation Poverty Reduction Strategy Papers (PRSPs) in Africa, and their national development plan equivalents;
- To highlight constraints and opportunities for addressing growth and trade through PRS and national planning processes, including at the political, institutional and international level.

This is not a literature review drawing on academic sources alone, as such an approach would have excluded most studies of the PRS approach in general and its growth and trade dimensions in particular. The approach is only six years old so has generated a fairly limited quantity of academic literature. Instead, we have drawn on a range of formal and informal sources including donor reviews and evaluations, academic studies on particular themes and countries, and reports by non-governmental organisations.

The review is organised into four sections. Section 2 addresses links between growth, trade and poverty reduction, including shifts in donor policy approaches to growth and trade in poor countries. Section 3 covers the growth and trade policy content of PRSP documents. Section 4 focuses on growth and trade in PRS processes, including at the political, institutional and donor levels. The review closes with a brief overview of key lessons from the literature which can also serve as an executive summary for readers short of time.

2. Links between growth, trade and poverty reduction

This part of our review draws mainly on academic literature on growth, trade and poverty reduction. It also includes some recent donor documentation on policy approaches to growth, trade and poverty reduction.

2.1 Growth and poverty

There is a broad consensus in the literature that economic growth is the single most important factor influencing poverty. Growth has the potential to shift large parts of the population across the poverty line and to create fiscal space for poverty reduction campaigns (Fafchamps, Teal and Toye, 2001). This potential is realised in practice through a one to one relationship between growth and poverty reduction. The recent Operationalising Pro-Poor Growth (OPPG) Research Programme (World Bank et al 2005) found that on average a 1% increase in GDP per capita led to a 1.7% decline in poverty in 14 countries during the 1990s. This finding is consistent with a number of earlier studies, most notably Dollar and Kray (2000) examining 80 countries over four decades, and White and Anderson (2001) considering 143 growth episodes.

There is also agreement that the degree to which growth affects poverty depends to a large extent on two key variables. First, patterns of growth matter. A number of empirical studies have found that the responsiveness of income poverty to growth increases as inequality is lowered (Ravallian 1997; Datt and Ravallion, 1992; and Kakwani, 1993). Early studies suggested that equity comes at the expense of growth because it acts as a disincentive to labour and enterprise (c.f. Perotti 1992, 1993, 1996). Recent empirical studies have found, however, that this trade-off between growth and equity does not necessarily exist and that equity is actually growth enhancing because it increases the productivity of the poor and increases public support for growth-oriented policies (c.f. Deininger and Olinto, 2000).

Second, the sectoral composition of growth matters. If growth is concentrated in sectors of the economy such as agriculture where most of the poor are concentrated, the literature suggests that it will have a greater impact on poverty than in other areas (c.f. Bourgignon and Morrison, 1998). There is also clear acknowledgement however that links over the long run are more complex and that a more diversified economy which includes services and manufacturing might offer greater prospects for sustainable poverty reduction (Velde, 2004).

2.2 Trade and poverty

The relationship between trade and poverty reduction is more contentious, though there is broad agreement that in the long run liberalisation is likely to have a positive impact on poverty levels. Key points of disagreement in the literature include the relationship between trade liberalisation and growth and whether trade liberalisation impacts on poverty through general growth impacts alone, or through impacts on inequality as well. These debates have spanned several decades and not reached definitive conclusions. They may have become more complicated by the treatment of “openness” and “trade liberalisation” as a single concept. Velde et al (2004) make the point that the controversy surrounding the link between openness and growth should not be equated with a critique of trade liberalisation as such. Trade liberalisation, like capital and investment flows is only one type of policy measure that results in openness.

The assumption is that trade liberalisation improves growth prospects by enhancing productivity temporarily through more efficient resource allocation and permanently through the import of modern technologies and effects on competition. Trade protection is therefore identified as a key factor behind low economic performance by a country or region. Collier and Gunning (1999), for example, identify trade protection as a factor behind Africa's weak growth performance. Sachs and Warner (1997) make the strongest claim of this type. In their paper they find that restrictive trade policy, along with geographical factors and Dutch disease together accounts for 1.2% per annum growth shortfall.

These studies have been critiqued both on historical and methodological grounds. According to Chang (2002) present day industrial economies have benefited from interventionist trade policies in the past rather than wholesale trade liberalisation. The studies have also been criticised on their use of methodology including the selection of indicators for trade policy. Rodriguez and Rodrik (1999) for instance find that such selection is systemically selected to bias results in favour of finding a robust link between trade liberalisation and growth. Rodrik (2000) concludes that trade is not bad for growth but countries that do well due to increased trade/GDP ratios do so as a by product of correct sequence of policies and how much priority trade liberalisation is given early on in the reform process.

Berg and Krueger (2003) examine how openness affects poverty reduction and conclude that although the evidence is mixed it leans strongly towards the conclusion that there is no systematic relationship between openness and the incomes of the poorest beyond the effect of openness on overall growth. Arguments are also available on either side on whether trade liberalisation results in increasing inequality. Authors such as Dollar and Kray (2001) argue that that within countries there is no systematic tendency for trade to be associated with rising inequality that undermines poverty reduction efforts.

2.3 Determinants of growth

A similarly diverse debate can be traced about the key determinants of growth. Velde (2004) and Ruffer and Kotoglou (2005) review the literature on economic growth and Africa's growth respectively and locate several different explanations about the sources of growth. Two sets of explanations have gained particular prominence in recent years (for example through the Commission for Africa Report, 2005). They focus on the role of institutions and geographical factors respectively.

The literature on governance as a determinant of growth has several different dimensions. Some authors focus on the importance of sound national institutions as a basis for sustaining growth through cushioning against shocks and maintaining productive dynamism (Rodrik, 2006; Easterley and Levine 2002). Others stress the importance of political economy factors, including neo-patrimonialism in African states, in determining growth outcomes (Bates and Devarajan, 2003; Van de Walle, 2001). There is also some work on political instability, conflict and state breakdown and its relationship with economic growth and development (Easterly and Levine, 1997; Collier, 2004). The relative importance of these governance factors vis-à-vis geographical factors, and interactions between the two, remain the subject of much debate.

The literature on geography as a determinant of growth has a number of different angles. Masters and McMillan (2000) argue that the climate in temperate countries since the 1960s has assisted them in achieving high levels of income, whereas growth in tropical climates has proved more challenging and depended on gains from specialization and trade. Gallup, Sachs and Mellinger (1999) argue that location and climate have large effects on income and growth through transport costs, disease burdens and agricultural productivity. They suggest that geography is a key factor behind the choice of economic policy. Kanbur and Venables (2005) find that spatial inequalities are high not only between rural and urban areas, but also between geographically advantaged and disadvantaged areas, and argue that regional inequalities are particularly worrying if they align with political or ethnic divisions. There is also a substantial related literature on the 'resource curse' and primary commodity dependence in Africa (Auty, 2001; DiJohn, 2002; Dehn, 2000; Collier, 2002).

2.4 Policies for pro-poor growth

Tailoring policies to fit these different perspectives on the determinants of growth and the relationships between growth, trade and poverty is a challenging area. Killick (1998) points out that some of the factors affecting growth are "given" or insensitive to policies (e.g. weather or natural resource endowment), some are more responsive but slow to change (e.g. low domestic saving rates or poor infrastructure) while others are subject to more flexible control (e.g. fiscal and monetary policies, exchange rate competitiveness). Velde (2004) underlines the challenge inherent in combining macro policies (e.g. privatization, low budget deficits, facilitation of trade), sectoral policies (e.g. improving local capabilities and inter firm linkages), horizontal or functional policies (e.g. investment in health and education, and infrastructure) and policies to improve governance.

Historically, policy prescriptions for growth have passed through a number of distinct phases (Rodrik, 2006). In the 1950s and 60s "big push" industrialization, planning and import-substitution policies were advocated. In the 1970s these policies had been replaced by ones which centered on the price system and outward orientation while in the 1980s policies based on the "Washington Consensus" were formulated and implemented. In the light of recent experiences, this original "Washington Consensus" list has been subject to "second generation reforms" which include more attention to improving governance and institutions, as well as specific action for poverty reduction such as social safety nets.

A How-to Guide for Creating Growth

Original Washington Consensus	**"Augmented Washington Consensus" Previous 10 plus:**
Fiscal Discipline	Corporate Governance
Reorientation of public expenditures	Anti-corruption
Tax reform	Flexible labour markets
Interest rate liberalization	Adherence to WTO disciplines
Unified and competitive exchange rates	Adherence to international financial codes & standards
Trade liberalisation	"Prudent" capital opening
Openness to FDI	Non-intermediate exchange rate regimes
Privatisation	Independent central banks/inflation targeting
Deregulation	Social safety nets
Secure Property Rights	Targeted poverty reduction

Source: Rodrik (2006)

In recent years, the concept of a “one-size-fits-all” approach has been called into question (Rodrik 2004). Countries which followed the “right” reforms of the Washington consensus arguably did not experience the anticipated benefits, whereas countries following “wrong” policies such as China, India and Vietnam have experienced positive economic outcomes. Some have attributed policy failures to “partial reform syndrome”, the idea that reforms were incomplete or badly done due to weak national ownership, but others point to the importance of tailoring solutions to fit specific country contexts. The central message of the recent OPPG study (World Bank et al, 2005) is that “there is no universal set of rules” which can inspire pro-poor growth within a particular country.

Both this study and the latest Global Monitoring Report (World Bank, 2006a) recommend a country-specific package of reforms aimed at achieving basic essentials such as macro economic stability, well defined property rights, an investment climate and investment framework, conducive to growth well functioning factor markets and access to infrastructure and education.

3. Growth and trade in PRSP documents.

This section of our review focuses on literature about the quality of growth and trade policies contained in PRSP documents. As well as drawing on successive World Bank and IMF reports of progress on the PRSP initiative, it also highlights the findings of a limited number of thematic studies about PRSP policy content on growth and trade. These thematic studies form part of a broader literature on the quality of policy content in PRSPs, but one which has a heavy focus on social sectors and cross-cutting issues rather than growth and trade. Examples include Casson and Grindle (2001) on governance and Whitehead (2003) on gender.

3.1 Growth analysis

Early PRSPs have been described as weak in their analysis of the sources of growth (World Bank and IMF, 2005). While macroeconomic stability was consistently identified as a precondition for growth, early PRSPs did not examine the transmission mechanisms of growth. One partial exception to this was the consistent emphasis on agriculture as a source of pro-poor or broad-based growth (Driscoll with Evans, 2004). Subsequent rounds of PRSP development have gradually improved on the weak analysis of sources of growth (World Bank and IMF, 2003). The determinants of past and future growth have gradually been extended beyond the agriculture sector to include other factors such as regulatory reforms and trade. Transmission mechanisms between sources of growth and poverty reduction have also been more extensively discussed, though weaknesses in quantitative analysis persist (World Bank and IMF, 2004).

Table 1: Factors Identified as Source of Growth in PRSPs[2] (%age of PRSPs completed between July 2003 and June 2004)

Source of Growth	Past	Present
Macro Stability	65	93
Trade	47	67
Regulatory Reforms	48	80
Agriculture	53	73
Health and Education	47	67
Infrastructure	87	47
Tourism	10	60

Source: World Bank/IMF (2004)

[2] Countries which completed PRSPs between July 2003 and June 2004 are: Armenia, Bosnia and Herzegovina, Djibouti, Kenya, Lao PDR, Madagascar, Moldova, Mongolia, Pakistan, Serbia & Montenegro

A conversation on the specific constraints to growth was also missing from early PRSPs, according to a study conducted by the PRSP Monitoring and Synthesis Project based at ODI (ODI, 2002). There was limited discussion of the factors that constrained past economic performance and the most binding constraints on future performance. The only obstacles to growth mentioned in 11 PRSPs completed before July 2002 were low levels of domestic saving and a lack of technology transfer. Relevant constraints on growth such as trade barriers imposed by development countries and problems of debt sustainability were not analysed. Work by the World Bank and IMF (2003) reinforces this finding, showing that few early PRSPs considered setbacks to growth targets from external effects such as a recession.

Even where constraints and sources of growth have been analysed in some depth, they have not necessarily affected policy prescriptions contained in PRSPs (World Bank and IMF, 2005). For example, Uganda's second PRSP includes a discussion on the effects of conflict on its economic performance but does not examine its implications for the various policy reforms proposed in the document. Capacity constraints are also commonly identified as a constraint on growth, but they rarely impact on planned timelines for achieving productive outcomes (World Bank and IMF, 2004).

3.2 Macroeconomic frameworks

Growth targets in early PRSPs were overly optimistic, according to the same study of 11 countries mentioned above (ODI, 2002). The PRSPs contained unrealistic growth targets of between 5-8% without an accompanying analysis of how such growth would be sourced. The documents appeared to consider growth rates achieved by countries in the past and projected future growth rates without establishing a clear link between the two. A World Bank analysis of 32 PRSPs published one year later revealed that that the growth figures presented exceeded historical 5-year averages for those countries by an estimated one-percentage point per year (World Bank and IMF, 2003b). The literature does however point to evidence of improvement over time in this area, with growth rates incorporated in later PRSPs described as optimistic but still achievable (World Bank and IMF, 2004).

Successive World Bank and IMF reviews have also pointed to a lack of flexibility in macroeconomic frameworks (World Bank and IMF, 2003, 2004, 2005). Macroeconomic tradeoffs and the implications of various options for poverty reduction are not adequately discussed. A study by Oxfam examining PRSPs completed before 2004 criticises them for not including alternative macroeconomic scenarios to map out how PRSPs could achieve targets such as the Millennium Development Goals (Oxfam, 2004). A small number of countries have attempted to address this challenge. For instance, Tanzania's first PRS was completed in 2000 and incorporated comparatively thin coverage of macroeconomic policy and important social investments. As implementation progressed, the focus of the macroeconomic strategy widened to incorporate wider policies for growth and development (World Bank and IMF, 2005).

3.3 Productive sectors

PRSPs have generally lacked a strategy for broad-based economic growth and have instead focused largely on public expenditure in the social sectors as a means of poverty reduction. Sectors such as infrastructure and rural development are less visible than education and health in public expenditure priorities contained in PRSPs (World Bank and IMF, 2005). Weak links between the productive sectors and budgets have also had reverse implications for overall growth projections contained in PRSs. Growth projections at the sector level and overall growth targets are weakly aligned. Links between growth levels analysed at the sector level for PRSPs completed before 2002 tend to be macro derived or drawn from estimated projected improvements. Exceptions to this pattern include Vietnam's and Ethiopia's PRSPs, which explicitly derive their aggregate growth targets from projections of sectoral inputs and targets (Nagarajan and Muthuram, 2003).

Recent reviews of the rural productive sector coverage in PRSPs note the priority given to a number of policies relevant to rural productive sectors such as the creation of a favourable environment for commercial agriculture and simplification of land use procedures in Ethiopia, training in management of farmer associations and liberalisation of the fertiliser market in Rwanda, and creating and consolidating rural microfinance institutions in Madagascar. However, the reviews argue that greater weight is normally given to macroeconomic stability with little consideration of trade-offs for poverty reduction. They also note that although the rural productive sectors are often mentioned as priority policy areas, this prioritisation in the PRSP is generally not operationalised through appropriate budget allocations and policy actions (Shepherd and Fritz, 2005; Xenogiani and Shepherd, 2005).

The role of infrastructure in facilitating pro-poor economic growth is largely neglected in PRSPs. A review of the infrastructure content of 33 PRSPs completed before 1 December 2003 finds that infrastructure interventions mainly focussed on the development of rural/agricultural and private sectors but did not discuss their affordability, maintenance; and how the poor could use them. The infrastructure sector also failed to attract debt relief funds at the expense of "priority" sectors (Murooka, 2004). The World Bank infrastructure lending dropped 50% between 1993 and 2002. This fall in infrastructure investment during the 90s has become of serious concern recently, with efforts underway to refocus on infrastructure. The theme for the 2006 Annual World Bank Conference on Development Economics was focussed on "Rethinking Infrastructure for Development" and concluded that a major effort would be needed to rectify the fall in infrastructure investment of the past decades with the public sector having to play a major role in making this happen. The Commission for Africa has argued for an additional US $ 20 billion per year on infrastructure investments and maintenance between 2005 and 2015 in order to sustain a growth rate of 7% per year (Commission for Africa, 2005).

A report examining water and sanitation content in PRSPs in Sub Saharan Africa (with detailed studies in 5 African countries) also finds that health and education sectors have had more political "clout" in PRSP processes and have therefore successfully lobbied for more funding. The report also finds that PRSPs fail to recognise or articulate the contribution of water and sanitation systems to economic growth (Slaymaker and Newborne, 2004).

3.4 Trade policies

Hewitt and Gilson's (2003) study of 17 PRSPs produced before June 2003 reveals that trade was not generally treated as an autonomous section in these documents. The PRSPs did not include a broad discussion of policy options on trade, but instead focused on a standard package of export promotion measures. Only 8 out of the 17 PRSPs acknowledged that trade policy options differ from sector to sector while 2 differentiated between producers and consumers in urban and rural environments. 5 out of 17 PRSPs discussed demand side constraints such as market access to regional and international markets and just 5 analysed WTO discussions. Within the latter, none of the PRSPs analysed the tension between sensitivity of trade policy to poverty and ongoing WTO negotiations.

In contrast to growth, the literature on the trade content of PRSPs does not suggest a trajectory of improving quality over time. A review of the trade content of all PRSPs produced before June 2005 indicates continuing failure to integrate trade adequately (World Bank and IMF, 2005). Recent IMF analysis of the trade content in PRSPs finds it lacking in coherence, with mention of both export promotion and import substitution measures in the same document (IMF, 2005). Operational measures for a substantial number of trade priorities listed are not included except in the case of issues related to WTO accession where specific reforms were related to tariff and non-tariff barriers. The macro linkages of trade reform have also been analysed weakly with little consideration of trade related opportunities and vulnerabilities (World Bank and IMF, 2005).

Particular weaknesses exist around policy content on trade in services in PRSPs. Discussion on trade in services is missing despite the fact that since the 1990s it has increasingly become the subject of multilateral and regional trade negotiations. The IMF has noted this absence and recommended that trade strategies integrated into PRSPs should reflect reform of services trade just as much as merchandise trade (IMF, 2005).

Inadequate links between trade policies contained in PRSPs and poverty reduction attract particular attention in the literature. A review of PRSPs produced before 2002 noted that except for Mozambique and Honduras none of the documents had linked trade liberalisation reforms to growth and poverty reduction (World Bank and IMF, 2002). Hewitt and Gilson found similar omissions in their review of trade content in PRSPs completed before and during 2003. Their study found that PRSP content was silent on both income and non-income aspects of poverty including the links between trade policy and access to basic services. They found it surprising that international trade related conditions such as fiscal reform or tariff reductions were not grounded in ex-ante analysis of the probable impact on poverty (Hewitt and Gilson, 2003).

3.5 Growth and poverty reduction

The growth model implicit in many PRSPs appears to be of a "trickle down" nature with specific measures on how to adapt policies to benefit the poor missing. This lack of explicit links between macroeconomic and structural policies on the one hand, and poverty reduction goals on the other has been noted in several evaluations of PRSPs by governments and donors (Stewart and Wang, 2003) and in a statement by HIPC finance ministers in 2002 (UNCTAD, 2002). Improvements are in evidence in second and third revisions of PRSPs, which include measures aimed at ensuring an appropriate investment climate, increasing the productivity and income generating potential of the poor, increasing access to assets and reducing vulnerability (World Bank and IMF, 2003).

Specifically, early PRSPs failed to recognise that policy changes impact different parts of the population in different ways. They did not generally incorporate an understanding of the distributional impact of growth and how it is affected through macroeconomic, structural or sectoral policies within specific country contexts. This weakness implies that the choice of economic policy decisions might not be realistic or effective in lowering poverty. For example: only 1 out of 17 PRSPs completed before 2003 seemed to understand that trade policy could differ in its effects on different sections of the economy while only 2 considered trade and gender linkages (Hewitt and Gilson, 2003). Distributional analysis of growth policies is more common in recent PRSPs (World Bank, 2004).

Early PRSPs also failed to make use of stress tests, sensitivity analyses or multiple scenarios to deal with the poor's vulnerability to change or exposure to shocks. From the PRSPs completed before and during 2003, Cambodia seems to be one exception where the risks linked with multilateral liberalisation and the importance of sequencing reduction of rice import tariffs given its impact on farmers' livelihoods is stressed (World Bank and IMF, 2003).

4. Growth and trade in PRS processes

This section of our review focuses on opportunities and constraints for addressing growth and trade through the PRS process. It draws on a literature dealing with different dimensions of the PRS process which includes both official sources and work by academics and NGOs. It has not been possible to capture all aspects of the studies here because they cover topics as diverse as politics and participation, planning and budgeting, monitoring and evaluation, and aid effectiveness. Instead, our aim has been to highlight findings which are particularly relevant to the role of growth and trade in PRS processes.

4.1 The politics of pro-poor reform

The PRS approach is often discussed in technocratic terms, but recent years have seen the emergence of a body of literature devoted to a discussion of its political dimensions (Piron with Evans, 2004; Gould and Ojanen, 2005; Booth, 2005). Piron with Evans (2004) describe how the PRSP approach was designed with research findings about the importance of state effectiveness and political systems in mind. They point out that the PRS approach has behind it a political agenda of influencing domestic political processes in a more progressive direction. Consultations with civil society about the content of the PRSP were conceived as a means of strengthening government accountability to citizens by establishing a direct link between decision-makers and those on whose behalf the decisions were being made. This link could then be used to monitor progress in implementation and hold the government to account for results.

The shortcomings of PRS consultation processes, particularly in the first round of PRSs, are well documented. Time tables set up for the preparation of PRSPs were designed to meet deadlines for debt relief and donor decision-making. This contributed to a tendency for governments to call meetings at short notice and hurry civil society for inputs. Documents were produced in languages unsuitable for large parts of the population. Incomplete information was provided to stakeholders especially regarding budget constraints. This constrained civil society discussion in areas where more complex preparation was required (Oxfam, 2001; Caritas/CIDSE, 2004; World Bank and IMF, 2005).

Where consultations were better organised, they appear to have revealed a strong preference for job creation as a means of alleviating poverty. In Lesotho for instance, PRSP content had a strong trade and private sector focus due to pressure from participants to increase an emphasis on employment (McLeod, 2004). In general, however, key stakeholders from the growth and trade sectors such as private sector representatives, producers' organisations and trade unions were largely excluded from early PRS consultations, particularly if they held views which were at odds with those of the government (World Bank and IMF. 2002). Studies suggest that this position has improved slightly in second round PRS consultations. Business associations have been included in PRS working groups in for example Cameroon and Senegal, and in targeted discussion on public private partnership in Ethiopia, Rwanda and Tanzania (World Bank and IMF, 2005).

The literature also documents particular concerns about the lack of access by key stakeholders to debates on alternative macro-economic policies. Where discussions have taken place, for example in Burkina Faso and Mozambique, these have been limited to a narrow circle of relevant government officials (IEO and OED, 2005). Weak capacity of civil society in some countries may be partly responsible for this exclusion, as there are notable exceptions such as the Malawi Economic Justice Network (Caritas/CIDSE, 2004). Other instances of widened policy space apply to countries where macroeconomic stabilisation is no longer an urgent issue (IEO and OED, 2005). Progress on fostering debate around macro economic issues has not taken place in subsequent PRS processes either. Later reviews of PRSPs consistently report on the lack of space for non-government stakeholders in macroeconomic policy dialogue (World Bank and IMF, 2003, 2004 and 2005).

More fundamentally, however, recent work has called into question the naïve approach to political change implicit in the PRS model. Booth (2005) argues that the PRS approach cannot transform the political economy by improving the quality of consultations or including key groups such as the private sector or parliamentarians. Instead, he argues that PRS processes unfold in given political contexts which often share the characteristics of neo-patrimonial states. He lists some of these as being:

- Many or most of the key decisions are made informally, by small groups of politicians linked together by networks of clientelism and patronage.
- Governments are not unified and well co-ordinated actors. To the extent there is effective accountability, it operates through the patronage system, and follows criteria other than those formally agreed.
- Formal decision-making processes, even including the national budget and certainly including the PRSP, are from a political point of view window dressing, or largely 'theatre'.
- Whereas in some middle-income countries, there is an informed political opinion and a degree of effective parliamentary scrutiny, here the preconditions (e.g. a large local newspaper readership and an effective press) do not exist.
- The reasons are partly sociological: to function well, the institutions of formal, universal-franchise democracy require a level of urbanisation, literacy and de-peasantisation that is unusual at this level of economic development.

Booth's depiction of limited donor control over domestic politics resonates with recent evaluations of general budget support, which note that it has failed to deliver expected improvements in government accountability to citizens (Lawson et al, 2005).

For growth and trade, the literature on neo-patrimonial politics in PRS countries is especially significant, because pro-poor reform is presented as politically more difficult for growth and trade than in relation to the social sectors. Reform of the social sectors in favour of poor people generally involves some reallocation of public expenditure but this does not have to be highly visible and was arguably made easier by the availability of additional donor funds during early PRS processes (c.f. Canagarajah & Diesen, 2006, on the Uganda experience). By contrast, reforms to growth and trade in favour of poor people can directly threaten the vested interests of national elites. Politics based on class or vertical patronage politics features considerably in the productive sectors and can explain delays in legislative progress of key PRS reforms (Cabral, 2005).

Trade liberalisation is depicted as especially contentious in the literature. The sectors that receive the greatest protection under the existing system will be aware of the benefits they enjoy and oppose reform. The gains from liberalisation are likely to be economy-wide and diffused, making it difficult to identify clear winners who can make a supporting case through political lobbying. The redistributive effects of trade reform can be a major factor impeding its launch in poor countries (Rodrik, 1998). Recent work by the WTO points out that producers whose interests are compromised by a particular accession-related policy reform are proving highly likely to lobby for government consideration and support, though not normally through the PRS process (WTO, 2005).

Barriers to trade often benefit powerful interest groups, not the poor. This is particularly the case for nontariff barriers, which result in transfers from consumers to licence holders. Tariff barriers allow the government to collect the revenue that results from a difference between the world price and the tariff-inclusive domestic price, but non-tariff barriers result in companies and individuals receiving these rents through holding a licence to import. Import licence holders are often amongst the wealthiest in the population and in developing countries they seek to obtain licenses and to influence policy in their favour (Krueger, 1974). The politically powerful also tend to use price stabilising policies to shift the long-term price in their favour. Commodity marketing boards and parastatal monopolies have often stabilised prices at lower levels relative to world prices, implying the heavy taxation of small farmers and the transfer of resources to governments and local processing interests, with adverse repercussions for rural poverty. For import substitutes, the forces of the political economy generally point in the opposite direction, with interventions originally justified in the name of price stabilisation (such as the price band schemes introduced in Latin America in the 1990s) often becoming de facto price support schemes keeping prices artificially high (Hoekman et al , 2002).

4.2 The institutional challenge

Lockwood (2006) argues that Africa's poor growth record vis-à-vis East Asia cannot be attributed to aid levels, trade performance, initial conditions and factor endowments, or to market access and the international environment. East Asian tiger countries were successful because they featured the institutional characteristics of the developmental state, including:

- Economic development rather than welfare as a top priority for the state;
- The state is committed to private property and the market, but guides the market with instruments formulated by a bureaucratic elite;
- The state consults with and coordinates the private sector through numerous institutions as an essential part of the policy process;
- State bureaucrats rule, politicians reign, so the latter provide space for the former to act but also require bureaucrats to respond to groups on which the stability of the system depends;
- Heavy and consistent investment in education.

By contrast, he argues that Africa has anti-developmental states characterised by 'abysmal' policy interventions (p.287) that actively discourage private investment, such as the over-taxing of agriculture by parastatals, industrial policies centred on protectionism not offset with export promotion or incentives for improvement in technology or learning, excessive political intervention and a lack of bureaucratic and political commitment. He argues that state capacity to deliver good quality interventions in the economy has been central to Asia's success and to Africa's problems.

PRS processes have typically been led by small groups of technocrats linked to Ministries of Finance or Planning, and involved only limited engagement by other line ministries and local government (Driscoll with Evans, 2005) but the productive sectors appear to have been particularly marginalised. A study by Oxfam highlights the minimal influence of line ministries such as agriculture and trade as compared with ministries dealing with education and health issues (Oxfam, 2004). Broader aspects of inter-ministerial politics have impacted on discussions around trade policies in the PRS process. In Vietnam for example, the Ministry of Planning and Investment preferred not to include other government stakeholders in debates around trade. Although PRS processes have broadened over time to include a wider range of sector ministries, productive sectors have not been systematically included (World Bank and IMF, 2004).

Studies also point to the institutional complexities of designing and delivering reforms to growth and trade, as opposed to health and education policies. Foster et al (2001) suggests that success in the productive sectors may depend on effective joint working across a range of government and private sector institutions, rather than a single package delivered vertically across one sector. In some instances, formal PRS mechanisms involving policymakers, private sector, civil society representatives and stakeholders have not functioned properly due to breakdowns in communication between officials in Ministries of Trade and Finance and those in particular government agencies driving the PRS process (World Bank and IMF, 2005). Singh (2005) emphasises that developing international trade policy involves coordinating several ministries and a high degree of expertise. General weaknesses in government monitoring systems (Lucas et al, 2004) have particularly acute implications for productive sectors due to the complexities of data collection (Cabral, 2005).

The literature also highlights the change management challenge inherent in the switch from interventionist policies of the past to the enabling role advocated for government in relation to growth and trade today. The most useful ministry activity may be to reduce its role in the productive sectors, but there are few incentives for staff to do so (Brown et al, 2001). Cabral (2005) echoes this finding in relation to recent PRS experiences in three countries, pointing to the fact that officials in rural development and agriculture ministries are used to playing an interventionist role which brings with it opportunities to supplement low salaries with travel allowances and an element of job security. When asked to consider the staffing implications of their new enabling function as part of broader civil service reform processes, many officials resisted. Trade reforms focused on improving customs clearance may also be resisted because they jeopardise opportunities for rent seeking and corruption by officials (Hoekman et al, 2002).

Weak capacity inside government is a problem highlighted by successive reviews of PRS experiences, and one which is more acute for productive sector line ministries as they are less likely to receive the additional support from donors associated with sector-wide approaches (all World Bank and IMF reviews; Driscoll with Evans, 2005). Capacity weaknesses inside government agencies dealing with trade appear be further compromised by accession requirements to the WTO. This has proved to be a major challenge to government administration as well as to the content of their trade policies. Such procedures require preparation of detailed memoranda on foreign trade policies and practices and showing commitment to implement the WTO Agreements. For new members this is without the benefit of long implementation lags that were available to members of the WTO when the agreements were first negotiated. Bilateral trade bargaining with important trade partners also has to take place to ensure that they ‘pay’ for the rights that they will get as WTO partners. Controversial demands from existing members that new members achieve greater openness than what is presently required also complicate trade policy (WTO, 2005).

There are particular challenges in designing policies around trade in services which now account for a quarter of total trade. Trade is traditionally viewed as involving “commodities” rather than services and the task of making numerous domestic producers realise that they are exporting services can be very challenging. Government officials find that they do not have the capacity to inform and sensitise service providers of trade policy. Civil society may also view trade negotiation processes in terms of agriculture not other services. This is complicated by lack of knowledge regarding the services markets or evolving services agreement. Trade issues related to tourism in particular are under valued in public policy making. Tourism ministries and agencies have tended to have a close relationship with the private firms that they have promoted and with them have formed something of a policy enclave which has not interacted well with mainstream policy making processes (Singh, 2005).

4.3 The role of donors

Recent work on aid and trade points to some potential contradictions and complementarities between aid-based approaches to development and those centred on growth and trade (Page, 2006). Booth (2006) applies these arguments directly to the PRS approach, describing how its emphasis on aid and public expenditure has the potential to discourage private investment generally and export activity in particular. The PRS approach is presented as the centrepiece of a new aid agenda which has been associated with steadily rising aid flows since the end of the 1990s, with sharper increases expected in Africa shortly. It has also been associated with increased use of general budget support. These trends are potentially harmful to growth and trade in two respects. First, aid inflows can be inflationary and their effects may lead to rising interest rates that make private investment more difficult. Second, the sale of foreign exchange from aid pushes up the value of local currency, making it difficult for export-oriented firms and households to exploit their comparative advantages.

Studies of these Dutch disease effects, both those focused on surges and volatility and simulations examining long-term levels, have concluded that they will probably be neutralised as long as aid serves to increase efficiency and reduce costs in activities that provide inputs for exporters, such as the provision of infrastructure in Africa (Adam, 2001; Adam and Bevan, 200; IMF, 2004; Atingo-Ego, 2005; Commission for Africa, 2005). However, Booth (2006) suggests that this argument depends on assumptions about the efficiency of aid-funded investments, especially those relating to infrastructure and other public goods and services likely to impact on trade. He argues that large infrastructure investments in Africa have a track record of low returns due to poor co-ordination with other investments and the slow pace of institutional innovation. The assumption that these constraints are likely to disappear in the near future is described as “heroic” (p.44). He concludes that the PRS approach ought not to be anti-trade on account of Dutch disease but it may well be so in practice due to political and institutional shortcomings in Africa.

A more common critique concerns the role of donors in promoting a model centred on social sector expenditure, in direct contradiction with the original design concept which envisaged multi-sectoral plans bringing together economic, structural and social policies (OED, 2003; OED, 2004; Chisala, 2004.) A major evaluation of the PRS process (OED 2004) describes the bias towards a social sector model of expenditure as resulting from a combination of influences. First, the emphasis in the enhanced HIPC initiative was on allocating ‘savings’ from debt relief to social sectors and the Bretton Woods Institutions regularly tracked expenditures on health and education in HIPC countries. Second, strong donor and Bank preferences for these sectors were in evidence and manifested in the relative dominance of social sector targets in the Millennium Development Goals. Third, donors perceived ‘quick wins’ in these sectors and were under pressure to demonstrate results.

There is disagreement in the literature as to whether donors were mistaken in their focus on social sector expenditure. Ishikawa (2005) argues that the new aid agenda, with the PRS approach at its heart, draws on a combination of Blairite social democratic thinking and Sen's (1999) definition of development as freedom rather than economic expansion and transformation. He argues that donors have ignored the lessons of successful Japanese aid to infrastructure in China, Korea and Thailand. Booth (2006) counters that donor withdrawal from big infrastructure projects in Africa in the late 1990s was evidence-based in two senses. On the one hand, these projects had very low rates of success in Africa because the political and institutional conditions for success were not there to the same degree as in East Asia's successful countries. On the other, levels of spending on primary social services in Africa were low by international standards and studies by Mehotra and Jolly (1997) and World Bank (1993) had pointed to the critical importance of investment in the social sectors for countries in the early stages of development.

A third strand of work relates to the lack of consistency and coherence in donor policy positions on growth and trade. Part one of this review outlined the major shifts in donor thinking on growth on trade from 'big push' industrialisation in the 1950s and 1960s through to the PRS era, with its emphasis on poverty, governance and country-specific policies for growth and trade rather than blueprint policy prescriptions. Behind this apparent consensus, the literature reveals continuing divergence of views on growth and trade amongst and within donor agencies. There is disagreement between those who advocate social democratic approaches to growth and those who advocate a trade-based approach akin to that adopted in several successful East Asian economies (Booth, 2006). There are internal inconsistencies within single agencies due to conflicting trade and aid objectives (c.f. Stevens on the European Commission, 2006) and divisions within single agencies between trade specialists and poverty specialists (World Bank, 2006). Policies are also subject to frequent changes over short time periods, both in relation to specific sectors such as rural development (Maxwell, 2003) and single countries (c.f, Moller on Malawi, 2006).

In addition to policy incoherence, donors have also been criticized for their uncoordinated approach to trade assistance at operational levels. Altenburg and von Drachenfels (2006) discuss what they call the "new minimalist approach" (NMA) of leading development institutions to the private sector and small to medium sized economy policies for development. The find that such an approach is characterized by a limited number of market driven solutions (such as sound property rights, simplified administrative procedures, provision of micro-credit) which are important in improving business climates but insufficient to tap into the growth potential of the economy especially in areas beneficial to the poor. Prowse (2006) describes how the Integrated Framework was designed to improve co-ordination of trade-related assistance when it was announced at the WTO Ministerial Conference in Singapore in 1996 but its first three years of implementation were not a general success and served to undermine fundamental problems with the stand-alone nature of this support. At the country level, the identified assistance needs were generated by trade ministries or Geneva trade missions with little or no broader consultation in-country or across government, including with those responsible poverty reduction policies. Lending agencies gave little priority to assistance requests and a constituency to support trade amongst bilateral donors was very slow to develop, with very limited interaction between the trade and development communities.)

Studies suggest that trade-related assistance is characterized by a multiplicity of agencies and initiatives that are not coordinated with one another and which place a heavy burden on government. Assistance with participation in and implementation of trade agreements usually consists of supply-driven training for a small number of officials which does little to build in-country capacity. The latter would require support to domestic and regional institutions, including government, academic and national/regional think-tanks. There are also problems with donors earmarking support for selective capacity-building initiatives which generate benefits to their own economies, for example favouring assistance for trade facilitation negotiations against efforts to improve market access and help countries meet product standard requirements (Prowse, 2002; Prowse, 2006; Brown, 2006, Cali et al, 2006, Veld et al. 2006).

Prowse (2006) describes how the Integrated Framework was reformulated in 2001 with these concerns and the new PRS emphasis on country ownership in mind. The revised Framework seeks to mainstream trade into PRSPs and national development plans for both policy coherence and aid effectiveness. It also seeks to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified in-country. Recent evaluations recognise the IF as a sound framework for building trade capacity, providing a programmatic approach that is more capable of generating results (World Bank, 2004; CAPRA 2003; Liebrechts and Wijmenga, 2004). However, the same evaluations also highlight a number of outstanding challenges:

- Slow or incomplete donor follow-up to requests for assistance.

  Prowse (2006) argues that this is due to the lack of an effective financial assistance mechanism beyond the current trust fund. McLeod (2004) points to problems of weak donor capacity as an underlying explanation. For example one advisor based in Washington at the World Bank was asked to cover the Integrated Framework for the whole of southern Africa. Luke (2004) describes donors now engaging in a ‘second wave’ of institutional reforms to address this problem such as the creation of the International Trade Department at the World Bank.[3]

- Problems with sequencing the Integrated Framework process with the country’s own PRS process, and sequencing donor demands on government related to both.

  McLeod (2004) describes this challenge in the Lesotho context.

[3] It is worth noting that weak donor follow up extends beyond trade and into other productive sectors. A recent World Bank review of donor uptake of rural priority actions in 12 countries noted that only 62% of the priority activities that were included in PRS action matrices were taken up by PRSCs and 28% were not taken up at all by other development programmes (World Bank 2005).

Two criticisms of the Integrated Framework and other forms of technical assistance from donors for growth and trade are particularly prevalent in the literature. The first centres on the weak integration of poverty concerns into the advice. Tan depicts a narrow focus on tariff reduction in Diagnostic Trade Integration Studies (DTIS) with less emphasis on supply side measures which relate to diversification and protection of new industries (Tan, 2002). A DFID evaluation conducted before 2002 found that Poverty and Social Impact Assessments (PSIAs) have the potential to identify likely livelihood groups that would be adversely affected by reform measures and could help in identifying balancing policy interventions that were needed to minimize anti-poor impacts (Hamner and Hendrie, 2002). The World Bank launched a series of PSIAs between 2000 and 2002 with the objective of analyzing the distributional effects of policy reforms on the welfare of different stakeholders especially the more poor and vulnerable. Additional reviews of PSIAs highlight ways in which they have been utilized effectively to influence policy decisions. In DRC for example, in 2005 a PSIA conducted in the mining sector helped to identify contingency measures for groups which would be disproportionately affected by mining closures. Other positive examples include PSIAs influencing PRSP content on fuel tax reforms in Mozambique and water reforms in Armenia (World Bank and IMF, 2005).

However, the overall consensus seems to point at the weak integration of PSIA analysis within PRSPs and the Integrated Framework. In the opinion of an Oxfam study PRSPs continue to reflect uniform prescriptions without an analysis of their impact on the poor (Oxfam, 2004). A review by Nordic governments of seven PRSPs found that PSIAs were not being utilized as an ex ante mechanism to spell out policy implications (Nordic Governments (2003) cited in CIDSE/Caritas, 2004). A World Bank review of PRSPs in 2003 also highlighted that the use of PSIA to inform policy design has been limited and done in an indicative rather than specific way (World Bank and IMF, 2003). PSIA in areas such as macroeconomic policy has also not been reflected in the strategic priorities of PRSPs (OED, 2004).

The second common criticism concerns weak national ownership of the advice given. Evaluations of the Integrated Framework indicate that country engagement is largely confined to Ministries of Trade (World Bank, 2004; CAPRA 2003; Liebrechts and Wijmenga, 2004). Hewitt and Gilson's (2003) study of 17 PRSPs and related donor documents found that only 4 out the countries' trade policies deviated from the policies outlined in the WB sourcebook on PRSP development and that 12 of the countries replicated PRGF and PRSC trade discussions within their PRSPs. Oxfam (2004) points out that the macroeconomic frameworks in PRSPs were often determined by pre-existing PRGF agreements with the IMF that were not formulated with poverty reduction in mind. Successive reviews of the PRS experience conducted by the WB and IMF also note their influence on PRSP content and perceptions that they have prescribed policies or signed off on content (World Bank and IMF, 2002; 2004). Hewitt and Gilson (2003) point out that this is due not only to the debtor-creditor relationship, but also to "winning arguments upstream through national and global level studies" (p.4).

5. Lessons from the Literature

This review began by examining **links between growth, trade and poverty reduction**. There is broad consensus in the literature that economic growth is the single most important factor influencing poverty, but that the degree of its impact on poverty will depend on distributional impacts and sectoral composition. The relationship between trade and poverty appears to be more contentious, though there is broad agreement that in the long run liberalisation can help reduce poverty levels. Key points of disagreement include the relationship between trade liberalisation and growth and whether trade liberalisation impacts on poverty through general growth impacts alone, or through impacts on inequality as well. A similarly diverse debate can be traced about the determinants of growth, but geographical and governance factors have attracted most attention in recent years.

Policy approaches to growth and trade for poverty reduction have undergone significant shifts over the last half a century. In the 1950s and 1960s ‘big push’ industrialization, planning and import-substitution policies were advocated. In the 1970s, these were replaced by policies centred on the price system and outward orientation while the 1980s saw the emergence of the Washington consensus with its emphasis on macroeconomic belt-tightening and trade liberalisation. The current approach retains elements of the Washington consensus but augments them with elements drawn from the PRS approach. These include an emphasis on country-specific policies, good governance and poverty reduction.

The next part of our review centred on the treatment of **growth and trade in PRSP documents**. The literature highlights four specific criticisms of the growth content of early PRSPs: The applied analysis of the sources of growth and the obstacles to growth varied in quality and was frequently not linked to the choice of policy actions or the setting out of a credible reform strategy. There was a lack of realism and flexibility in macroeconomic frameworks, with very little analysis of macroeconomic policy tradeoffs and how these related to broader poverty reduction goals. Links between growth policies and poverty reduction were weak, with little attention paid to managing the effects of shocks and distributional impacts. Links between sector strategies - especially the ‘productive’ sectors - and budgets, through prioritisation and costing, were especially weak.

On the trade content of PRSs, the literature points to their limited depth and coverage and a tendency to focus more on expenditure than growth; the lack of links between trade policy and the underlying poverty analysis, pointing to a need for ex-ante Poverty and Social Impact Analysis; the limited consideration of policy choices other than standard export promotion measures; and the failure to adequately address issues around trade in services.

Early evidence on later and second generation PRSs indicates a concerted attempt to address one of these gaps, by placing a stronger emphasis on growth within the broader national framework. While only about 60% of the earliest PRSs noted a prominent role for growth, this had increased to 80% for the strategies produced in 2003/4. All six new PRSPs produced in 2005 incorporated growth as a central pillar (World Bank and IMF, 2005). The same trajectory of improvement is not in evidence for trade, however, with weaknesses in content persisting through recently produced PRSPs.

Finally, our review examined lessons from the literature on **growth and trade in PRS processes**. A growing literature highlights the fact that PRS processes unfold in pre-existing political economies, which are often neo-patrimonial in character. Early attempts to address weak government accountability to citizens through narrow forms of civil society consultation have proved particularly unsuccessful for growth and trade stakeholders, with the views of the private sector, producers organisations and trade unions largely excluded from discussions, especially about macroeconomic choices. However, the consultations have also been unsuccessful in a broader sense, as part of a wider failure of the PRS approach to make in-roads into elite-dominated politics in poor countries. The literature warns that pro-poor reforms to growth and trade are more difficult than in the social sectors in such contexts because they threaten more directly the interests of national elites.

The second theme here is the institutional challenge of delivering pro-poor growth, with some stark comparisons between the institutional context in Africa and East Asia's success stories on growth and trade. The PRS process has tended to be dominated by Ministries of Finance and Planning and productive sector line ministries have been largely excluded in most countries. Ministries of Agriculture, Rural Development and Trade are struggling to make the transition from an interventionist to an enabling role due to the complexities of policy design and delivery, capacity constraints and vested interests in their own bureaucracies. Their ability to do so is further compromised by the additional demands of WTO accession in some countries.

The third and final theme concerns the role of donors in the PRS process. The literature points out potential contradictions between the PRS with its focus on public expenditure and aid, and growth and trade which necessitate a degree of restraint in both these areas. It argues that donors have promoted a model centred on social sector expenditure as a reaction against the failures of structural adjustment and arguably in ignorance of the lessons of aid to East Asia. Several papers point to incoherent donor policy positions on growth and trade over time, in relation to single countries or sectors, and even within the same donor agency. The Integrated Framework is presented as a potential solution to these inconsistencies and to weak country ownership of growth and trade agendas, but recent evaluations indicate that it remains very much a work in progress.

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Annex B

Analysis of Six Second Generation PRSs

Massimiliano Cali and Dirk Willem te Velde

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This annex analyses both growth and trade content in the second generation PRSPs, by reviewing the documents of countries with an official version (i.e. approved by international financial institutions) of their second PRSP. At the time of writing, these countries were Burkina Faso, Ghana, Nicaragua, Tanzania and Uganda. Since growth analysis is more complex and involves more themes than trade analysis, we separated the analysis of growth and trade content.

The analysis of the growth content centres around five issues. First, we examine the general treatment of growth. Second, we assess whether there is a vision for how to achieve growth (in particular in terms of sectoral decomposition). Third, we examine whether the growth strategy takes into account poverty and inequality consideration. Fourth, we examine whether and how the PRSP contains a discussion of the constraints to growth. Fifth, we consider whether there are careful plans for the implementation of the strategy.

As for the trade content, we build in part on the work by Hewitt and Gillson (2003) who reviewed the trade content in first generation PRSPs. In this way we can make a comparison of the trade content over time with the previous generation PRSPs as well as across countries.[1] We also introduced a few new elements to their study in order to make the trade content analysis more comparable with the growth analysis. First, we describe whether trade is considered as an important issue. Second, we examine whether the document discusses the effects of trade policies on poverty reduction. Third, we assess the extent to which trade policy options are being discussed explicitly. Fourth, we review whether other supply and demand-side factors affecting trade are considered; and finally we consider whether there are plans for the trade policy implementation.

GROWTH

1. How is growth treated in general?

Growth seems to be a major focus of all the 2nd generation PRSPs[2] analysed. All the documents have at least one statement which defines economic growth either as the main objective of the strategy (Ghana, Kenya, Nicaragua and Uganda) or one of the most important goals (Burkina Faso and Tanzania). This treatment of growth seems to point towards a much more relevant role for growth in second generation documents relative to the previous ones, as noted in the literature review.

1.1. Is growth included in the title of the document?

Two (Ghana and Tanzania) out of five documents include growth in the title of the document. This is quite remarkable as it clearly indicates that growth has become a major objective of the strategies along with poverty reduction. In the case of Ghana, the title of the document has been changed from the previous one to include growth (from Ghana Poverty Reduction Strategy to Growth and Poverty Reduction Strategy).

[1] However, it is worth noticing that the first generation sample is much larger than our sample, thus the comparison might not be robust. The second generation PRSPs analysed include those that have been amongst the first to be produced which might bias the comparison.
[2] We include Kenya in this set.

1.2. Is there an explicit statement that growth is relevant for poverty reduction?

All the second generation PRSPs explicitly acknowledge that growth is essential for poverty reduction. Such acknowledgement stems either from an historical analysis of the poverty and growth trends in the country (e.g. in the case of Uganda), or it is assumed in the document as a commonly accepted fact.

1.3. Are there frequent references to it in the document (count number of occurrences of "economic growth")?

We calculate the number of occurrences of growth-related words[3] per page to obtain a quantifiable, albeit imprecise, proxy for the relative importance of growth in the documents. All the documents have frequent references to growth, although there is enough variability to produce a meaningful ranking across PRSPs. These vary between 0.27 (Uganda) and 0.99 per page (Tanzania). Kenya has an average score.

1.4. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?

We also calculate the importance of growth relative to social issues, by dividing the number of occurrences of growth-related words to that of social-related words.[4] The social-related words are used between 10 times (Burkina Faso) and 3 times more frequently (Nicaragua, Kenya and Tanzania) than growth-related expressions.

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?

All the documents set a specific target rate of growth, which is usually quite ambitious (i.e. well above) relative to the recent historical record of the country. These rates are in the order of 6-8% per annum, except for the more conservative estimate for Nicaragua (4.5%). Such optimistic rates are in line with the growth targets identified in first generation documents.

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

Four out of five documents (Burkina Faso, Ghana, Kenya and Tanzania) provide specific sectoral growth rates needed to achieve the overall target growth rate. The sectoral decomposition is described with a greater level of detail in the case of Burkina Faso, Kenya and Ghana, which include target rates for sub-sectors. However, the bases on which these operational sectoral rates are calculated are often not clear. The partial inclusion of a sectoral modelling of growth seems to be a step forward relative to first generation PRSPs, which would rather derive sectoral growth targets from the macro target.

[3] Except in the case of Tanzania, for which we count the occurrences of the word "growth" (see the details in the Appendix for the rationale of this choice), in the other cases we count the total number of occurrences of the expressions "economic growth", "GDP growth" and "economic development".
[4] We count the total number of occurrences of the word "health" and "education".

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020")?

In general PRSP tend to be self-contained documents, although some refer to external documents in setting out their strategies. In particular, in the case of Uganda reference is made to other document specifically prepared for the PRSP, and Tanzania's PRSP is part of the long-term development strategy of the country (Vision 2025).

3. **Does the treatment of growth take into account poverty reduction and inequality considerations?**

   a. The expected consequences of growth on **poverty** rates are explicitly taken into account only by two of the five documents considered (Nicaragua and Uganda). These documents provide an estimation of the expected fall in national poverty rates if the country meets the target growth rate.
   b. **Income inequality** and its relationship with the growth objective is a concern for two of the documents (Burkina Faso and Nicaragua). Both highlight the importance of an inclusive pattern of growth in order to reduce inequality, which is seen as a major constraint for sustainable development.
   c. **Inequality across space** is considered to be an important issue for the growth strategy in the majority of the documents (Burkina, Nicaragua and Tanzania). These are mainly concerned about the effects of regional and rural-urban inequality on the growth and development prospects of the countries.

4. **Have key constraints to growth been analysed?**

The analysis of constraints to growth is often not performed but assumed through generic sentences such as "A sound economic framework which is conducive to private sector investment is vital to Uganda's growth strategy" (Government of Uganda, p. 34). This (lack of) analysis of constraints is often translated in wishful lists of actions to be undertaken, with little or no analysis of potential trade-offs between them, which could be problematic in an environment with scarce resources.

More thorough analyses of constraints are usually carried out in the context of the sectoral strategies, which usually involve context-specific considerations and more precise action plans than in the generic horizontal analysis. This sectoral focus would seem to represent somewhat an advance relative to first generation documents, where the sources of growth were generally identified mainly in the context of the general economic framework.

4.1. How, if at all, have the following constraints been analysed?

We evaluate the extent to which the documents discuss and analyse the constraints to growth as identified by the IFIs.[5]

- **Macroeconomic stability** is considered to be an important pre-condition for growth by all the documents, which have at least one section dedicated to it. Some PRSPs (Uganda, Kenya, Nicaragua and Tanzania) set specific macroeconomic targets to meet in the future, although it is not clear the process which has led to the setting of such targets. However, there is a generalised lack of context-specific analysis in the documents, most of which assume the need for a particular set of orthodox macroeconomic policies rather than derive it from a country's analysis.

- All documents except Burkina Faso have some discussion of the importance of a **well defined system of property rights** for the growth prospects of the economy. Half of these (Tanzania, Kenya and Uganda) do not develop any analysis of either the extent to which the country lacks such system or the way in which this lack is likely to constrain the growth process in the country. Some context-specific analysis is present in the documents of Ghana and Nicaragua, mainly at the vertical level (within sectors).

- **A good investment climate** conducive of investment and private sector development scores high in the list of priorities to achieve growth in all documents. Most documents refer to general needs for easing bureaucratic procedures for business, reducing the government paperwork procedures, ensuring good governance paperwork. However, such claims are accompanied neither by an analysis of the actual constraints to investment in the economy nor by a country-specific assessment of the consequences of the eventual constraints. The only partial exception is the Ugandan document, which presents some analysis the results of a survey carried out among firms on the constraints posed to businesses by heavy regulatory procedures.

- There is only a limited discussion in the documents of the relevance of **an attractive incentive framework** to promote investment and growth. Only Tanzania and Uganda's PRSPs have a passing mention to the development of incentives to encourage private investment (Kenya in the case of Tourism). In particular, the PRSP for Tanzania proposes to create special economic zones "with special incentives to accelerate growth".

- Policies directed at improving **the functioning of factor markets** are discussed at some length by all PRSPs both at horizontal and vertical level. The constraints to the three main factors **labour, capital and land** are in general analysed with respect to the country's conditions (especially for Burkina, Ghana and Uganda). On the basis of such analysis recurring actions aimed at enhancing the efficiency of these markets are identified and include the removal of credit constraints, the deepening of financial markets, the improvement of labour regulation, the strengthening information exchange within the labour markets, the improvement of the access to land especially for poor people.

[5] This list of constraints is drawn from the introduction to the OPPG study.

- All PRSPs consider **a broad access to infrastructure and education** an important element of a successful growth strategy. In particular, the improvement of transport and energy infrastructure, universal primary education and secondary education more in line with labour market's needs represent two current objectives of the documents. While these objectives are only generally stated in the majority of the PRSPs, those for Tanzania and Uganda carry out some analysis of the constraints to growth posed by the actual conditions of infrastructure.

- All the documents recognise **increased trade** (interpreted as export development) as an important condition for economic growth (see below for a more detailed analysis of trade content).

- Most PRSPs indicate **other constraints** to growth as important, which are not explicitly included in the list of constraints mentioned above. These include lack of security (Burkina and Uganda), HIV/AIDS (Burkina), a difficult socio-demographic structure (Ghana), large influx of foreign aid and external shocks (Tanzania). As these tend to be country-specific constraints, their identification is usually based on an analysis of their impact on the national economy.

4.2. Is there a clear distinction between constraints in the public and private sectors?

In general the documents are fairly precise in identifying the role of public actors in contributing to create those constraints. The general approach is to identify the constraints in the public sector (e.g. heavy business regulation, weak enforcement of property rights, weak public financial management, lack of security). In a few cases only, the documents tend to include a role for the private sector as well to complement the activities of the public sector (e.g. infrastructure management and development in Nicaragua and Tanzania, and provision of public services in Tanzania).

4.3. Is there any analysis of whether binding constraints differ by sector?

An area of consistency of all the documents reviewed was the detailed analysis of the constraints at the sectoral level. Such analysis is in general based on a pre-selection of sectors to be promoted for growth, which is often in contrast with the horizontal economy-wide analysis of constraints performed in other sections of the documents.[6]
Such analysis tends to inform sectoral strategies developed in the PRSPs and it is justified by the disproportionate weight of some sectors (particularly agriculture) in the economy. As a matter of fact, all PRSPs perform lengthy analyses of the agricultural sector, including in some instances the most relevant sub-sectors (Ghana, Nicaragua and Uganda). In general the analysis of the constraints to growth appears to be more precise and context-specific at the sectoral level rather than at the general level.

[6] This is for example clear in the tension between the general prescription of the PRSP that the government should not pick "winning sectors" and the selection of specific sub-sectors to promote performed in a different part of the same document.

4.4. Does the analysis of the constraints take into account sub-national units?

Constraints at the sub-national level (e.g. regional, provincial, municipal) are in general neglected. Only Burkina Faso and Uganda have some general reference to regional disparities in development opportunities (due to conflict in the case of Uganda), although none of them provide a proper analysis of why constraints vary across areas.

4.5. Does the analysis of constraints take into account that constraints may differ by group of people?

The majority of the documents discuss some constraints specifically related to vulnerable groups, in particular women and youth (Burkina, Ghana, Nicaragua and Tanzania). The major constraints for these groups (relative to the rest of the population) seem to be the lack of access to productive inputs (credit and land) and the particularly difficult access to the labour market. Nicaragua's PRSP differentiates constraints to rural development according to the different type of rural families classified on the basis of their net capital. The Kenyan paper addresses growth in relation to the youth.

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

In general most documents have some discussion on country-specific constraints, mostly as part of the vertical (within sector) rather than the horizontal (across sectors) analyses. For Ghana, Tanzania and Uganda the majority of the discussion on constraints is carried out in a very general way, more similar to a textbook analysis of constraints to growth than to a country-specific discussion. Only Burkina and to a certain extent Nicaragua documents tend to undertake the analysis on constraints at the sectoral rather than at the general level, which helps keep the focus on the particular circumstances of the country (and of the sector). However, a general lack of precise references to the empirical evidence is common to all the documents (with some noticeable exception in the Ugandan document).

5.2.1. Do the plans make adequate reference to the need for human resources (capacity constraints) to overcome constraints?

The PRSPs do not explicitly address the issue of human resources in relation to the constraints to growth identified. However, the documents for Burkina, Ghana and Tanzania discuss in some detail the need for strengthening human resources capacity (both in the public sector and in the general labour force) in order for the PRSP's policies to be implemented. In particular, the PRSP for Burkina identifies the organisations which need capacity building, including government agencies, distinguishing among professional organisations and private operators.

5.2.2. Do the plans make adequate reference to the need for financial resources to overcome constraints?

In line with the PRSP sourcebook, all the documents (except Kenya which is not a formal PRSP) provide a detailed calculation of the resources needed for the implementation of the PRS plan, the gap relative to the resources already secured for the implementation and the strategy to fund the eventual gaps. Most of the documents would also present a methodological discussion on the assumption used to construct the costing framework.

TRADE

6. Is trade treated as important?

Contrary to the first generation PRSPs (Hewitt and Gillson 2003), all the documents except Tanzania include at least one specific sub-section on trade policy and/or export promotion. This is generally included in the general discussion on economic management, product competitiveness or industrial policy. The section usually contains a fairly clear, albeit very general, view on the way trade policy could contribute to growth.

However, most of the references to trade tend to be contained in other parts of the PRSPs, in particular within the sectoral analyses and strategies. Therefore we also calculate the number of occurrences of trade-related words[7] per page to measure the relative importance of trade in the PRSPs. All the papers have frequent references to trade, as an activity mostly related to exports rather than imports. The word count per page varies in the range between 0.72 (Burkina) and 0.89 (Nicaragua).[8] Kenya is on average.

6.1. Does the treatment of trade take into account poverty reduction considerations?

In general the PRSPs do not establish any analytical link between trade and poverty reduction, although two of them (Nicaragua and Uganda) have some passing reference to the importance of increased trade (i.e. export) in poverty reduction. Because of this missing link, trade policy is not informed in general by poverty analysis, as it used to be for most first generation PRSPs (Hewitt and Gillson).

6.2 Does the PRSP discuss trade policy options explicitly?

All the documents provide in the trade section a discussion on the government's strategic view of trade policy, which usually involves the desire to promote freer trade, export development and market access. Again, a common problem of such discussion is that there is no clear analysis of the major current constraints to trade, which makes it difficult to understand how any trade policy may improve the situation.

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[7] We count the total number of occurrences for the words "trade", "export(s)" and "import(s)".

[8] These numbers are not strictly comparable to those of growth-related words due to the different methodologies employed.

Most documents (all except Tanzania) include also some discussion on trade policies at the sectoral level, which tend to arise in the sections on sectors, rather than in the specific trade section. This finding is in line with that of Hewitt and Gillson on the first generation documents, showing little change over time in the way sectoral trade policies are presented and dealt with.

The discussion on trade policy is usually carried out with little or no reference to vulnerable groups, except for some mention of possible economic risks for the poor in Burkina's regional integration process, for farmers in Uganda with respect to volatility in commodity process and for urban poor in Tanzania following trade liberalisation. There is virtually no different treatment in the trade policy analysis between types of consumers and producers. Again, there is little sign of evolution in this respect for trade policy relative to the first generation documents.

6.3. Does the PRSP cover other national and international factors affecting trade?

Supply-side constraints

All the documents discuss at some length supply-side constraints to domestic industry which undermine the export potential of the economy. There is a general recognition that market access is not sufficient for the development of the export sector, and that market access should be accompanied by other measures strengthening the domestic productive system, including infrastructure development, marketing activities and productivity improvements. The recognition of the importance of such measures was already present in the first generation documents (Hewitt and Gillson). As far as the supply-side measures are concerned, there would seem to be very little role for external technical assistance which tends to be focused on diagnostics. Only the Tanzanian document mentions the potential support of the Integrated Framework to private sector participation in international trade.

Demand side constraints

Ghana, Nicaragua and Uganda's PRSP include a brief discussion on the demand side constraints for their export, which are usually addressed via pledges to promote regional integration and market access to high income countries. Ghana's PRSP is the exception in that it considers non tariff barriers as the main demand constraint to its export. Strengthening regional integration in particular features as an important element of trade policy in three of the five countries (Burkina, Nicaragua and Uganda), although only Nicaragua's document seems to prioritise one regional agreement (DR-CAFTA) over the others. Relative to the first generation, the second generation documents seem to have shifted their demand-side priorities towards regional integration.

Ongoing discussions in the WTO are never mentioned except in Uganda's PRSP in the context of strengthening negotiating capacity, and no document takes into account how the formulation of poverty sensitive trade policy relates to WTO rules.

6.5. Do the plans make adequate reference to need for human and financial resources to implement trade policy?

There is an interesting dichotomy among the second generation documents in dealing with human and financial resources for the implementation of trade policy. While Tanzania and Uganda's PRSPs discuss only the need of strengthening human resources' capacity to engage in international negotiation (with no explicit reference to financial resources), Burkina, Ghana and Nicaragua's PRSPs deal specifically in their costing framework with the resources needed for trade policy implementation. Kenya does neither.

Box 1 Comparing Kenyan PRS with second generation PRSPs

The review of the Kenyan PRS shows that it is very similar in structure and content to the other 2nd generation PRSPs. It

- considers growth as the main element of the strategy
- is divided into a general horizontal analysis of strategies for economic recovery, centred around macroeconomic stability, good investment climate, well functioning factors' markets, and a vertical analysis of sectors to be promoted for growth.
- has a vertical analysis that appears to be rooted more in the country's circumstances than the horizontal analysis.
- considers trade promotion as an important element of the strategy and a specific section is dedicated to it.

The main differences with other PRSPs are:

- the document is shorter than the other ones analysed (less than half of the average length of the other 2nd generation PRSPs). This is reflected in the lack of detailed discussions, although the general content is very similar
- the Kenya's PRSP lacks reference to financial resources needed for the implementation of the plan
- there is less detailed poverty analysis as in most of the other documents reviewed.

Table 1: Analysis of growth content in 2nd generation PRSPs

		Burkina	Ghana	Nicaragua	Tanzania	Uganda	*Total*	Kenya
Is growth treated as important?	Is growth included in the title of the document?	✗	✓	✗	✓	✗	2	✗
	Is there an explicit statement that growth is relevant for poverty reduction?	✓	✓	✓	✓	✓	5	✓
	Number of occurrences per page of growth related words [a]	0.32	0.50	0.63	0.99	0.27	0.54[b]	0.55
	Number of occurrences of growth relative to health and education	0.10	0.25	0.31	0.32	0.13	0.22[b]	0.36
Is there a vision to achieve growth?	Does the document specify a target rate of growth?	✓	✓	✓	✓	✓	5	✓
	Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth?	✓	✓	✗	✓	✗	3	✓
	Does the PRSP refer to national economic visions or other policy documents?	✗	✗	✗	✓	✓	2	✗
Are poverty and inequality effects of growth analysed?	Effects of growth on poverty	✗	✗	✓	✗	✓	2	✗
	Effects of growth on income inequality	✓	✗	✓	✗	✗	2	✗
	Effects of growth on spatial inequality	✓	✗	✓	✓	✗	3	✗
The analysis of the constraints to growth	Macroeconomic stability [c]	✓	✓	✓	✓	✓	5	✓
	Well defined property rights [c]	✗	✓✓	✓✓	✓	✓	4	✓
	Good investment climate [c]	✓	✓	✓	✓	✓✓	5	✓
	Attractive incentive framework [c]	✗	✗	✗	✓	✓	2	✓
	Well-functioning factor markets (labour, capital and land) [c]	✓✓	✓✓	✓	✓	✓✓	5	✓
	Broad access to infrastructure and education [c]	✓	✓	✓	✓✓	✓✓	5	✓
	Trade [c]	✓	✓✓	✓	✓	✓	5	✓
	Other constraints (e.g. lack of security, HIV/AIDS, high fertility, adverse climatic shocks) [c]	✓✓	✓✓	✗	✓✓	✓✓	4	✗
	Is there a clear distinction between constraints to growth in the public and private sectors?	✓	✓	✓	✓	✓	5	✓
	Is there any analysis of whether binding constraints differ by sector?	✓	✓	✓	✓	✓	5	✓
	Does the analysis of the constraints take into account sub-national units?	✓	✗	✗	✗	✓	1	✗
	Does the analysis take into account that constraints may differ by group of people?	✓	✓	✓	✓	✗	4	✓
Feasibility of plans to implement the growth strategy	Is the discussion of constraints set in the specific circumstances of the country?	✓	✗	✓	✗	✗	2	✗
	Is there any reference to human/capacity constraints	✓	✓	✗	✓	✗	3	✗
	Is there any reference to financial constraints	✓	✓	✓	✓	✓	5	✗

[a] The words used to count the occurrences are "economic growth", "GDP growth" and "economic development", except for Tanzania, whose PRSP makes use of the expression "growth" to indicate "economic growth";
[b] Simple average value of the five countries' values.
[c] For these questions we assign one ✓ if there is some mention of the constraints, without referring it to the country's context and ✓✓ if there is at least some reference to the country's context,
Source: individual countries' analysis in the Appendix

Table 2: Analysis of trade content in 2nd generation PRSPs

		Burkina	Ghana	Nicaragua	Tanzania	Uganda	Total	Kenya
Is trade treated as important?	Is there a specific section on it in the PRSP?	✓	✓	✓	×	✓	4	✓
	Number of occurrences per page of trade related words in the document [a]	0.72	0.76	0.89	0.85	0.77	0.80[b]	0.80
Does its treatment consider poverty reduction?	Is there any discussion on the poverty reducing effects of trade?	×	×	✓	×	✓	2	×
Does the PRSP discuss trade policy options explicitly?	Does the PRSP discuss trade policy options explicitly?	✓	✓	✓	✓	✓	5	✓
	Is there an understanding of how they might differ from sector to sector?	✓	✓	✓	×	✓	4	✓
	Is there an understanding of how they might differ in their impact on vulnerable groups?	✓	×	×	✓	✓	3	×
	Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?	×	×	×	×	×	0	✓
Does the PRSP cover other national and international factors affecting trade?	Does any discussion take into account supply-side constraints on trade?	✓	✓	✓	✓	✓	5	✓
	Is there any reference to Trade related technical assistance (including IF)?	×	×	×	✓	×	1	×
	Does the discussion cover demand side constraints?	×	✓	✓	×	✓	3	×
	Does any discussion cover regional aspects, including regional integration?	✓	×	✓	×	✓	3	✓
	In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?	×	×	✓	×	×	1	×
	Are ongoing discussions in the WTO referred to and analysed?	×	×	×	×	✓	1	×
	Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?	×	×	×	×	×	0	×
How is the treatment of the implementation?	Is there any reference to human/capacity constraints	×	×	×	✓	✓	2	×
	Is there any reference to financial constraints	✓	✓	✓	×	×	3	×

a. The words used to count the occurrences are trade, export and import; b. Simple average value of the five countries' values.

BURKINA FASO

Growth

1.1. How is growth treated in general?

Growth seems to be an important element of the PRSP, although it does not seem to be the main pillar of a strategy, which looks relatively more orientated towards social sectors.

1.2. Is growth included in the title of the document?

No

1.3. Is there an explicit statement that growth is relevant for poverty reduction?

Yes, the document defines growth as an essential, albeit not sufficient, condition for poverty reduction

"Economic growth is of course essential in order to raise the general income and well-being levels of the Burkinabè population, but growth does not suffice by itself to combat poverty and inequality." (p. 4)

"For the incidence of poverty to be reduced significantly, economic growth will have to increase in the years ahead." (p. 11)

1.4. Are there frequent references to it in the document (count number of occurrences of "economic growth")?

28 occurrences for "economic growth", 8 for GDP growth, 6 for economic development (42 in total) in the 130 pages of the document.

1.5. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?

211 occurrences for "health" and 190 for "education".

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?

Yes. A medium term goal is mentioned (7%), which is later specified more precisely (i.e. 6.4%)

"In the medium term (2004-2006), the Government is aiming for average real GDP growth of 7 percent per year, with inflation under 3 percent and per capita GDP growth of at least 4 percent per year." (p. 66)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

Yes, the PRSP provides a precise estimation of the relative sectoral contributions to the GDP growth target (see Table 16, p. 103)

"The outlook for growth of the Burkinabè economy falls under more favorable auspices in view of the slight improvements taking place at the international and subregional levels. The growth in GDP volume applied to the estimated macroeconomic aggregates calculated for previous years and new assumptions as regards price trends indicate that GDP growth should follow the same trend as before, i.e. an average growth rate of 6.4 percent per year. This growth will be driven mainly by the tertiary and secondary sectors. However, the primary sector will continue to buttress economic growth during the period 2004-2006." (p. 101)

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020")?

No

3. Does the treatment of growth take into account poverty reduction considerations?

3.1 Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution

a. Poverty
No

b. Income inequality
Yes, there is a strong emphasis throughout the document on the importance of an inclusive pattern of growth ("high quality growth") in order to reduce inequality. This is considered to be a major constraint to the sustainable development of the country.

"The process of revising the PRSP was guided by the following principles:

Equity: The growth sought must be strong and high-quality growth that reduces inequalities. It must benefit the majority of the people, especially the poor, because it involves active participation on the part of all (the poor, men and women) in producing and sharing the fruits of this growth. Growth that reduces the inequalities associated with the differences in human capacities and in access to productive assets and resources" (p. 6)

"For growth to be a powerful tool in poverty reduction, issues of disparity and inequality need to be resolved." (p. 23)

"With respect to disparities, the results of the 2003 survey on household living conditions show a reduction in per capita expenditure disparities between 1994 and 2003: the Gini coefficient concerning the level of per capita spending by households fell from 0.560 in 1994 to 0.530 in 1998 and 0.506 in 2003. However, this reduction pertains more to rural areas than to urban areas. In fact, the survey also shows a trend toward greater disparities in urban areas (+2.8 percent) and a decline in disparities in rural areas (-3.3 percent) between 1994 and 2003. All these factors tend to reinforce the disparities between rural and urban areas, which have become less homogeneous over the last ten years." (p. 24)

c. Spatial inequality

Yes, one of the objectives of the PRSP is the:

"Reduction of regional disparities: Regional disparities are a source of exacerbation of poverty and inequalities and limit the participation of the various regions in the national development process;" (p. 7)

At the regional level, between 1998 and 2003, the west central, south central, western, Boucle du Mouhoun, south western, and east central regions also showed a reduction in disparities, while the remaining regions were characterized by an increase. However, the changes in disparities within the different regions cannot be directly attributed to the dominant economic activity and changes in the poverty level, because the regions that showed a reduction in disparities are quite diverse in terms of economic activity."

4. Have key constraints to growth been analysed?

4.1. How, if at all, have the following constraints been analysed?

- **Macroeconomic stability**

  The PRSP has one sub-section (5.2.1.2) on macroeconomic stability, considered an important pre-condition for sustained growth.

  "the importance of effective economic policies based on economic openness and macroeconomic stability, and also of the need to apply, in both spirit and letter, the reform of official development assistance" (p. 4)

  "the tax ratio (10.6 percent of GDP on average) still remains low relative to the community criterion (17 percent). Furthermore, the current revenue structure points up the preponderance of export and import taxation over domestic taxation. This state of affairs can be explained by the narrowness of the tax base and some collection-related difficulties." (p. 36-7)

  "the Government intends to strengthen the foundations of macroeconomic and financial stability," (p. 66)

  "Strengthening the foundations of macroeconomic stability is a critical prerequisite for faster growth and the overall competitiveness of the economy. Consequently, the Government intends to continue its policy for a sound macroeconomic environment, which minimizes financial imbalances and leads to stable, noninflationary growth."

“Since the country belongs to WAEMU, which opted for a fixed exchange rate with the euro, Burkina Faso cannot adjust its nominal exchange rates to attenuate terms of trade shocks. The Burkinabè authorities are aware of this situation and will intensify their efforts to control the variables that determine long-term competitiveness, meaning the variables that are likely to lead to lasting changes in production capacity and, more specifically, total factor productivity. This applies especially to primary factors (such as the cost of labor, capital, energy, and transport), as well as to transaction costs.” (p. 67)

- **Well defined property rights**
  No

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures.**
  It is one of the four priorities identified in the foreword to the document by the Minister of Economy and Development. There are frequent references to the importance of the business environment and the investment climate for growth.

  “First, the completion of the economic and structural reform measures aimed at creating an environment favorable to business, competition, and private investment. To this end, the Government will implement the “performance contract” initiative with private sector stakeholders” (p.vi)

  “The Government will support the development of private investment in the rural sector, specifically by adopting an agriculture and livestock investment code that takes into account the criterion of investment return, in order to encourage private investment and permit private parties to take over from the Government in several areas” (p. 58)

  “The Government has adopted a strategy aimed at making the private sector the main engine of growth. It will address the critical problems that prevent the economy from taking off, such as restricted access to affordable infrastructure services, many bottlenecks in the business environment, and the weakness of the domestic private sector. The Government is aware that it should continue to cut back its stake in the productive sector so as to enable the private sector to make the investments needed to consolidate existing activities and to develop new ones. Burkina Faso intends to step up the political reforms related to the privatization program and market liberalization.” (p. 66)

  “Transaction costs also include non-quantifiable variables that relate to the business climate. For example, delays in the handling of applications, bribes paid to circumvent these delays, and the inefficiency of the justice system which delays the settlement of disputes, are all implicit costs that, along with the direct production and marketing costs, may discourage entrepreneurs and hamper investment and growth. As a general rule, transaction costs are deemed to be very high throughout sub-Saharan Africa.” (p. 68)

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**
  No

- **Well-functioning factor markets (labour, capital and land)**
  There are various discussions on the importance of improving access to credit (especially for the poor), of strengthening the skills of the labour force to make it more responsive to economic needs and of tackling the constraints distribution and ownership of land to achieve growth and poverty reduction.

  "Among other factors, output depends on factor productivity: land, labor, and work tools such as draft animal traction equipment." (p. 26)

  Financial Market

  "With respect to improving the living conditions and incomes of poor groups, access of the poor to productive capital and appropriate technologies provides access to employment or an income-generating activity and, as a consequence, to financial capital and, more specifically, credit. Apart from the recognized impact of savings and credit on poverty reduction and increasing incomes, the key question for the development of microcredit targeting the poor revolves around financial intermediation, which serves to bring together the supply and demand of funds through professionals." (p. 33)

  "While there are many causes of poverty, there is a well recognized correlation between the creation of wealth and access to financing. Indeed, difficulties in acquiring productive assets are just as critical as problems of access to training, production techniques, and information systems; moreover, in many cases these difficulties can only be resolved through access to borrowing. Even traditional wisdom holds that a person needs borrowed money to escape from poverty." (p. 33)

  Labour market

  "Various recent studies conducted by the Government have identified the main obstacles to balanced and sustainable growth. These are:

  - *the weakness of human capital, which contributes to low labor productivity, the high unemployment level, and income inequalities;" (p. 4)*

  - *"the national economy continues to be handicapped by its weak capacity to respond promptly and vigorously to exogenous shocks, this owing to certain intrinsic constraints and limitations that should be overcome on an urgent basis. These include (i) the weakness of national capacities, in particular of human capital..." (p. 1)*

– *"Participation in the labor market and the level of human capital endowment appear to be determining factors in guaranteeing individuals' access to employment and income stability with a view to reducing poverty. In 2003, the rate of participation in the labor market by persons between the ages of 15 and 60 was estimated at 87.3 percent and 64.8 percent in rural and urban areas, respectively. It was 87.8 percent for men and 77.7 percent for women. Such participation is linked to several factors, including:*
  the level of education of individuals: the supply of work is highly sensitive to education for persons between the ages of 15 and 60 in rural areas, whereas in urban areas this high sensitivity applies to young people (girls and boys);

– *the standard of living of households: the labor supply rate is 71.5 percent for poor households and 60.1 percent for rich households; this result shows the low productivity of the work performed by the former. The variation in the labor supply rate based on standard of living is related to the presence of secondary members in these households, particularly in urban areas. It reflects the survival strategies of households in general and likely masks the phenomenon of child labor." (p. 32)*

<u>Land Market</u>

"The legal provisions establishing the Agrarian and Land Tenure Reorganization (RAF) have been revisited on a number of occasions in order reflect changes in national realities. Implementation remains limited, even though it is imperative for poverty reduction initiatives; the distribution and ownership of land, particularly land suitable for cultivation (including the issuance of title deeds), have a major impact on the production, incomes, and living conditions of poor rural households." (p. 32)

- **Broad access to infrastructure and education**
  The PRSP discusses infrastructure development (especially in terms of ICT and rural electrification) to promote growth and improve the competitiveness of the country. While the document is preoccupied with guaranteeing broad access to education, it does not establish the link between universal education and growth.

"the national economy continues to be handicapped by its weak capacity to respond promptly and vigorously to exogenous shocks, this owing to certain intrinsic constraints and limitations that should be overcome on an urgent basis. These include… (ii) the inadequacy of economic development infrastructures." (p. 1)

"Various recent studies conducted by the Government have identified the main obstacles to balanced and sustainable growth. These are:

the inadequacy of the economic development infrastructure, with its corollary the high costs of transactions and production factors, thereby hampering the emergence of a modern sector in the economy;" (p. 4)

Promoting new information and communication technologies: The new information and communication technologies obviously provide effective tools for political, administrative, economic, and local governance by introducing greater openness and by shrinking distances and time. They enhance capacities for discussion and for rationalizing development management.
Promoting these new technologies turns them into supplements to boost poverty reduction strategies. E-mail cannot replace vaccines, and satellites cannot provide safe drinking water for poor village dwellers, but new information and communication technologies open up vast opportunities and facilitate planning that enables us to make better preparations today to meet the emergencies affecting the poor tomorrow." (p. 65)

The rural electrification program: Rural electrification is a critical factor in improving living standards and promoting production activities. Electricity promotes processing and preservation activity, along with water pumping and irrigation systems. It adds value to health and education infrastructures and helps to enhance local governance by making administrative staff and the promotion of cultural and youth activities more operational. Areas on the outskirts of cities are also deprived of electricity supplies. In these areas, special electrification or solar-powered lighting programs will be developed and will include subsidies for the poorest. Rural electrification also helps to reduce the disparities between town and country. The strategy in this area aims to help transform rural communities by improving living conditions, increasing the productivity of rural businesses and activities, and building up the capacities of grassroots communities and local governments. Rural electrification should be seen from the perspective of sustainable economic and social development, with an emphasis on reproducibility, adaptability, technical, economic and financial viability, and seeking synergies with commercial and social services." (p. 94)

- **Trade**

  Lack of openness is acknowledged in the document as one of the major constraints to growth

  "Various recent studies conducted by the Government have identified the main obstacles to balanced and sustainable growth. These are:

  the low degree of economic openness to the outside world, thus limiting the opportunities for growth and job creation despite the efforts made as part of the stabilization and adjustment programs." (p. 4)

- **Other constraints**

  The PRSP discusses several other constraints to growth, including lack of security, HIV/AIDS pandemic, weak factor productivity.

  "During the same decade, growth targets were not met in 1993 (-1.5 percent) and 2000 (1.6 percent) owing to adverse weather conditions and to the sociopolitical crises experienced in the subregion." (p. 1)

  "The HIV/AIDS pandemic has become a major public health problem and, in particular, a development problem, as it undercuts productive capacities in all sectors." (p. 3)

  "Various recent studies conducted by the Government have identified the main obstacles to balanced and sustainable growth. These are:

  insufficient national capacities, which give rise to problems with governance, civic participation, and effectiveness in the conduct of development policies;" (p. 4)

"The weak factor productivity stems from a number of causes. In general, the tendency toward subsistence farming in the poorest areas limits the scale of production to a very low level, further accentuated by the lack of labor-saving equipment which appears to be a constraint at certain stages of production. Yet this orientation toward subsistence farming is not inevitable. Among immediate explanatory factors, three stand out: (i) the low level of education, one consequence of which is to limit small farmers' field of vision to what is happening in their immediate surroundings; (ii) the incompleteness of the technologies used in vulnerable areas, which are designed primarily for self-sufficiency; these technologies focus on the harnessing of water resources (small dikes, Zaï), but they are not complemented by heavy use of inorganic and organic fertilizers; (iii) the absence of a large-scale national policy for disseminating new technologies in vulnerable areas (with the exception of the cotton growing area)." (p. 26)

4.2 Is there a clear distinction between constraints in the public and private sectors?

There is some discussion of the role of government in overcoming some of the constraints identified (e.g.: supporting the productive sector, creating a business environment conducive to investment and growth, …)

"In connection with its role as promoter, the Government should work to improve the tax related, institutional, legislative, and regulatory environment so as to allow each rural stakeholder to fully play his or her role. In addition, the Government must provide public goods and services in the areas of research, outreach, controls, and regulations. The Government will also provide institutional support to farmer organizations and local communities through appropriate training programs.

The Government will support the development of private investment in the rural sector, specifically by adopting an agriculture and livestock investment code that takes into account the criterion of investment return, in order to encourage private investment and permit private parties to take over from the Government in several areas (agricultural equipment and input supply, veterinary services, product processing and marketing, etc)

In addition, the Government has adopted new terms and conditions that give private operators access to agricultural water systems. In a similar vein, the Government will also pursue and strengthen its policy of contract-based links with private operators, while retaining its role in steering, monitoring and evaluating, and overseeing implementation of the actions." (p. 58)

4.3 Is there any analysis of whether binding constraints differ by sector?

Several sectors are analysed in the document along with the constraints to their growth. These include: agriculture and livestock breeding (cereal grains, cotton, fruits and vegetables, oilseeds, livestock), mining, industry and tourism. In particular, agriculture is considered as the most important sector to achieve growth and poverty reduction and the PRSP performs a thorough analysis of its constraints.

"Total output is essentially of primary origin and includes not only crop production but also the output of other activities, including stockraising and nonfarm activities (handicrafts, processing of agricultural products, etc.)." (p. 26)

"The vision espoused in this strategy is the advent of a rural world that is less poor and that enjoys sustainable food security as a result of:
- *increased output from agriculture, livestock, fisheries, forests, and wildlife as a result of improved productivity;*
- *increased incomes as a result of greater integration into the market economy and the diversification of economic activities in rural areas;*
- *modernization of family farms;*
- *regional diversification and specialization of production;*
- *sustainable management of natural resources and ecosystems.*

The overall objective in the area of rural development is to ensure sustainable growth of the rural sector and thereby contribute to poverty reduction, greater food security, and the advancement of sustainable development." (p. 52)

"Output from agriculture: Analysis of the situation reveals that, as a whole, current farming techniques not only fail to mitigate the negative effects of natural constraints, but actually make the situation worse. In addition, farmers' strategies rarely take into account changes on the domestic and external markets, except in the case of cotton and a few export crops (e.g. green beans). In an increasingly open sub regional and international economic context, this traditional form of agriculture will be unable to meet the competition and fill a slot in the international market. Growth, diversification, and intensification of agricultural output will necessarily require qualitative transformations in the production system, the behaviour of stakeholders, and the socioeconomic environment. For this reason, the following priority actions should be considered:

- *support and advice for producers, along with research and development;*
- *agricultural water supply;*
- *development of agricultural water systems, with a priority given to lowland*
- *development in order to intensify small-scale irrigation;*
- *development of growth industries;*
- *development of agroprocessing and the marketing of agricultural products;*
- *development of agricultural mechanization;*
- *better and more secure access to land;*
- *integrated management of soil fertility;*
- *better conditions as regards access to credit from banks and microfinance institutions." (p. 53-4)*

"The multiform actions undertaken to promote the mining sector in general and small mining operations in particular have led the Government to establish an institutional, legislative, and regulatory framework…Faced with the many potentialities of the country's soil and subsoil, as revealed by research work, the mining sector remains at the stage of small-scale operations. This is reflected in the statistics on traditional mining, which employs more than 200,000 persons in at least 200 sites around the country." (p. 61)

"The mining, manufacturing, and energy sectors will be revitalized and restructured to open them up to the private sector, and will also receive government support to reduce factor costs and enhance their competitiveness." (p. 66)

"More intensive farming will require the development of technology packages to suit the target crops, and food crops in particular. This technology will have to be adapted for the specific conditions on each type of farm, and more specifically, will have to suit the socioeconomic environment. After they are introduced, the technology packages will undergo extension and ongoing improvements." (p. 90)

4.4 Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

Regional disparities in terms of income and activities are acknowledged as one the factors which potentially distort the allocation of resources, as it appears from the sub-section dedicated to it.

“Reducing regional disparities: various data sources show that, despite their natural assets, regions have still not achieved the same level of development, particularly with regard to income and the availability of basic social services, such as education, healthcare, and safe drinking water. All these factors contribute to rural flight and migration. Actions to keep the young in the countryside have already been undertaken and deserve support in order to build up local development capacities and consolidate the decentralization process currently under way. Reducing poverty nationwide calls for narrowing the development disparities between regions, and between cities and rural areas, particularly as regards access to social services. The poverty reduction strategy will therefore be aimed at striking a balance between regional development levels and slowing the spread of poverty in urban areas. With this in mind, the regional and urban dimensions of development will be factored into the allocation of resources. The national development plan, regional plans and, inter alia, the regional investment programming law currently being drafted will all guide the allocation process.” (p. 65)

4.5 Does the analysis of constraints take into account that constraints may differ by group of people?

Yes. The document discusses constraints with respect to various types of groups, including the poor, the women, the youth.

“Finally, while women represent about 52 percent of the total population, they remain insufficiently involved in the activities of national public life owing to sociocultural impediments.” (p. 3)

“As a general rule, however, financial intermediation has barely touched the poorest areas and households. The economy of the poor remains illiquid because of the nonexistence of banks in their vicinity and the scarcity of microcredit organizations. Thus, they can neither accumulate savings nor gain access to credit. From the perspective of human poverty reduction, there is a need to increase the supply of microfinancing in order to propose a varied range of essential activities for improving the living conditions of the poor, satisfying their basic needs, and building their capacities.” (p. 33)

“The Government continues to make efforts to promote the private sector in general and small and medium enterprises and industries in particular. These small production units contribute directly to poverty reduction, specifically by providing employment and income opportunities. But they still face problems of financing, supervision, and access to government contracts. In view of the critical role played by these small production units, the Government will attempt to develop in the coming years a specific national program of support for the development of small and medium enterprises/small and medium industries. Special attention will be given to: (i) their financing, by creating an SME/SMI support fund; (ii) equipment; (iii) supervision and training of operators.” (p. 61)

“A policy for increasing employment necessarily goes hand in hand with an equally integrated policy to promote youth.” (p. 64)

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

Although the document does not make any precise reference to empirical evidence on the country (other than mentioning that “analysis from the government have shown”), the analysis of the constraints is usually performed at the sectoral level and it therefore tends to be set in the specific circumstances of the economy.

“Low productivity of farming and nonfarm activities. Studies have pointed out the low productivity of Burkinabè agriculture. This is reflected in very low yields per hectare, particularly in vulnerable areas with a high incidence of poverty. The low yields per hectare can be explained by the low productivity of labor,” (p. 26)

5.2 Do the plans make adequate reference to need for human and financial resources to overcome constraints?

Human (capacity constraints)

Yes. There is a thorough discussion on the human capacity constraints that the country has to overcome in order for its policies to be implemented and succeed. Not only is the capacity of the public sector addressed in the PRSP, but also that of professional organisations and private operators.

"Build the capacities of government agencies: In the current context, marked by regionalization and globalization of the economy, capacity building is an absolute necessity for Burkina Faso, which must make its policies succeed while meeting the demands of the market. Yet experience has shown the weak performance of government agencies, in terms of both management and strategic planning, because of inadequate professional capacities and work resources. For the rural development strategy to succeed, it now appears that this capacity deficit needs to be reduced. However, capacity-building should not be limited to training activities alone. It should be addressed from a holistic perspective, so as to integrate the institutional dimension and elements such as professional behaviors and practices, logistics, and motivation. In addition, the New Information and Communications Technologies (NICT) constitute a powerful instrument for streamlining the management of development and should be harnessed in order to benefit optimally from the opportunities offered in this area. The priority actions are to:

- *improve staffing by resuming or continuing civil service hiring for the ministries involved in rural development;*
- *improve the institutional arrangements;*
- *build the technical and operational capacities of government agencies;*
- *provide government agencies with access to the New Information and Communications Technologies.*

Build the capacities of professional organizations: The reforms implemented in the agricultural sector seek to refocus the Government's role on its sovereign functions, but they also aim to develop total accountability on the part of producers and their organizations in the development process. However, while this new context opens opportunities and favorable prospects, it also introduces new requirements which farmer organizations must meet if these organizations are to become effective. For this reason, capacity-building for farmer organizations is critical to the success of the rural development strategy. Capacity-building efforts should cover the following topics:

- *structuring and institutional development of professional organizations;*
- *vocational training;*
- *functional literacy." (p. 58)*

"Build the capacities of private operators: *Private operators need vocational training to improve productivity and build their capacities in order to adjust to business competition, encourage private investment, and attract foreign capital. The development and implementation of a program to support private initiative in the areas of agroprocessing, small animal breeding, off-season crops, and services in rural areas will facilitate private involvement in implementation of the rural development strategy." (p. 58)*

Financial

Yes. The document presents a precise financing scheme to implement the PRS, including a methodological discussion about the assumptions made to build the costing framework.

"*Implementing the poverty reduction strategy requires huge resources. For this reason, the Government opted to pool public and private resources to achieve the poverty reduction objectives it set itself. While securing the gains already made and deepening the reforms initiated earlier under various programs, the Government set about mobilizing all the resources available to implement the Poverty Reduction Strategy Paper." (p. 35)*

"*Financing scheme for the strategy: The results of a macroeconomic and budgetary framing exercise show the following as regards the provisional financing arrangements for the poverty reduction strategy. These results are predicated on the assumption of real GDP growth averaging 6.43 percent a year. The resources required for implementing the poverty reduction strategy for the next three years (2004-2006) on the basis of the macroeconomic framing exercise come to CFAF 2,059.4 billion (excluding debt service), representing 21.9 percent of GDP. Annually, the program costs come to CFAF 686.5 billion.*

The overall cost of financing the public investment strategy for the period 2004-2006 is evaluated at CFAF 1,039.4 billion, or CFAF 346.5 billion per year (see Table 2). External financing represents CFAF 561.8 billion, or 54.1 percent of the overall financing, while financing with own resources (central government, budgetary support, and HIPC Initiative) comes to CFAF 477.6 billion (45.9 percent). Capital transfers amount to CFAF 3.3 billion (0.3 percent). The additional priority actions necessary for speeding the poverty reduction effort cover the strategic pillars defined by the Government." (p. 106-7)

Trade

6.1. Is trade treated as important?

6.1.1. Is there a specific section on it in the PRSP?

Yes. Sub-section 5.2.1.4.4 within the "support for productive sector" section.

6.1.2. Are there frequent references to it in the document?

44 occurrences for "trade", 43 for "export" and 6 for "imports"

6.2. Does the treatment of trade take into account poverty reduction considerations?

No

6.2.1. Is there any discussion on poverty reducing effects of trade?

No

6.3. Does the PRSP discuss trade policy options explicitly?

Yes, the government's vision pushes for freer trade and regional integration.

"International policy calls for the Government to continue its advocacy for fairer trade, in keeping with the provisions and rules governing international trade. The nature of the country's exports, which are mainly agricultural products, requires the Government to take this approach. Cotton, which is a growth source in view of its externalities and an income source for hundreds of thousands of Burkina Faso's citizens, contributes to poverty reduction." (p. 78)

6.3.1. Is there an understanding of how they might differ from sector to sector?

The sectoral analyses tend to have some discussion on the major factors hindering export activities at the sectoral level. Examples include:

"Furthermore, live cattle exports have declined steadily since 1995, despite the rise in market prices observed in Côte d'Ivoire and Ghana following the devaluation of the CFA franc. This would seem to indicate that production in Burkina Faso has a limited capacity to respond to strong demand from neighboring coastal countries." (p. 74)

"Improving market access by renovating, organizing, and managing livestock markets and by building up infrastructures, such as refrigerated slaughterhouses, in order to promote meat exports" (p. 75)

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?

There is some mention to the potential negative effects of sub-regional integration.

"Factoring in subregional integration: The subregional integration process taking place in WAEMU and ECOWAS is a boon for the country's economic development. However, this process does entail risks and social costs associated with the impact of the ongoing reforms on the poorest population groups. Therefore, the accompanying regional solidarity measures to ensure cohesiveness and synergy between national and regional poverty reduction policies need to be strengthened." (p. 66)

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?

No

6.4. Does the PRSP cover other national and international factors affecting trade?

6.4.1. Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

There is some discussion on the supply-side constraints to domestic industry which undermine the export potential of the economy.

"Improvements in the competitiveness of commercial products: In the context of regionalization and globalization of trade, efforts will be made to encourage the diversification of export products and export potential, along with improvements in the competitiveness of growth industries (such as cotton, oil-producing plants, fruits and vegetables, leathers and hides, tourism based on hunting, etc.). These products have a formative effect on the entire rural sector (in view of the need to organize upstream and downstream services) and a multiplier effect on incomes, particularly rural incomes." (p. 55)

6.4.1.1. In particular, is there any reference to Trade related technical assistance (including IF)?

No

6.4.2. Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

No

6.4.2.1. Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?

Yes, deeper integration with both WAEMU and ECOWAS are considered to be important channels to promote regional integration expanding the country's export potential.

"In view of the scant competitiveness of the Burkina Faso economy at present, the West African economic integration process will probably impose some economic and social costs. However, the Government is confident in its capacity to work with the other partners in the Union with a view to: (i) limiting these costs; and (ii) making the most of the opportunities offered by a considerably broader regional market." (p. 4)

"The subregional integration process taking place in WAEMU and ECOWAS is a boon for the country's economic development." (p. 66)

"Regional policy recognizes the fact that Burkina Faso has an underused potential for exporting transport and related services owing to its geographical location in West Africa, in addition to its potential for exporting agricultural and mining commodities. The country will have to acquire leading-edge logistics to capitalize on this potential and to enable it to regulate trading activity between coastal countries and those in the interior. This will involve developing inland container depots (dry ports) with large storage, handing, and parking capacities. The Bobo-Dioulasso road freight terminal, where the cornerstone was laid on July 16, 2004, is one example of such facilities.
In addition to freight transport, expansion of the tourism sector also offers export potential, and the operators engaging in tourism related activities, such as hotels, restaurants, moneychangers, and travel agencies, should be supported." (p. 78)

6.4.2.2. In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?

No

6.4.2.3. Are ongoing discussions in the WTO referred to and analysed?
No

6.4.2.4. Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?
No

6.5. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

6.5.1. Human
No

6.5.2. Financial
The costing framework is applied to the trade part of the PRS as well.

GHANA

Growth

1.1. How is growth treated in general?
Growth appears to be the most important factor in reducing poverty in Ghana's PRSP.

"The overarching goal of Ghana's current socio-economic development agenda is to attain middle income status (with a per capita income of at least US$1000) by the year 2015 within a decentralized, democratic environment." (p. 5)

1.2. Is growth included in the title of the document?
Yes.

*"In place of the former Ghana Poverty Reduction Strategy (GPRS I), Government is accordingly launching a new **Growth and Poverty Reduction Strategy** (GPRS II 2006-2009). The change in name reflects the new direction of government policy which places more emphasis on growth." (p. 4)*

1.3. Is there an explicit statement that growth is relevant for poverty reduction?
Not only growth is considered to be fundamental in the achievement of poverty reduction, but it is also viewed as important for the implementation of the MDGs.

"the emphasis of GPRS II is on the implementation of growth-inducing policies and programmes which have the potential to support wealth creation and sustainable poverty reduction." (Executive Summary)

"a platform upon which to generate economic growth as a means to poverty reduction" (p. 3)

"Ghana is already on course to meet the targets of the MDGs, and acceleration of economic growth will permit us to implement them even more fully." (Preface, p. i)

1.4. Are there frequent references to it in the document (count number of occurrences of "economic growth")?
41 occurrences for "economic growth" and 21 for "GDP growth" in the 196 pages of the document.

1.5. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?
199 occurrences for health and 187 for education.

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?

Yes. “A narrow definition of our growth targets for the GPRS II period is 6 – 8% GDP per annum” (p. 20)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

The document is very precise in decomposing the growth rate into the macro sectors of the economy (agriculture, industry and services) as well as the sub-sectors (Table 2.6, p. 28).

2.3 Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a “vision 2020”?

Only some references to a few external documents are made, including the Financial Sector Strategic Plan, the Medium Term Expenditure Framework and Trade Policy plan.

3. Does the treatment of growth take into account poverty reduction considerations? Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution?

There is no specific discussion on the effects of growth on any dimension of poverty or inequality (which is never even mentioned in the document).

4. Have key constraints to growth been analysed?

Throughout the main text, there is virtually no analysis of the constraints to growth, and no reference to any study or empirical work on possible constraints in Ghana. Often the problems to be addressed by the PRSP are not even stated, and the document appears to be a wishful list of (several) actions to be undertaken not related to any analysis of the constraints to growth.

The Policy Matrix in the Appendix appears to be more systematic than the main text in identifying the constraints and proposing a related solution. However, no reference is made to any analysis performed to identify such bottlenecks.

4.1. How, if at all, have the following constraints been analysed?

- **Macroeconomic stability**

There are clear statements throughout the document that a stable macroeconmic framework is a pre-condition for growth. Subsections 2.3.1 and 2.3.2 focus on the main points of macroeconomic discipline to be followed. There is a lack of analysis of the consequences of past or potential macroeconomic management.

"macroeconomic stability, especially by containing inflation within single digit as from 2006 from the current rate of about 14.7 percent (August 2005). Accordingly, it is expected that the average annual change in the GDP deflator will not exceed 9 percent

- *a stable Cedi/ Dollar exchange rate with prudent management that will keep the Cedi depreciation below a 4 percent per annum ceiling*
- *reduced cost of investment loans as incentives for stimulating investment in support of private sector-led growth. This is expected to be the dividend from sound macroeconomic management, and also reflect the reduction in risk factors that make loans to SMEs unattractive to banks*
- *containment of fiscal deficits and preventing them from being a major source of monetary instability and price inflation. Two years after gaining a very favourable rating from leading agencies, Ghana is preparing to tap into the international capital market to supplement access to developmental resources. Prudent, debt management will entail taking into account the maturity profiles of debt against public sector borrowing requirements" (p. 21)*

"GPRS II will continue with the implementation of policies that will enhance and sustain the gains made in macroeconomic stability under GPRS I by ensuring:

- *prudent fiscal policy management*
- *a monetary policy that is flexible enough to respond to external shocks, promote growth and ensure price stability*
- *real interest rates that enhance effective mobilisation of savings and make credits affordable to the private sector*
- *relatively stable real exchange rates that promote international trade" (p. 22)*

- **Well defined property rights**

The importance of property rights is discussed both at an horizontal (across sector) and at a vertical level (within sector).

"Appropriate policies and legislation that protect property rights, promote fidelity to contractual agreements and boost investor confidence need to be introduced or enforced where they already exist, as part of the broad governance strategy." (p. 59)

"The appropriate policies and pieces of legislation that protect property rights, reduce the fear and aversion to savings, promote fidelity to contractual agreements and boost investor confidence, will be introduced or enforced where they already exist as part of the broad governance strategy." (p. 61)

"The Land Administration Project will be reviewed to recognise the importance of property rights to MSMEs and the Land Title Registration Law of 1985 will be enforced as a means of ensuring security of tenure of small land holders, especially women and the youth." (p. 32)

"like any Ghanaian industry, [the music industry] is infused with the perennial problems of…lack of effective laws and regulations to protect intellectual property rights, low level of awareness on intellectual property rights" (p. 39)

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures.**

Investment is seen as one of the main ways to boost growth, thus the importance of an attractive investment climate is recognised. However, the study fails to touch upon any analysis of the actual problems of Ghana that currently limit investment

"To attract foreign investment, will require taking bold actions aimed at ensuring good governance, improving infrastructural development, accelerating judicial reforms, expanding trade and investment promotion, etc." (p. 30)

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**

No

- **A well-functioning factor markets (labour, capital and land)**

Financial sector

The lack of access to credit is one of the most recurrent themes throughout the paper. It is considered to be one of the major constrains to the growth of the economy as a whole, as well of that of specific sectors, including agriculture.

"Although the financial services sub-sector made significant gains between 2001-2004, this did not impact sufficiently on the agricultural and manufacturing sectors. Generally the financial institutions have considered local manufacturing and agricultural enterprises as risky undertakings; this is of particular concern because of the adverse effect on small-scale farmers, especially women, who constitute the majority of the rural poor. On the other hand, the bulk of bank credit has been channelled to commercial activities, especially those involving import trade, at the expense of those sectors which could potentially serve as growth points to lead the required accelerated growth" (p. 17)

"Financial Sector Reform: To ensure that the financial sector responds effectively to the needs of the private sector, financial sector reforms will be deepen. This will include the continuous implementation, monitoring and evaluation of the Financial Sector Strategic Plan (FINSSP), in addition to identifying and agreeing on a small number of key private sector development targets within the FINSSP." (p. 30)

Labour market

"young people who have acquired some skills but need retraining especially in good management practices to enhance their access to the labour market;" (p. 44)

One labour-related problem identified in the policy matrix is the *"Inadequate labour market information system for a coherent and improve labour and employment management"*, which would be tackled by *"Develop[ing] and implement[ing] a fully functioning system that provides labour market information and statistics to support relevant decision making." (p. 110)*

Land market

"Reform to land acquisition and property rights: Existing variations in access and control over land in different communities will be re-examined to promote easy access and ensure equity to all, especially to usufructory holdings in addition to improving the system of land registration to protect the interests of small holders. Furthermore, the establishment of agri-business zones and land banks will be promoted. The Land Administration Project will be reviewed to recognise the importance of property rights to MSMEs and the Land Title Registration Law of 1985 will be enforced as a means of ensuring security of tenure of small land holders, especially women and the youth." (p. 32)

- **Broad access to infrastructure and education**

Infrastructure development is considered to be an important element of a successful growth strategy. The section (3.3) on support services deals with infrastructure policy, focusing on transportation and energy. It present a long list of policies whose genesis is not clear.

"Road especially, rail and water transport are by far the principal forms of transport in Ghana. However exports of fruits and vegetables are mainly by air transport. Improving overall road maintenance, and rehabilitating farm-to-market roads, bridges and ferries would lower transportation costs and integrate rural economies with the urban economy. It would also lengthen vehicle life, reduce transportation costs and save foreign exchange in fuel and spare parts imports, and generate savings in travel time. The broad policy objectives therefore include: ensure the provision, expansion and maintenance of transport infrastructure of all kinds; and ensure provision of affordable and accessible transport system that recognises the needs of people with disabilities. A single Ministry of Transport will promote synergy and enhance planning and operations." (p. 35-36)

"To support a growing agro-industrial and services sector, as well as the needs of households, the policy thrust for the sector is set within the context of ensuring a reliable supply of high quality energy services. The broad policy interventions outlined to achieve this overall goal include: ensure increased access to modern forms of energy to the poor and vulnerable…" (p. 36)

Access to education is recognised to be a major element to harness a long-term development strategy.

"The development of the human resources of the country is one of the three key pillars of the GPRS II. The main goal is to ensure the development of a knowledgeable, well-trained, disciplined and healthy population with the capacity to drive and sustain the private sector-led growth strategy." (p. 41)

- **Trade**

The undiversified export sector is considered to be one of the main constraints to growth

"there are two broad sets of constraints to achieving accelerated wealth creation and poverty reduction. These are the vulnerability of the economy due to the persistent reliance on the export earnings from a few primary commodities…" (p. 6)

- **Other constraints**

The “difficult” socio-demographic structure of the country is considered to be another major constraint.

“…The second [main constraint] is the social structure which comprises a high proportion of children and youth. The attendant high dependency ratio is aggravated by the low level of literacy, working skills, and productivity especially among women and the rural population.” (p. 6)

4.2. Is there a clear distinction between constraints in the public and private sectors?

Some of the constraints in the public sector include:

“weak and inadequate capacity within the public sector to formulate, implement, monitor and evaluate private sector policies that explicitly take into account the specific needs of enterprises (especially the interests of micro, small and medium scale enterprises)” (p. xxii)

“Public Sector Reform: The policy priorities under public sector reforms will include: (i) ensuring private sector development is mainstreamed within the Public Sector Reform programme; (ii) development of pro-business tools within the Public Sector Reform Programme, including: service-focused training programmes for public servants; (iii) development of pro-business ‘Customer Charters’ and anti-corruption action plans for key private sector-related MDAs; (iv) conducting a fundamental review of tax policy and administration in relation to micro and small enterprises; and (v) development of a regulatory impact assessment methodology for all proposed new laws and regulations with significant private sector impact.”

“Strenuous government intervention is the only way to break the cycle and attenuate the risks on both sides so that the private sector moves in our present development paradigm can successfully perform their roles in moving Ghana’s agriculture forward.” (p. 26)

4.3. Is there any analysis of whether binding constraints differ by sector?

Yes. Particular attention is given to agriculture, which is considered the main motor of growth

“Economic growth and structural transformation is to be propelled by the agricultural sector in order to maximize the benefits of accelerated growth.” (p. 23)

A lengthy analysis of the agricultural sector identifies constraints specific to it and to its sub-sectors. Again, the paper produces many recommendations at sectoral level without necessarily rooting them in an analyis of sector specific constraints.

“For agriculture to lead growth in the short term, the economy must diversify into other crops apart from the traditional cocoa, especially cereals and other cash crops for export markets including mangoes, papaya, pineapples, cashew nuts and vegetables.” (p. 23)

“The failure of development policy over decades is that Ghana has not implemented accessible and easily affordable technologies to overcome these deficits.” (p. 25-26)

“An equally important constraint is the dearth of affordable credit in agriculture. Even in the flagship of the cocoa sector, the only credit that was ever available from the organised bank in the system was via the short-term seasonal credit of the foreign buying companies. Food crops still do not have adequate marketing and financial support. For the producers, this makes crop farming a high-risk enterprise and in a vicious circular relationship, it also makes a high-risk field for its traders and bankers.” (p. 26)

Analysis of constraints involve other sectors as well, including mining, tourism and film and music industry.

4.4 Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

No. There is a list of poverty rates by district in the Appendix, but it does not seem to inform the analysis in the document.

4.5 Does the analysis of constraints take into account that constraints may differ by group of people?

Yes, the document appears to be concerned about the way some constraints are faced by women and youth in particular.

“Further constraints to the sector’s capacity include…lack of access to credit, especially of small-scale women farmers;” (p. 31)

“The Land Administration Project will be reviewed to recognise the importance of property rights to MSMEs and the Land Title Registration Law of 1985 will be enforced as a means of ensuring security of tenure of small land holders, especially women and the youth.” (p. 32)

“special interventions will be initiated to improve access to affordable credit by farmers with special emphasis on increasing the proportion of women that can gain access to credit;” (p. 32)

“Whilst promoting increased mechanisation in large scale agriculture, emphasis will also be given to the development and use of small-scale technologies that target smallholder farmers, especially women” (p. 33)

“Generally low access of women to land including irrigated land” (p. 82)

5 Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

More often than not the discussion on the policies is not preceded by any analysis of the constraints. Where the constraints are identified they seem in general to refer to the specific Ghana’s context.

5.2. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

Human (capacity constraints)
Lack of adequate human resources is identified as a major constraint both at country level and at the sectoral level (for example in ICT).

"The development of the human resources of the country is one of the three key pillars of the GPRS II. The main goal is to ensure the development of a knowledgeable, well-trained, disciplined and healthy population with the capacity to drive and sustain the private sectorled growth strategy." (p. 41)

"Outside the formal education system, many young people lack the requisite skills and entrepreneurial know-how to access jobs in the labour market" (p. 44)

"In order to provide skill and entrepreneurial training the following strategies will be adopted: train unemployed in competency-based, demand-driven skills, including the STEP programme; promote and establish production units in all vocational training centres; set standards for vocational training and entrepreneurial development; intensify co-operative education and its practice in collaboration with stakeholders" (p. 45)

Financial
The last sub-section on the *Resource Gap* details the financial resources needed to implement the strategy and the way to finance these. Specific financial needs per area of implementation are detailed at the end of the document in a highly defined costing framework, whose main element is the medium term expenditure framework, which is based on GPRS II estimated costs.

"The estimated total resources required to finance the GPRS II is US$ 8.06 billion (2006-2009). These costs consist primarily of investment and service costs and exclude wages, salaries and administrative expenses associated with project and programme implementation. The budgeted expenditures for investments and services over the same period amount to US$6.27 billion, indicating an overall funding gap of $1.79 billion, which is expected to be filled by external inflows and resources from the capital market.
The external inflows expected to be harnessed from HIPC savings, debt cancellation and Millennium Challenge Account will complement domestic resources. Given Ghana's favourable sovereign ratings, augmented by good governance, additional resources could be sourced from the international capital market."

Trade

6. Is trade treated as important?

6.1.1. Is there a specific section on it in the PRSP?
There are two relevant sub-sections: one on trade and industry (3.3.2) and the other on international trade management (5.6.4), although the main policy document on trade is the National Trade Policy, which details the strategies to promote the integration of Ghana into global and regional markets.

6.1.2. Are there frequent references to it in the document?
73 occurrences for "trade", 66 for export, 10 for import

6.2. Does the treatment of trade take into account poverty reduction considerations?

6.2.1. Is there any discussion on poverty reducing effects of trade?
Not explicitly, trade is considered to reduce poverty via its effects on growth.

6.3. Does the PRSP discuss trade policy options explicitly?
Yes, the document states in the International Trade Management sub-section a (very) general view of trade policy which should be implemented by the government. The problem again seems to be that there is no clear analysis of the major current constraints to trade, thus it is difficult to understand how a trade policy may improve the existing situation.

"GPRS II will promote international trade by reducing the constraints associated with export and import procedures; minimizing the incidence of "dumping"; diversifying and increasing the export base, promoting new areas of competitive advantage, taking full advantage of Ghana's preferential access to international markets (AGOA, EU-ACP), engaging fully in multi-lateral trade negotiations, and establishment of an effective information system to track and measure progress." (p. 67)

6.3.1. Is there an understanding of how they might differ from sector to sector?
"For agriculture to lead growth in the short term, the economy must diversify into other crops apart from the traditional cocoa, especially cereals and other cash crops for export markets including mangoes, papaya, pineapples, cashew nuts and vegetables." (p. 23-24)

"Given Ghana's limited access to the global market, the objective of government's export promotion drive will target the implementation of sector-specific measures to support strategic exports, focusing initially on the President's Special Initiatives (PSI), as well as supporting local companies to participate in foreign and domestic trade shows, fairs and exhibitions." (p. 30)

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?
No

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?
No

6.4. Does the PRSP cover other national and international factors affecting trade?

6.4.1. Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

Supply-side measures to increase export competitiveness of Ghana's producers are discussed in the general section on trade, as well as on infrastructure.

"The broad policy objectives and strategies outlined to achieve these include: ***Enhancing access to export markets*** *[by] providing concessionary export finance facilities to exporters; promoting competition in airport cargo handling; encouraging private sector investment in construction and operation of cold chain facilities from production point to the port; facilitating the provision by private sector of well organised container terminals with security, equipment, effective operators and computerised tracking; and facilitating trade through Ghana's borders to reduce costs and improve ease of trade" (p. 34)*

The infrastructure section discusses the improvements planned to facilitate the export sector, although no it does not present any analysis of how the present situation may constrains exports.

"construct three major highways to connect trans-ECOWAS Highway." (p. 36)

"Other strategies include promoting the adoption of Intermediate Means of Transport (IMT), encouraging general aviation and aviation support services such as the use of micro light aircraft in agriculture, passenger transport and health delivery, and the promoting subregional transport systems including air transport that ensures efficient movement of goods and persons across borders." (p. 36)

6.4.2. In particular, is there any reference to Trade related technical assistance (including IF)?

No

6.4.3. Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

Yes, the document seems to identify in the non-tariff barriers the main demand side constraints to export.

"To improve Ghana's access to global and regional markets, it is envisaged that the National Trade Policy which seeks to promote the integration of Ghana into global and regional markets will be fully implemented. Also the recommendations from the review of existing institutions responsible for providing quality standards and services to the private sector, such as Ghana Standards Board, Food and Drugs Board, and the Plant Protection and Regulatory Services will be implemented fully." (p. 30)

"improve the multilateral trading environment by fully participating in negotiations and rule setting in multilateral trading fora to ensure that Ghana's national interests are secured; create a fair, transparent and equitable trade regime;" (p. 34-35)

"ensure the removal of technical barriers in the way of key current and potential export products; and assist exporters to comply with international standards required by selected export markets" (p. 36)

6.4.4. Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?
No

6.4.5. In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?
No

6.4.6. Are ongoing discussions in the WTO referred to and analysed?
No

6.4.7. Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?
No

6.5. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human</u>
No discussion

<u>Financial</u>
Yes. The costing framework details a budget allocated to *Improve Ghana's position in global and regional markets* ($24.3 million in 2006) and to *Promoting Trade and Industrial Development* ($136.2 million in 2006).

NICARAGUA

Growth

1.1. How is growth treated in general?
"The main objective of the NDP is economic growth and poverty reduction." (p. 19)

1.5. Is growth included in the title of the document?
No

1.3. Is there an explicit statement that growth is relevant for poverty reduction?
Yes. There are several references throughout the document about the importance of economic growth for poverty reduction.

"The implementation of the SGPRS indicated that poverty reduction not only depends on increased social spending, but requires higher sustainable economic growth, implying increased production and exports to generate employment and higher income." (p. 8)

"Since poverty reduction is conceived from the perspective of greater generation of wealth, included among the productive indicators are growth of the GDP, employment, exports, and investments." (p. 19)

"There is also consensus that "the sustained reduction of poverty cannot be achieved without rapid economic growth." (p. 30)

1.4. Are there frequent references to it in the document (count number of occurrences of "economic growth")?
89 occurrences for "economic growth", 13 for "GDP growth" and 12 for "economic development" in the 182 pages of the document.

1.5. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?
201 for "health", 172 for "education".

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?

Yes.

"372. Under the influence of the implementation of NDP policies, it is expected to see the economy grow without difficulty at an average annual rate of around 4.5 percent during the 2006-2010 period, above the average (3 percent) shown during the 2001-2005 period. With a full implementation of the NDP, it is estimated that the GDP growth rate will be above 5 percent for the 2010-2020 period. Under these conditions, per capita income will increase at an average annual rate of 2.3 percent in the medium term under an optimistic inflation profile." (p. 74)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

No

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020")?

No

3. Does the treatment of growth take into account poverty reduction considerations? Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution?

a. Poverty

Yes. There is a precise estimation of the possible effects of the target rate of growth on poverty reduction.

"Specifically, it is expected that the economy growth at an annual rate of about 5 percent in the long term, and the percentage of Nicaraguans living in extreme poverty will fall from 15.1 percent in 2004 to 11.5 percent in 2010." (p. 19)

b. Income inequality

The document seems to place significant attention to income inequality, considering it more as a potential constraint to growth rather than as an outcome of growth.

"The relationship between inequality and economic growth has been a topic subject to intense debate in the last decades. The existence and evolution of income inequality among Nicaraguans is a source of concern since this inequality may affect the evolution of the economy and social stability. This makes inequality a cross-cutting theme in the NDP, which is addressed in each and every chapter." (p. 28)

"Empirical studies have demonstrated that inequality also discourages foreign direct investment. As a result, inequality may have an impact on the future evolution of the economy and growth rates." (p. 29)

The document also recognises the possible damaging impact of economic growth on inequality, if growth is not inclusive.

"The NDP reiterates that an exclusive economic growth in which just a small number of firms benefit leaving outside the vast majority, is not consistent with the ethical principles and commitments to secure a prosperous society, one in which the development opportunities are equal for all." (p. 29)

c. Spatial inequality

Yes, the document discusses both the spatial concentration of poverty in Managua and the way in which clusters of sectoral activities may be used for localised development.

"The recovery and expansion of the economy in the service sector in this city [Managua], particularly commerce, contributed to a notable reduction of poverty in comparison to 1998." (p. 18)

"The vision of clusters has been adopted to increase productivity and develop the territories´ economic potentials. For example, sectors like beef and dairy products, shrimp farming, tourism, coffee, light manufacture, and forestry have been able to execute actions that are complemented with public investments.

186. Clusters are already being developed in specific geographic zones and represent the entranceway to the territory. In the short and medium term, these will produce different benefits: (a) linkages between all local actors, producers, processors, and providers of goods and services; (b) taking advantage of the market openings with better quality goods and services; and (c) reduction of costs for implementing government policies and actions." (p. 36)

4. **Have key constraints to growth been analysed?**

A neo-classical economic view seems to have shaped the document's discussion on the constraints to growth, as it is clear at the onset of the NDP:

"Nicaragua, as part of its development strategy, has made progress in opening up to trade, foreign investment, productive diversification, and macroeconomic stability, which complements the opportunities for economic growth and regional integration."

4.1. How, if at all, have the following constraints been analysed?

All of the key constraints (OPPG type) have been analysed and addressed with very specific targets to be matched (see Table 2.2 – page 20).

- **Macroeconomic stability**

  There is an entire chapter (number 7) dedicated to the macroeconomic programme, which is supposed to achieve the usual (specific) targets set by a traditional view on macroeconomic fundamentals (e.g. fiscal discipline, inflation control, stable exchange rate, etc.). These targets have been set following intense consultation with the IMF. There is no empirical analysis on the effects of macroeconomic targets on the economy.

  "365. In December 2002, the government signed a PRGF agreement with the IMF that established the economic policy for the 2003-2005 period and the flows of external resources to fund the General Budget. The basic conditions and actions for having the debt relief under the HIPC initiative were worked out in this framework. In 2005, the authorities and the IMF made a review of the economic program in light of new external and internal factors like the impact of high oil prices, fiscal program performance and the structural reforms approved by the National Assembly recently. The projections in this document are preliminary." (p. 73)

  "368. The authorities continue making efforts to reduce the fiscal deficit, manage the internal debt problem, make progress in the structural reforms still pending, reduce the social impact of the high oil prices, strengthen its poverty reduction strategy, and its democratic process with the next year's regional and national elections. Along this line, the National Assembly approved a 2006 budget in agreement with the program, supported by the international community. As a result, also the millennium challenge account is making progress and the political situation improved.
  369. Thanks to the good performance on economic matters and structural reforms, Nicaragua managed to achieve the relief of more than 80 percent of its external debt, after reaching the completion point of the HIPC initiative in January 2004. The good performance in 2003, supported by the international community and the people of Nicaragua, allowed carrying out one of the most deep-going processes in the experience of countries under this initiative." (p. 73)

- **Well defined property rights**

  The development of well established property rights protection (especially with respect to land) is one of the priorities of the NDP, which includes a specific section on the promotion of property rights' protection in its economic growth strategy.

  "Priority goals in productive policies are the reduction of uncertainty about the rights and legal order for property ownership and improved financial services." (p. 19)

  "This effort is framed in initiatives to correct high transaction and production costs, for this, the policies promote a regulatory framework that would foster clear rules for competition and a legal framework that would establish and guarantee private property rights in a market economy." (p. 30)

- **Property rights**

  168. Among the measures for institutional strengthening is the definition of property rights, the absence of which has been identified as one of the main constraints to developing the country. Estimates are that only 30 percent of properties in the agricultural sector are duly registered and entered into the land cadastre (mapping). The property problem has also had adverse effects in urban areas and other areas of the economy. To solve these problems, a program with six lines for action, detailed below, will be undertaken:
  169. Modernization and expansion of the cadastre and registry, integrating them functionally, and the participation of different institutions involved in the solution of property rights (Ministry of Finance, Institute of Territorial Studies, Institute of Property and the Supreme Court).
  170. Legal ordering of property, a process to clear up, certify, and issue titles will be supported in order to solve the problems stemming from the issuing of titles and other legal instruments during the different processes for assigning State lands and properties, particularly during the transition process (February-April 1990)." (p. 33)

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures.**

  Lack of a proper investment climate conducive to private sector development is considered as one of the main constraints to economic development in the country, as it is evident in these passages:

  "Private sector investment decisions determined by market signals are being supported by public investment programs in infrastructure, social and environmental programs, policies and incentives to improve business competitiveness and employment generation." (p. 9)

  "The NDP, however, goes beyond the public spending vision, it implies the implementation of public policies and other actions such as paperwork simplification, legal reforms reinforcement, and facilitate the private sector transactions." (p. 10)

  "To support productive development, the idea is to facilitate the conditions and the setting for the development of new businesses. For this reason, indicators referring to the regulatory framework and paperwork time, such as the number of days it takes to register a firm, the time needed to legalize properties, and the number of cases of attending consumers' claims, have been included. The NDP also includes actions for attracting investment into the country." (p. 19)

  "The global strategy of the NDP is to improve the business environment to take advantage of the competitive potential of the territories, promote productive development…" (p. 30)

“the NDP proposes to improve the policy for export promotion and attraction of investments. Nevertheless, to take advantage of these opportunities, it is necessary to overcome a series of constraints in its business climate that reduce competitiveness and innovative capacity.” (p. 30)

An entire section is dedicated to regulatory issues to promote private sector development, including the specific role for the public sector in harnessing this objective.

<u>Regulatory framework and paperwork procedures</u>

163. Studies and analyses of the national situation have reiterated the importance of the State to facilitate the proper evolution of markets. Work for this was done around three objectives: i) facilitating business management by reducing the time for government paperwork procedures; ii) a legal and institutional framework for the implementation of the policy for competitiveness; and, iii) establishing an integrated system for quality that includes standardization, accreditation, and metrology.
164. To reduce time from paperwork procedures with the objective to reduce transaction costs. Public efforts for achieving this objective centers on three specific actions: i) implementing a program to simplify administrative procedures; ii) modernization of mercantile legislation; and, iii) improving the customs system.
165. One of the most important structural reforms is to provide a legal and institutional framework to promote competition. Interventions for this are made with five specific actions: i) a legal framework on the theme of competition; ii) identifying and eliminating anti-competitive practices; iii) strengthening municipalities´ capabilities for conflict resolution that benefit producers and consumers; iv) including the theme of competition in the primary and secondary curriculums; and, v) implementing a system of information at the service of the consumer.” (p. 32)

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**
  No discussion.

- **Well-functioning factor markets (labour, capital and land)**
  Factor markets are considered a priority (especially financial and land markets) by the NDP to ensure the effective development of the country.

<u>Financial market</u>
Financial sector development is one of the main seven goals of the economic growth strategy. The document has a section on financial services’ development as a major potential driver of growth in Nicaragua.

“Since there is a high correlation between the financial system and economic growth, the NDP aims at readjusting the financial system to international norms for supervision and prudential regulation. It is necessary to integrate the multiple governmental funds for credit and to promote the development of new products that will develop the market, balance risks, and improve conditions in order to incorporate a large section of society currently not served by financial markets.” (p. 30)

Financial services

175. The policy for financial services has the objective of having a more competitive financial market with a more transparent system that would reduce the risks of bankruptcy and insolvency, would lower the cost of credit, and increase access to a greater number of clients, especially small and medium producers.
176. The above mention includes the expansion of access for small and medium business and low-income groups will be promoted through the following actions: i) the establishment of a new legal and supervisory framework for microfinance activities that includes the approval of a law for associations; ii) the application of a normative framework to improve credit information systems, along with the strengthening of the system for a risk bureau of the Superintendence of Banks (SIBOIF) and the promotion of competition for credit information markets in the private sector; iii) the development of a legal framework for protection of consumers of financial services; iv) the design of technical assistance programs for microfinance institutions; and, v) the establishment of a modern legal and regulatory framework for the development of the financial cooperatives activities.
177. The improvement of the institutional framework for State credit entities, implementing the necessary institutional reforms for the ordering of the credit resources of the Rural Credit Fund (FCR), Institute of Rural Development (IDR), and the Nicaraguan Investment Fund (FNI), improving efficiency in resource allocation and timely attention under competitive conditions.
178. The reduction of risk and expansion of collateral capacity by means of actions for: i) improvements to the legal framework for pledge guarantees with a Law for Real Moveable Property Guarantees, complementing the modernization of the public registries; and, ii) improvements to the legal framework for fiduciary activities that includes a Law for Trust Funds.
179. The establishment of incentives to leverage the growth of small and medium investments, which consists of the creation and development of Risk Capital Funds with three fundamental aspects: i) prioritizing investments in sectors with high profitability in the domestic market and export activities; ii) developing business training programs in the sector for small and medium business; and, iii) complementing actions with other promotion funds." (p. 34-5)

Labour market

Labour market constraints are discussed especially in terms of vulnerable groups' labour rights.

"261. At present, the labor market does not have an adequate legal and institutional framework, which is reflected in a situation of labor vulnerability and social and occupational insecurity, especially in the informal sector of the economy. From that perspective, the labor sector has begun a process of modernization with the approval of laws, regulations, and norms to improve labor administration. In 2004, the Law on Labor Health and Safety and the norms for health and safety for work in the textile maquila were approved." (p. 51)

Land market

There is an important treatment of the land market, which the document considers an important issue especially for the poorest people, both as a factor input and as collateral for access to credit.

"With respect to land regularization, the NDP proposes the systematic solution of property conflicts from an integral perspective that solves problems in specific rural and urban areas, most of which are extreme poor. Empirical studies have demonstrated that such conflict resolution benefit the poorest, which lack the access to services necessary to solve their property problems."

"Establishment of a framework of incentives in order to give more dynamism to land markets, which includes: i) a system of information on real estate prices and transactions, reforms to the taxation framework so it that favors the intensive and efficient use of land; and, ii) the development of efficient mechanisms for acquiring rural properties, and expanding financial services to small and medium producers through property regularization." (p. 33)

"Establishment of a legal and normative framework that would give more dynamism to land market, which includes: i) mechanisms for access to land by small and medium producers; ii) mechanisms that give more dynamism to the land market and the use of land as collateral; iii) reforms to the laws for cadastre and the public registry; and, iv) the design of a land policy that includes protected areas and indigenous communities, and the recognition and definition of property rights for indigenous communities, pushing ahead with the implementation of the demarcation of the communities in the Bosawas Reserve, Awas Tingni, and other zones of the Autonomous Regions." (p. 34)

- **Broad access to infrastructure and education**

  Infrastructure is considered to be a very relevant issue for ensuring economic growth, helping insert Nicaragua in world markets and enhancing the competitiveness of domestic industries. In particular, the constraints posed by lack of adequate transport, energy and ICT infrastructure are discussed, and ways to address those are proposed.

"Another cross-cutting theme regarding economic development has to do with the development of Technology of Information and Telecommunications. Nicaragua has signed important compromises at the World Summit of Information Societies, and has worked on the inclusion of policies and actions aimed at fulfilling such commitments. A special Council in this topic has been formed, with ample participation of government agencies and private institutions. Among such actions is the elaboration of a comprehensive strategy delimiting financial requirements for the development of information and telecommunication societies, the improvement of market conditions for technological and internet service providers, as well as the increase in public schools´ internet access." (p. 31)

Infrastructure for Development

283. Lack of basic infrastructure produces barriers to accessing public and private goods and services that are essential for economic and social development. This marginalization is associated with productive shortfalls, creating a perverse circle between high mortality rates, low life expectancy, low productive capacity, and high unemployment.
284. Identifying the productive potential (Annex 3) of the territories and their lack of services or marginal access to services is key in order to get a multisectoral strategy for the integral development of infrastructure in each territory. In this regards, the infrastructure policy centers on actions and investments to reduce the indexes of productive and social marginalization, like geographic isolation, overcrowding, highway and road networks, ports and airports, drinking water and sanitation, and lack of access to electricity and telecommunications.
285. The principal objectives of the investment policy are as follows: (a) promote balanced economic growth for all territories, according to their potential; (b) increase competitiveness through public investments that foster private investments; (c) reduce social gaps, thereby enabling the country to reach the millennium development goals; (d) promote inclusion and social participation in decision-making; and (e) increase the efficiency of the investment process." (p. 58)

- **Trade**

  Trade is viewed as one of the main pillars of the economic growth strategy of the country, as it is apparent in the introduction of the economic growth section:

  "The global strategy of the NDP is to… and have Nicaragua inserted itself into global trade currents." (p. 30)

- **Other constraints**

  None

4.2. Is there a clear distinction between constraints in the public and private sectors?

Yes, there is in general a clear picture of the role of the public sector in overcoming certain constraints, such as those related to infrastructure, public administration, factor markets' regulation, positive investment climate. There is also some discussion of the role the private sector may have in some areas, such as energy production.

"The government formulated a long-term strategic plan for the National System of Public Investments (SNIP) that establishes the basis for the new public investments policy that takes into consideration elements to improve the public investment processes in the short and medium term." (p. 58)

"318. Reduce the legal and administrative barriers that hinder the entry of investors into the sector. The current policy for electricity generation is framed in a scenario of mixed public and private participation. The State is the main generator of energy and the owner of major generation plants, especially hydroelectric, and so it is necessary to have private co-participation to reduce energy deficits and costs, and will allow for increased efficiency, productivity, and savings of foreign exchange." (p. 63)

Reform and Modernization of Public Administration

334. In recent years, there has been major progress with State reform. In 2001, a number of laws, regulations and initiatives were consolidated, like the strengthening of prudential norms and banking supervision, the privatization of the State telecommunications firm, the design and expansion of SIGFA, the implementation of a system for monitoring poverty spending, and the reorganization of ministries and key agencies in order to have a more efficient public sector." (p. 67)

4.3. Is there any analysis of whether binding constraints differ by sector?

Yes, constraints at the sectoral level emerge in the analysis of a few sectors (beef and dairy products, shrimp farming, tourism, coffee, light manufacture, and forestry and wood products), which have been identified as potential drivers of growth through the development of clusters. Examples include:

"Tourism has become one of the most dynamic sectors of the economy, with annual increments of 15 percent in the number of visitors, and so it is necessary to continue fostering investment in tourism by improving infrastructure, sanitary systems, waste management, and paperwork procedures at border posts, among other actions. The strategy centers on promoting and marketing tourism in order to position Nicaragua in international markets, taking advantage of our natural and cultural resources." (p. 37)

"Coffee has been the locomotive force for rural development in the north and central zones, and it continues to be one of the main export products with great potential of value added due to specialty markets. In order to boost this sector, actions will be implemented to improve the capacity for commercializing differentiated coffee through the promotion of quality coffee at national and international events. Associations among producers, roasters, and exporters will be promoted. The programs for training and technical assistance will be strengthened. Foreign investment will be promoted along with entry into international markets in order to position Nicaraguan quality coffee." (p. 37)

4.4. Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

No - except the special attention devoted to the Caribbean coast, considered to be a special area to be developed.

4.5. Does the analysis of constraints take into account that constraints may differ by group of people?

Yes. There is some discussion on the special needs of small and medium size producers, and of women and youths. Moreover, the NDP discusses the way in which rural development policies may be implemented according to the various types of rural families, classified according to their net capital.

"In policies aimed at improving production, this Plan takes into account the demands and needs of smaller and more vulnerable producers who are facing competition from the markets. Medium and smaller firms are considered a cross-cutting theme, which includes policies and actions aimed at promoting and improving access to credit, technical assistance and technology innovation among others." (p. 28)

“The identification and strengthening of specific productive clusters, such as tourism and coffee will have a positive impact on income distribution, because of the important role played by small and medium producers in such sectors.” (p. 29)

“Second-floor financial institutions will be strengthened so that they provide quality services with value added for MIPYME, and a business environment and regulatory framework to support competitiveness will be promoted. There are excellent opportunities in this sector for generating greater gender equity and opportunities for the youth.” (p. 31)

“The legal and institutional framework strengthens the policy for the gender approach, promoting the access of women to land, their associations, and their participation in business development and commercialization.

<u>Typology of producers and instruments for implementation in rural development</u>

213. In order to implement the policy for rural development, rural families were classified according to their net capital: i) extremely poor families; ii) poor families with basic productive capacities; iii) medium-scale producers; and, iv) large-scale producers. For each of them, the constraints, the objectives in order to improve their condition, the instruments to be used, and the resources required to finance the policy have been identified.
214. The rural development strategy makes a balance of the different strata of producers, giving them differentiated treatment to enable buffering the negative effects of trade opening on the smallest, upgrading those with the opportunity to do so, and maximizing advantages for the most efficient.
215. Extremely poor producers (approximately 120,000 families). Their main constraints are property ownership and the quality of their assets and their land. They have weaknesses for accessing basic technologies and very low levels of education and health. They generally live in conditions of isolation because of a lack of all-weather rural roads. For this segment, the policy will consist in providing them with basic levels of nutrition, health, education, safe water, food security, and minimum income in order to improve the future for their children and to take advantage of positive opportunities opened up by growth. The instruments to implement this consist of direct transfers, seeds and inputs like the pound-per-pound program (“libra por libra”), and other social programs to provide attention to children.” (p. 40-1)

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

Yes, although no empirical study is quoted throughout the document, the analysis often refers to domestic factors to extract relevant constraints to growth, as it is evident in the quotations on the analysis of the constraints.

5.2. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human (capacity constraints)</u>

There is a section on training and formation needs, although it is rather broad, referring to the need of building the skills to respond to the need of the economy, rather than to the way in which human capacity may be used to overcome the constraints identified.

255. The workforce is characterized by a low level of qualification rooted in high levels of illiteracy, low levels of schooling, and limitations in access to education and technical training, which in turn has a negative impact on productivity and income levels.
256. Despite having executed different training programs, the system is still in its early stages and technical formation has mainly been in administrative areas. The offerings of both training and technical formation have been insufficient and with low coverage and they are not linked to the real demands of the economy." (p. 50)

<u>Financial</u>

Yes, the document presents a thorough discussion on the costing of the NDP's implementation, alongside a strategy to fund identified resources gaps. An entire section (2.3) is dedicated to the funding strategy, and a costing analysis is carried out for each of the objectives composing the economic growth strategy.

130. After the analysis of the levels of poverty and the definition of the goals for the next five year period, it was necessary to establish a funding strategy. This strategy consists of preparing sector budgets with the resources considered in the macroeconomic program agreed on with the IMF. This determined the base scenario in which the velocity of spending (average annual spending) continues at its historic pace.
131. Considering that it is necessary to increase the efficiency of public spending in order to increase public savings and these efforts will not be enough to reach the goals already committed to, it was considered of strategic importance to put forward an expanded scenario in relation to financing. This scenario is backed by the existence of resources pending disbursement, by arrangements for obtaining foreign cooperation, and by extraordinary resources from special cooperation initiatives (for example, the MCA, budget support and the G-8 additional debt relief) that are not included in the base scenario projections (section 7.4).
132. To determine the level of public sector spending, a study was made of the shortfalls in social services, measured by the difference between the services possible to provide with the current budgets and the resources needed to reach the development goals. This allowed for making a relationship between the budget and the cost of the millennium goals, and it was determined that under current budgetary constraints, some of them are not viable even with drastic changes in efficiency.
133. Under these terms, the social demands coming out from the consultations were prioritized in order to establish a reinforced scenario, selecting the programs proposed that have a high strategic content, that have greater social and economic impact, and that are within the competence of the public sector." (p. 27)

"135. The expanded scenario also considers that if additional resources can be spent, then, about 50 percent of the increase in spending should go to roadway, energy, port, and airport infrastructure, drinking water, and housing in order to make a quicker contribution to the country's competitiveness. The priority on the formation of capital in the economy is associated with the greater potential of the territories, but it also favors the opening up of the economy to the outside." (p. 28)

"The productive and environmental program has a cost of US$650.4 million for the 2006-2010 five-year period (US$130.1 million annual average) with a US$266.3 million gap with respect to currently available funding. Part of this financing is included in the 2005 and 2006 budget and new programs and modalities for cooperation with sectoral wide approach are being developed to facilitate resources." (p. 31)

Trade

6. Is trade treated as important?

6.1. Is there a specific section on it in the PRSP?
Yes, there is a section (3.4) on export promotion and attraction of investment, and one on commercial policy (7.3).

6.1.1. Are there frequent references to it in the document?
76 occurrences for "trade", 137 for "export(s)", 74 for "import(s)"

6.2. Does the treatment of trade take into account poverty reduction considerations?

6.2.1. Is there any discussion on poverty reducing effects of trade?
Exports are considered an important determinant of poverty reduction, although there is recognition that the fall in export prices has undermined the potential for poverty reduction from export growth.

"The reduction of rural poverty is mainly associated with increased production of basic grains and other essential foods and not with export products, which saw major drops in their prices. Nonetheless, the increase in export production in the 2003-2004 period has contributed to improving living standards in these zones." (p. 17)

6.3. Does the PRSP discuss trade policy options explicitly?
Yes, the document sets three clear priorities for the development of its trade policy, as it is detailed below.

"It is important to note that a policy aimed at improving export capacity does not enter into contradiction with the development of the domestic market and the demands from the most vulnerable groups, but instead offers opportunities for both markets in an open economy.
154. The NDP promotes free trade agreements and the consolidation of regional integration processes" (p. 30)

390. Nicaragua's commercial policy is going forward in three directions: the negotiation of free trade agreements, the custom harmonization at the regional level and on the establishment of a macroeconomic environment that encourages foreign direct investment." (p. 77)

6.3.1. Is there an understanding of how they might differ from sector to sector?

Yes, the document discusses problems related to increased penetration in global markets in the sectorial analyses within the economic growth strategy (see above).

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?

No

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?

No

6.4. Does the PRSP cover other national and international factors affecting trade?

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

Yes, supply-side constraints are treated in detail, including strengthening export supply, improving products' quality, extending the transport infrastructure network.

"The above two efforts will combine with an integrated system for quality that includes standardization, accreditation, and metrology: key aspects for bringing the export offering and domestic consumer goods in line with international standards. This objective will be reached with the following activities: i) pushing for the legal framework for standardization and operation of the quality system, the strengthening of the Center for Information on Technical Obstacles to Trade (CIOTC) and the national prize for quality; and, ii) implementing the international system for units (SI) and expansion of the national metrology laboratory." (p. 32)

"To promote an increase in the value of exports through: i) the promotion, strengthening, and diversification of the country's export supply; ii) the development of research capacities and market intelligence; iii) the simplification of paperwork procedures for exports with the development of an Export Gateway; and, iv) the certification and reduction of risks for exporters, establishing mechanisms that help overcome the barriers of quality and certification." (p. 35-6)

"294. In light of the opportunities from the free trade agreements, infrastructure is vital for the development of the country. The potential greater volumes of trade and services from these treaties depend on the national transportation network. It is necessary to plan for the support of an advanced system of paved roads for the development of productive clusters and strategic regional plans. The expansion of inter-regional trade must be fast and with reliable access to ports and airports, and must include the extraction and recreation industries. This inter-regional strategic plan will be interconnected with the regional networks of unpaved roads and incorporate the rural and urban development targets of the regions." (p. 59)

6.4.1. In particular, is there any reference to Trade related technical assistance (including IF)?

No.

6.4.2 Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

Yes, there is some discussion on the relevance of market access at the regional level, the strengthening of which represents one of the priorities of the NDP's trade policy.

"the Customs Union will facilitate the free movement of goods and services regardless of origin, the elimination of border posts, the establishment of common customs and tariffs policies, the harmonization of taxation, and a common regional and external trade policy. This will increase trade volume." (p. 30-31)

6.4.3. Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?

The document in several instances discusses the importance of regional (and international) free trade agreement for the development of the country.

"[T]he Central America, Dominican Republic free trade agreement with the United States was ratified by the National Assembly in October 2005 and progress was made on the project of the Central American Customs Union" (p. 10)

"The NDP promotes free trade agreements and the consolidation of regional integration processes, in particular, the Customs Union will facilitate the free movement of goods and services regardless of origin, the elimination of border posts, the establishment of common customs and tariffs policies, the harmonization of taxation, and a common regional and external trade policy. This will increase trade volume."

"391. In October 2005 the National Assembly ratified the free trade agreement between Central America, the United States and the Dominican Republic (DR-CAFTA). This is the most important free trade agreement signed by Nicaragua given the importance of the United States as a commercial partner and the potential of the other members. Previously Nicaragua had reached free trade a agreement with Mexico, and is exploring the possibility of other agreements with Taiwan, Canada, Panama and Chile.
392. Once DR-CAFTA initiates its implementation, the growth of GDP of Central American countries could increase more than 1.5 percent above its current level and exports could increase in about 28 percent according to experts. This agreement could play the role of a commitment mechanism promoting the influx of foreign direct investment, generating a structural change in commercial flows23, integrating the financial systems and assisting poverty reduction.
393. In June 2004, Central American countries approved a general framework to establish a custom union. This union will allow the free movement of goods and services independently of their origin, the elimination of immigration post between member countries, the establishment common tariff and custom policies, the harmonization of tax systems and common regional and external policy." (p. 77-8)

6.4.4. In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?

As it appears clear above, the NDP considers the free trade agreement between Central America, the United States and the Dominican Republic (DR-CAFTA) as the most important one, due to the crucial role of the US as export market.

6.4.5. Are ongoing discussions in the WTO referred to and analysed?

No.

6.4.6. Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?
No.

6.5. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

4.1.1. Human
No

4.1.2. Financial
Yes, as for all the goals in the NDP, there is a specific discussion on the costing needed for export promotion, including funding gaps. There is no discussion on funding for enhancing the negotiating capacity.

TANZANIA

Growth

1.1. How is growth treated in general?

Growth seems to be a (if not the most) fundamental pillar in the overall strategy. It is one of the “three major clusters of poverty reduction outcomes” (the other two being “improvement of quality of life and social well-being, and good governance”).

1.2. Is growth included in the title of the document?

Yes, the National Strategy for Growth and Reduction of Poverty (NSGRP).

1.3. Is there an explicit statement that growth is relevant for poverty reduction?

Yes. There are many references to the poverty reducing effects of growth. Examples include:

“poverty and inequality levels are still high. Hence, it will require all sectors and much more resources to bring about growth that is required to reach the targets of poverty reduction outcomes in this strategy.” (p. 2)

“It is recognised that while growth is necessary for poverty reduction, it is not sufficient. Equity and conditions that foster it are equally vital.” (p. 23)

1.4. Are there frequent references to it in the document (count number of occurrences of “economic growth”)?

113 occurrences for “growth” in the 114 pages of the document.[i]

1.5 How important the references to economic growth are relative to social issues (ratio of number of occurrences of “economic growth” relative to “social”)?

173 for “health”, 181 for “education” in the 114 pages of the document.

2. Is there a vision for how to achieve growth?

[i] We have considered “growth” instead of “economic growth” and “GDP growth” as the document clearly refers to economic growth as growth only. We checked that most of the occurrences for “growth” are actually referred to economic growth proper. There are only 11 occurrences for “economic growth”, “GDP growth” and “economic development” combined.

2.1. Does the document specify a target rate of growth?

Yes, it provides a target range of GDP growth.

"In the course of the NSGRP, real GDP is expected to reach the average growth rate of 6-8 percent per annum between 2005/06 and 2009/10 consistent with the aspirations of Vision 2025." (p. 34)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

Yes. The document sets operational sector targets to achieve the desired rate of GDP growth, although it is not clear how such targets have been calculated. These include:

- *Increased growth of manufacturing sector from 8.6% to 15% by 2010*
- *Increased agricultural growth from 5% in 2002/03 to 10% by 2010.*
- *Increased growth rate for livestock sub sector from 2.7% in 2000/01 to 9% by 2010*

More general targets are also specified:

- *Increased technological innovation, upgrading and use of technologies.*
- *Promoted regional equity in development and capacity for growth and infrastructure that enables investment and liveli hoods diversification*
- *Repaired 15,000 kms of rural roads annually by 2010 from 4,500 kms in 2003.*
- *Increased export proportion of value added minerals from the current 0.5% to 3.0% by 2010." (p. 37)*

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020")?

Yes. The document is part of the long term development strategy of the country (Vision 2025).

"The NSGRP is informed by the aspirations of Tanzania's Development Vision (Vision 2025) for high and shared growth, high quality livelihood, peace, stability and unity, good governance, high quality education and international competitiveness." (p. 1)

Moreover the NSGRP builds on several other documents, including "the Medium Term Plan for Growth and Poverty Reduction and the Tanzania Mini - Tiger Plan 2020 (TMTP2020) that emphasize the growth momentum to fast -track the targets of Vision 2025" (p. 1)

3. **Does the treatment of growth take into account poverty reduction considerations? Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution**

a. **Poverty**
No

b. **Income inequality**
No

c. **Spatial inequality**
Yes. The poverty analysis highlights how growth effects have differed according to the urban-rural divide. Moreover, it is concerned with the large inter-regional disparities within the country, which call for higher rate of growth in the lagging areas.

"Attaining the NSGRP target of 24 percent (for basic needs) by 2010 is, therefore, ambitious. It will require a high and fast growth rate of GDP, faster in rural than in urban areas" (p. 4)

"According to the National Accounts, growth was faster in manufacturing, construction, mining and quarrying, as w ell as in wholesale, retail and hotels, than in agriculture. However, though vital, most of these activities are urban -oriented. Henceforth, it is important to devise strategies that will enable these sectors to widen livelihood opportunities to the poor. To that effect, initiatives to support rural-oriented sectors will be emphasised to empower the rural populations to increase their productive capabilities." (p. 5)

"There are also disparities across and within regions and districts in poverty status… The challenge is to identify potentials in the poorer districts and regions for possible new investments and, through the budget allocations, improve provision of infrastructure and social services in the most disadvantaged areas." (p. 6)

"Addressing geographic disparities by identifying economic potentials of the disadvantaged districts and supporting exploitation of these potentials and raising returns and productivity in the poorer districts / regions. "Spatial development and development corridor" planning approaches will be employed. This is also consistent with the objectives of the Special Economic Zones (SEZs) of the TMTP (2020)." (p. 30)

5. **Have key constraints to growth been analysed?**

4.1. **How, if at all, have the following constraints been analysed?**

- **Macroeconomic stability**
There is an entire sub-section on macroeconomic reforms. The commitments on those are inspired by the traditional economic view of the IFIs, as it is clear in the introduction of the sub-section. No links are provided to the way in which macroeconomic policies have impacted (or may impact) on Tanzania's economy.

Commitment to macroeconomic and structural reforms
"Predictable macroeconomic environment: Fiscal and monetary sector reforms will be maintained to ensure a stable and predictable macroeconomic environment underpinned by low inflation rate, increased domestic savings and investment, exchange rate stability and sufficient foreign reserves." (p. 24)

This view is reinforced in the objective of ensuring a sound economic management (including precise inflation and external debt targets), spelled out in the strategy chapter of the NSGRP.

"Sound management of the economy requires sustained actions that maintain a stable and predictable macroeconomic environment in order to achieve a sustained high growth rate of the economy and to generate rational response to market signals." (p. 36)

"Maintained macro-economic stability: inflation rate at maximum of 4%, maintaining official reserves of at least six months of imports, achieving debt sustainability (containing the external debt to GDP ratio at 50 percent or less)" (p. 36)

"Sound economic management is to be achieved through maintaining macroeconomic stability; strategies to that effect include the following:
- *Sustaining efforts to contain inflation to a level comparable to that of major trading partners by pursuing prudent fiscal and monetary policies as well as increasing production;*
- *Ensuring that monetary policy continues to focus on price stability, narrowing the gap between deposit and borrowing rates, improving the commercial banking sector, expanding credit to the private sector, and maintenance of market -determined exchange rate (exchange rate stability) and adequate foreign exchange reserves." (p. 36)*

- **Well defined property rights**
  The document briefly discusses general objectives of strengthening legal system of property rights protection.

  "Creating fair competition to ensure level playing field; a smooth and stable administrative and regulatory framework, guaranteeing personal and property rights and security and enforcement of contracts;" (p. 28)

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures.**
  There are several discussion on the importance of reducing administrative and bureaucratic barriers which hinder private sector development, including FDIs, and growth.

  "bureaucratic barriers still stand out as main impediments to entrepreneurship, particularly of the SMEs. Licensing procedures, complicated tax system, corruption and harassment of small businesses are emerging from the PPAs and, in fact, from the consultation process, as issues that inhibit realization of the benefits of market and sector policy reforms. They also undermine efforts to formalize the informal sector and those of attracting domestic and foreign investment. Bureaucracy and corruption, crime and absence of peace and tranquillity scare away large domestic and foreign investments." (p. 15)

  "Foreign direct investment (FDI): the strategy will foster conditions that attract more FDI with a view to realizing the gains in form technology transfer and increased productivity and diversification of the structure of the economy. A stable investment and regulatory climate will be ensured. Issues related to the choice of technology, strategic links with local firms and higher learning and R&D institutions, technical capabilities and readiness of local firms and labour –force to adapt technology would be examined." (p. 30)

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**
  Among the sources of growth the paper includes the plan for developing Special Economic Zones with special incentives. There is also a passing reference to the need for incentive to enhance firms' innovative activities, although no examples of such actions are provided.

  "Implementation of the Tanzania Mini – Tiger Plan 2020 which aims at fast track development by promoting investment through establishment of Special Economic Zones (SEPZ) with special incentives to accelerate growth." (p. 28)

  "Private sector development (PSD): domestic firms, including SMEs, will be supported and encouraged to be innovative, pay attention to product development, quality and appropriate marketing strategies that make them competitive and capable of responding to global market conditions." (p. 28)

- **Well-functioning factor markets (labour, capital and land)**

Financial market
The document often mentions (lack of) access to credit as one of the major constraints to the productive sector's growth. The NSGRP discusses ways to make the financial sector more efficient.

The sector has been liberalized since early 1990s. Remaining challenges include enhancing access to credit by the private sector, particularly SMEs and rural areas. The recent establishment of a credit rating agency is a further step in enhancing the efficiency of financial intermediation in Tanzania." (p. 24)

Labour market
The document discusses the opportunity of expanding higher education, and for linking it to the need of the productive sectors, although it does not discuss evidence on it. Moreover, the strategy describes past reforms both in labour as well as in land markets.

"The challenge is to increase financing and expanding higher education and research, paying due attention to quality in order to develop a labour force that is creative and globally competitive. In order to make a dent on poverty reduction through higher education, science and technology, it requires provision of quality education from early childhood to higher levels and research activities that are tailored to the local environment. Linkages between higher education, S&T and R&D institutions and local communities in agriculture, industry, SMEs, trade and social development etc. have been weak and need to be strengthened." (p. 9)

Revisions of labour and land legislations have been completed, with emphasis on the reform of the institutions. First p hase of the Labour Law Reform - addressing employment relations, collective labour relations, dispute resolutions, and labour market institutions was approved by Parliament in April 2004." (p. 24)

- **Broad access to infrastructure and education**
"Levels and quality of transport, communications and energy services are generally poor and thus constraining growth." (p. 8)

"Rail, marine, air and road transport networks need to be expanded and maintained to international standards." (p. 8)

"Information and Communication Technologies (ICTs) as a critical "soft" infrastructure that accelerates productivity in the productive and service sectors, in government, business, teaching and SMEs development. Problems of access to ICTs include low literacy rates, low incomes and limited number of service providers." (p. 8)

"[Energy] is important for productive activities in industry, agriculture, transport and water supply and in the provision of social services such as education and social services. However, effective energy supply falls short of the required levels and quality (considering environmental effects of certain sources, such as firewood). Unreliable and high cost power has also discouraged private investments." (p. 8)

"Investments in physical capital – will focus on efficient and cost effective provision of infrastructure for transport, power, ICT, with special attention to opening up rural areas and areas with economic potentials in order to address regional inequalities." (p. 28)

- **Trade**

  Trade (even at the national level) is considered as one of the main sources of growth in the document.

  (vi) Domestic trade: domestic trade has been liberalised and inter-regional/district barriers removed. However, domestic traders need to develop competitiveness prowess, innovativeness, adherence to schedules and standards, and confidence to venture into neighbouring country markets and oversees. The Private Sector Development enabling factors (iv above) apply. The government will scale up reduction of administrative hurdles due to complicated licensing and taxation system, harassment by tax and local administration; replace them by simple, "one-stop" mechanisms to reduce the high "costs of starting and doing business" due to red tape.

  (vii) Trade development towards a diversified and competitive economy: this principle aims at linking international trade to domestic productive and competitiveness potentials in close association with development of the private sector and domestic trade" (p. 29)

- **Other constraints**

  The document refers to two other potential constraints to growth: potential distortions coming from influx of foreign aid if not managed and channelled properly and potential damages from external shocks.

  "Foreign assistance: the ambitious targets set in the NSGRP implies that high amounts of foreign assistance will be sought in the medium term, and that the principles of harmonised assistance will apply." (p. 30)

  "The common hazards in Tanzania include epidemics, pest infestation, droughts, floods, major transport and industrial accidents, refugees and fires. These shocks require definitive policy and resources to manage (e.g. prevent, mitigate, and respond to)." (p. 31)

4.2. Is there a clear distinction between constraints in the public and private sectors?

Yes, the document discusses the role of government especially with respect to some particular activities, such as infrastructure investment, development of a good investment climate, protection of property rights and public financial management reform. There is also some passing mention to the need for public-private partnership, although it is not clear what its objective would be.

"Whereas the central government assumes the responsibility for such bulk investments in infrastructure, community-based initiatives need to be encouraged for smaller-scale labour-based road initiatives, to alleviate acute communication problems in rural areas. In addition to community-based initiatives, public-private partnership in the provision of infrastructure will be promoted." (p. 8)

<u>Public Financial Management Reform Programme (PFMRP)</u> – Staying focused on areas of budget and accounting reforms, external resources management, procurement, external audit, investment management and information technology. IFMS to be strengthened by expanding computerization system to cover all local government; to track expenditure disbursements and expenditure on real time; improvements to be made to internal auditing function by putting in place audit committees in all MDAs; improvements in the National Audit Office (NAO) are underway." (p. 25)

"Scaling up private-public partnership consultation mechanisms in promoting the participation of the private sector in business particularly in the provision of public services." (p. 26)

4.3. Is there any analysis of whether binding constraints differ by sector?

Yes, the document performs lengthy analyses of constraints at the sectoral level, considering separately agriculture, industry, mining and services (tourism). In fact the analysis of constraints appear to be carried out more at sectoral level than for the economy as a whole.

"Agriculture is the lead sector, accounting for 45 percent of GDP and about 60 percent of export earnings in the past three years… The constraints to rural growth are largely related to those in the agricultural sector, broadly defined to include livestock and bee-keeping. The constraints include low productivity of land, labour and production inputs; underdeveloped irrigation potential; limited capital and access to financial services; inadequate agricultural technical support services; poor rural infrastructure hindering effective rural - urban linkages; infestations and outbreaks of crop; animal pests and diseases; erosion of natural resource base and environmental degradation. Others include gender relations, weak producers' organizations, poor coordination and limited technological capacity…" (p. 6)

"The constraints [for the industrial sector] include domestic supply-constraints, low technological capacity and intense competition from imports. Low backward and forward linkages to agricultural production through agro-processing and value-addition to other primary products diminish the direct contribution of the sector to the reduction of income poverty through creation of employment opportunities." (p. 6)

"Currently, backward and forward linkages are not strong enough for local value -addition and employment creation. Serious poverty concerns have been raised regarding the impacts on environment, tensions over land rights and labour relations in areas where mining activities are being undertaken." (p. 7)

"…apart from the indirect impact of increased revenue to government, growth in tourism has not led to direct reduction of income poverty. Barriers that hinder communities to access and benefit from natural resources (e.g. wildlife) need to be addressed." (p. 7)

4.4. Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

No

4.5. Does the analysis of constraints take into account that they may differ by group of people?

Yes. There is an attention throughout the document to strategies in which disadvantaged groups, including women and youths, could be included in a broad-based growth. Examples include:

"Improving access to and ability to use productive assets (e.g. land, finance) for the poor, for example, those in small-scale agriculture and rural non-farm activities, SMEs and groups such as women and youths. Micro-finance services will be expanded and land access rights ensured for both men and women and for small and large-scale producers" (p. 30)

"Financial sector reforms and specific micro-finance programmes targeting poor areas and the poor groups (e.g. women, youths, unemployed etc), budgetary allocations for social programmes (HIV and AIDS) for vulnerable groups and the "formula-based" allocation system (see Box 1 in respect of LGRP and PFMRP) are among the policies toward equity. The tax system can be used to establish equity, however, too high or harsh tax levels and methods will act as disincentive to growth." (p. 30)

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

No. There is a section (4.3.1) on the sources of broad based growth, which Tanzania would need to focus on. These sources are in line with the view of IFIs, including most of the constraints to growth to tackle recommended by the World Bank in its "OPPG checklist". The identification of these sources does not seem to be linked to any previous analysis of the country's conditions. No evidence from empirical studies is almost ever mentioned in the document. The sectoral analyses of constraints seem to be more related to the condition of the country, although again there is no link to any study or empirical evidence.

5.2. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human (capacity constraints)</u>

Yes. Capacity building needs are addressed both with respect to government and the private sector.

"Capacity building needs at the level of central and local government will be pursued and good governance, accountability and human rights adhered to with a focus on the impact on the poor." (p. 34)

"Capacity building needs of the private sector, civil society and communities will be identified and addressed so that they can more effectively engage in the policy processes. The reform processes will continue to be a framework within which capacity issues will continue to be addressed.

<u>Training</u>

Priority will be given to training of key actors in central and local governments, civil society and private sector in designing, implementation and monitoring of pro-poor policies and strategies. Tailormade sensitisation programmes and enhancement training modules, to suit the requirements of different cadres will be prepared in collaboration with training and research institutions. Moreover, capacity building of the actors at district level is critical, given the role of local governments in implementation of the NSGRP. These will be addressed through Local Government Reform Programme (LGRP), poverty monitoring process, as well as other interventions." (p. 60)

<u>Financial</u>

The document presents an estimation of resources required for the implementation of the plan, including a methodological discussion. Moreover, it discusses possible ways to finance the resources (with a strong component of external resources).

"The estimation of NSGRP financing builds on the PRS (P) approach, while trying to address some of the weaknesses noted above, but focusing more on costs of attaining specific outcomes." (p. 69)

Estimation of financing requirements:

Methodology: There are various approaches to costing PRS(P) financing requirements such as the Millennium Project Approach, the World Bank MAMs, and others. The choice of the methodology used to estimate NSGRP requirements was dictated by:

- *Government decision to move from priority sector -based to outcome-based NSGRP*
- *Need to make an explicit link between NSGRP strategies and the budget;*
- *Limited time between finalisation of NSGRP and preparation of the 2005/06 budget, which will begin implementing the NSGRP;*
- *Wide variation in available data/information needed to apply the various methodologies (some sectors had PER reports, well-costed MTEFs, strategic plans while others did not);*
- *Consideration that NSGRP is a rolling document to be revised by learning from implementation;*

The methodology for preliminary costing of the NSGRP involved the following main steps:

(i) *Regrouping of all NSGRP cluster strategies by Vote and identification of those that have expenditure implications.*
(ii) *Each MDA matched its MTEF targets and strategic objectives drawn from strategic plan with NSGRP cluster strategies, making sure that NSGRP cluster strategies are also consistent with performance codes (GFS) provided by the Ministry of Finance.*
(iii) *MDAs use their existing MTEFs to identify activities and related input costs needed to meet a particular target consistent with NSGRP cluster strategies.*
(iv) *Each MDA estimated its total resource requirements (unconstrained) using a Microsoft Access software system called Strategic Budget Allocation System (SBAS) based on inputs from step (iii). Requirements for other MTEF targets (Other-NSGRP targets) and other strategic objectives were estimated in a similar manner.*
(v) *Estimation of resource requirements for LGAs and regions was done based on historical ratios between allocations/transfers to t hem and total resource availability.*
(vi) *Overall the Budget Guidelines Committee using the macro version of SBAS aggregated resource requirements.*
(vii) *Development of a financing strategy – distinguishing between sources, funding and emerging gap." (p. 70)*

"Overall projected resources for the implementation of NSGRP -related interventions and other government commitments is based on the Medium Term Plan and Budget Framework for 2005/06 – 2007/08 (Table 8.1) while ensuring consistency with macroeconomic targets." (p. 71)

"Public financing of NSGRP interventions are projected to increase by 3 percent of GDP annually to cater for increases in expected expenditures, taking into account a gradual increase in domestic revenue mobilization and donor support at 2 percent of GDP annually. The Government will strive to aggressively accelerate domestic revenue mobilization (through fu rther tax reforms, improvement in tax administration and collection and clamp down on tax evasion) without unduly distorting economic activities.

Domestic revenue is projected to increase from about 13.8 percent of GDP in 2004/05 rising gradually to 14.6 percent in 2007/08. Thereafter domestic revenue is projected to increase to 15.5 percent by the end of 2008/09. Estimated donor contributions are based on historical trends and will be updated as donor pledges and commitments are submitted to the Government through the PER process. Total external support including HIPC relief is projected to decline from 14 percent of GDP in 2004/05 to 11 percent in 2007/08 in line with indicative figures of donor support." (p. 72)

Trade

6. Is trade treated as important?

6.1. Is there a specific section on it in the PRSP?
No

6.1.1. Are there frequent references to it in the document?
67 occurrences for “trade”, 20 for “export” and 10 for “import”.

6.2. Does the treatment of trade take into account poverty reduction considerations?

6.2.1. Is there any discussion on poverty reducing effects of trade?
No

6.3. Does the PRSP discuss trade policy options explicitly?
Yes. There is a brief general discussion on past and future trade policy.

“Trade policies and institutions – Progress has been made in reducing tariff and non -tariff barriers. Challenges include further improvement in customs administration and improving the capacity to handle various issues, including commitment to WTO agreements and international negotiating capacity; and capacity to participate fully in regional markets such as SADC and EAC.” (p. 24)

6.3.1 Is there an understanding of how they might differ from sector to sector?
No.

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?
Yes. There is some discussion on the effects of trade liberalisation on urban poverty.

“Trade liberalisation has prompted an influx into to urban areas of a vast number of petty traders mainly youth aged 20 -29. The PHDR (2002) estimates 92 percent of these have primary level education but no formal skills training. They lack capital and business premises.” (p. 7)

“Strengthening cooperatives and Export Credit Guarantee Fund for cooperatives and other farmers’ organisations;”

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?

No, except for a passing mention to the need for promoting exporting activities of SMEs.

"Achieving improvement in the current account of balance of payments; through promotion of export trade for both traditional and non-traditional exports, with a view to reducing aid dependence, and facilitating expansion of enterprises, especially SMEs in exporting activities."

6.4 Does the PRSP cover other national and international factors affecting trade?

6.4.1. Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

Yes, there is some discussion on general supply-side constraints, which includes the role of trade related technical assistance, particularly by JITAP and IF.

"The National Trade Policy (NTP) will provide a guide on fostering innovative and competitive capacity of the economy, addressing supply-side constraints, diversification of the "export basket" by stimulating value-added activities, investments in export-oriented activities and boost the competence of private sector participation in regional and world markets.
Implementation of the NTP will require a recognition and exploitation of inter -sector linkages and complementary policies including those related to infrastructure, productive sectors, trade in services (e.g. tourism, transit trade) and institutional facilitation." (p. 29)

"Trade-related assistance - including Joint Integrated Technical Assistance Programme (JITAP) and Integrated Framework for Trade Development (IF) and others in support of private sector participation in domestic and international trade, will be tapped to increase the capacity of domestic producers, particularly SMEs and rural producers in processing, packaging, financing, managerial and marketing skills and information about international market standards, patenting, shelf-life, labelling and other conditions." (p. 29-30)

6.4.1.1 In particular, is there any reference to trade related technical assistance (including IF)?

Yes (see above).

6.4.2 Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

No, although some passing reference is made to the need for supporting Tanzania's products abroad.

"Furthering economic diplomacy to market abroad Tanzania's products, tourist attractions and other service export, attracting foreign investments and assisting Tanzania's investors to be able to invest abroad." (p. 29)

6.4.3 Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?

One reference to improving "the capacity to participate fully in regional markets such as SADC and EAC" (p. 24)

6.4.3.1 In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?

No.

6.4.4. Are ongoing discussions in the WTO referred to and analysed?

No.

6.4.4.1 Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

6.5. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

6.5.1 Human

Only a brief mention to the need for improving capacity to engage in international negotiations.

"Challenges include further improvement in customs administration and improving the capacity to handle various issues, including commitment to WTO agreements and international negotiating capacity; and capacity to participate fully in regional markets such as SADC and EAC" (p. 24)

6.5.2 Financial

No

UGANDA

Growth

1. How is growth treated in general?

Growth seems to be perceived as a fundamental component of the poverty reduction strategy.

1.1. Is growth included in the title of the document?

No

1.2. Is there an explicit statement that growth is relevant for poverty reduction?

There seems to a strong belief throughout the paper of the importance of economic growth as one of the main ways to reduce poverty. This is clear both in the historical analysis of poverty trends and in the objectives for poverty reduction.

"The exceptionally fast economic growth of the mid-1990s led to very fast poverty reduction." (p. 15)

"faster poverty eradication is desirable and can be achieved in three ways:

- *Higher GDP growth. Given a population growth rate of 3.4%, an increase in economic growth from 5 to 7% represents more than a doubling of per capita growth and an even more dramatic impact on the rate of poverty reduction.*
- *Reductions in inequality. If the Gini coefficient were to fall to 0.39 over the next ten years, reversing the increases in inequality observed over the last three years, then with 6% real growth the poverty headcount would fall to 23%*
- *If, in addition to the above assumptions, population growth falls to 2.4%, then poverty is projected to fall to 18%." (p. 25-26)*

1.3. Are there frequent references to it in the document (count number of occurrences of "economic growth")?

35 occurrences for "economic growth", 23 for "GDP growth" and 15 for "economic development" in the 271 pages of the paper. Overall economic growth seems to be one of the overarching objectives of the paper, as it is considered as the most necessary condition for poverty reduction.

1.4. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?

"health" occurs 270 times in the document and "education" 274 times.

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?

Yes.

"Uganda's objective remains strong, private sector-led growth which can contribute to economic development and poverty reduction. This PEAP, like the previous ones has set a real GDP growth target of 7% per annum as one of the conditions for achieving the required poverty reduction." (p. 34)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?

"The actions needed to boost growth from the average rate of 6.1% seen over the past five years to 7% are as follows:

- *Removal of administrative barriers to investment*
- *Improvement in transport infrastructure and utility services*
- *Modernisation/commercialisation of agriculture, with emphasis on value addition*
- *Actions to improve rural access to finance and to strengthen SME development.*
- *Actions to enhance environmental sustainability*
- *Security in Northern Uganda*
- *Actions to enhance gender equality" (p. 34)*

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020"?

The paper refers to documents specifically prepared for the PRSP, such as the Long Term Expenditure Framework (LTEF), and to documents which set specific sectors' strategies, such as the PMD, the RSDP, and the FSSP.

"The expansion of production and incomes in rural areas is addressed by a large number of interventions, which are grouped under the Plan for the Modernisation of Agriculture. This Plan focuses on agricultural modernisation and commercialisation by a multisectoral approach to addressing the constraints facing agriculture-based livelihoods." (p. 53)

"Investments in roads are guided by the 10-year road sector development plan (RSDP), which was started in 1996 for national roads and updated in 2002 to include district and urban roads." (p. 58)

"Government, through the Department of Fisheries Resources (DFR), is addressing these concerns through the National Fisheries Policy, (2003), which promotes a participatory approach involving fisheries stakeholders working with government to manage fisheries resources. The Policy will be implemented through the 2003 draft Fisheries Sector Strategic Plan (FSSP)." (p. 79)

3. Does the treatment of growth take into account poverty reduction considerations? Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution

a. Poverty

Yes.

"Poverty estimates based on existing levels of inequality, a population growth of 3.6% per annum and real GDP growth of 6% per annum, estimate that 26% of the population will be living in poverty in 2017. If this PEAP meets its objectives of reducing inequality and raising GDP growth to 7% per annum, poverty can be expected to fall below this level." (p.34)

b. Income inequality

Not Directly

"[T]here has been a marked increase in inequality in the last few years.
Government aims to tackle this by increasing the ability of the poorer households to participate in economic growth." (p. 2)

c. Spatial inequality

Yes, there are some references to the unequal distribution of growth across the country. In particular the Northern region has lagged behind mainly due to the instable security situation

4. Have key constraints to growth been analysed?

In general, the key constraints to growth in Uganda seem to be assumed ex ante (mainly on the basis of traditional economic views) rather than identified on the basis of a thorough analysis of the economy. The only available data reported in the paper as constraints consists of a survey of firms on their evaluation of current constraints and a description of the procedural delays to businesses (Table A 4.1 and A 4.2)

4.1. How, if at all, have the following constraints been analysed?

- **Macroeconomic stability**

  There is an entire section dedicated to macroeconomic stability with a very precise strategy in terms of targets, although the (little) amount of evidence available in the document does not justify the absence of any alternative policy option.

  "A sound economic framework which is conducive to private sector investment is vital to Uganda's growth strategy. In the absence of a sound economic environment, other interventions to boost growth will hold little value. Uganda's economic policy framework emphasises inflation control, strong growth in private investment, fiscal consolidation and increased revenue generation as its main objectives." (p. 34)

  "The central objectives of Uganda's macroeconomic management are inflation control and private sector-led growth. Government's fiscal policies are subordinated to these objectives, meaning that Government expenditure should be restricted to a level that is compatible with them by controlling its fiscal deficit. Too high a fiscal deficit, even when funded by donor inflows, can generate inflation or crowd out the private sector by appreciating the exchange rate, driving up interest rates or limiting the funds available to commercial banks for private sector lending." (p. 34)

Stable macroeconomic management represents a key component of Ugandan economic policy and the PRSP sets even precise targets on macroeconomic variables, although it is not clear on the basis of what the targets are set (e.g. why has 5% been set as the inflation target rather than 6% or 4%?)

"The Government is committed to maintaining inflation at 5%. It is also committed to reducing its fiscal deficit excluding grants, to enable further scope for private sector development. The Long Term Expenditure Framework (LTEF) prepared for this PEAP revision shows that reducing the fiscal deficit to 6.5% of GDP by 2009/10, and keeping it constant thereafter, is compatible with a rise in private sector investment to 22% of GDP by 2013/14, and a rise in exports from 12.6% of GDP to 15.4% of GDP." (p. 36)

"The objective of the LTEF, which was prepared for this PEAP, has been to produce 10 year projections of the budgetary resources available to the Central Government for expenditure which are consistent with a coherent, comprehensive and realistic set of projections for the main macroeconomic variables, and with Government's macroeconomic targets, such as the target for inflation. The expenditure levels derived from the LTEF are used as a basis for the sectoral costings given in Chapter 8." (p. 37)

The paper is very precise in planning what it thinks to be the appropriate macroeconomic environment with specific chapters on: inflation control, deficit reduction, exchange rate management, budget security, external and domestic debt sustainability, tax policy (with a view of addressing inequality and raise enough domestic revenues to finance expenditure without recurring to excessive borrowing). However, *there is no proper analysis of what the consequences of macroeconomic mismanagement have been historically in Uganda.*

- **Well defined property rights**
  These are treated especially with respect to the poor. However, no analysis of how the lack of well defined property rights has impacted on growth in Uganda has been performed. Therefore it seems hard to understand how better defined property rights may impact on growth.

  "An important area for public action in the medium term is land reform. The implementation of systematic demarcation offers an opportunity significantly to strengthen the property rights of the poor. Current estimates suggest it may be possible to perform phased systematic demarcation of all rural areas for a total cost of the order of $50-$60 million. A Poverty and Social Impact Assessment is planned to assess the effectiveness of systematic demarcation in enhancing the property rights of the poor; if favourable, this programme will be treated as a priority for funding in the medium term. In the short term, a priority is improvement of the Land Registry."

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures**
  There is a brief subsection (quite general, not really informative or analytical) on investment policies.

  "What policies are required for investment to grow to 28% of GDP by 2013/14? First, Government will maintain its existing policies of macroeconomic stability and deficit reduction to minimise economic risks to investment, and to ensure that Government does not crowd out the private sector, either by driving up prices of non-tradable investment goods relative to output prices, or by crowding out private sector credit. Second, it will maintain its current trade policy, which is broadly liberal. Economic growth in Uganda is particularly dependent on the expansion of profitable exports because exports are not constrained by domestic demand, and in most cases Uganda has a small share of the world market and can therefore expand exports fast without driving prices down much." (p. 48)

General mention of investment climate to boost growth of Micro Small and Medium size Enterprises (MSMEs):

“Improve the investment climate by creating a conducive regulatory framework, enhancing the efficiency of the registration and trade related services.” (p. 72)

Specifically, regulatory obstacles are identified to investment promotion and a dedicated authority (Uganda Investment Authority) has been set up to promote investments.

“The regulatory environment including business registration and licensing requirements are critical to the growth of MSMEs. A pilot project in Entebbe Municipality reduced the time spent by businesses in obtaining licenses by 90%, reduced compliance costs by 75% and increased revenue collection by 40%. Such costs are not always taken into account when creating new regulations. In order to ensure that firms are not excessively burdened, Government is committed to ensuring that principles of regulatory best practice are adopted. Regulatory best practice essentially means having in place:

- *Sensible, practical laws and policies that support enterprise growth and competitiveness while at the same time protecting essential public interests:*
- *A systematic process for analysing and consulting on new policies and regulatory proposals that have significant economic, social or environmental consequences, before they are introduced..*
- *A system to monitor the legal framework to ensure that it is delivering increasingly positive returns to business, and that laws once passed are continuing to work well.” (p. 72)*

Uganda Investment Authority “(UIA) aims to offer a ‘one-stop shop’ for investors in Uganda. Registration with UIA is mandatory for foreign but not domestic investors. A major innovation is the purchase of land for business parks, which will offer a more convenient site for investors.” (p. 91)

A list of constraints to business through firms’ surveys is presented in Table A 4.1 (in the appendix, p. 243), including cost of financing, tax rate, macroeconomic instability, access to finance, electricity and so on. Other procedural constraints are presented in Table A 4.2 (p. 244), in terms of registration, duty drawback system, VAT refunds, import and export border clearance, land purchase, etc.

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**
  There is some discussion on systems of incentive to be created by the government for achieving higher growth, although it is often very generic and would seem to lack any operationalisation.

  “Promoting the right incentives to encourage private production”

- **A well-functioning factor markets (labour, capital and land)**

  A specific section is devoted to the financial sector as a fundamental means to facilitate the private sector's finance for fixed investment and working capital. Several constraints to a well functioning financial market are identified:

  "Uganda's financial markets are both shallow – they are small in relation to GDP – and poorly developed, being dominated by commercial banks. Commercial bank lending to the private sector plays a key role in supporting the growth of the private sector in Uganda, because there are so few alternative sources of finance. The main alternative sources of domestic finance for the private sector are non bank financial institutions (NBFIs), such as leasing companies and a housing finance company, and the Stock Exchange, but the NBFIs are small relative to the commercial banks, and only well established companies with a track record of profits can raise funds by issuing securities on the Stock Exchange." (p. 45)

  Specific sub-sections are devoted to the objectives of financial deepening of the economy, the micro-finance and the formal financial sector and the pension reform.

  Passing references are also made to the problems related to the land market.

  "improved functioning of the land market should make it possible for people to buy large areas of land for commercial production, conditional on land use policy at the district level, while also ensuring that existing property rights are not disturbed." (p. 57)

  A section is dedicated to the labour market, making a few proposals (e.g. increase in technical and vocational training, institution of a Labour Market Information System and Network), although it is not clear which constraints they are going to lift up and in what way.

  "In view of the high growth in Uganda's labour force (discussed in Chapter 2), characterised by a low educational profile, there is a need to intensify efforts to increase the supply of a more educated workforce into the labour market. Such a workforce will have higher productivity and hence earn higher wages. In this respect, the supply of skilled and semiskilled manpower by both public and private education and training institutions will be accorded a high priority for increasing the country's competitiveness.

  Public technical and vocational training institutions will be adequately financed and equipped to deliver the required manpower for enhancing production and competitiveness. While public institutions will most likely be the major providers of education and skills training, it is envisaged that private institutions will complement Government efforts in creating new skills and developing training schemes in emerging technological areas. The National Council for Higher Education will advise both public and private universities and tertiary institutions on the type of skills needed to enhance production, competitiveness and subsequently incomes. At the same time, the private sector will need to be encouraged to establish collective agreements that are performance- related to enable employers in the private sector link wages to productivity.

  To improve the functioning of the labour market, the Labour Market Information System and Network to be established will not only serve the traditional role of providing labour related information to employers and workers and school leavers but will focus mainly on strengthening the data base on labour statistics within the Uganda Bureau of Statistics.
  This system will collect and provide information about the supply of skilled manpower, employment occupation, the demand for selected professional and technical categories such as engineering, health and teaching, training agencies and training programs available. Government also plans to strengthen the provision of information by MGLSD about labour market opportunities available abroad." (p. 84-85)

"International evidence shows that blanket minimum wages tend to reduce employment opportunities. However, there is a case for some regulation of wages in sectors where employers have great market power, in which case the effects of a minimum wage on employment may not be harmful. Government, in consultation with the private sector will consider whether some regulation of wages or working conditions may be appropriate in certain sectors. It must be emphasised, however, that the most urgent task is to promote employment growth." (p. 85)

- **Broad access to infrastructure and education**
  There is some passing mention to problems related to the transport infrastructure network in Uganda, although it is in general assumed ex ante to be an important component to unleash growth potential (as from textbook).

  "Improving transport infrastructure (roads, railway, air, waterways) is important in boosting production, incomes and competitiveness because it links producers to consumers." (p. 57)

  "The railway network has virtually collapsed, save for the Kampala-Malaba route, yet it is a cheaper way of moving bulky agricultural products."

  "Despite the removal of the monopoly of Entebbe Handling Services, airport handling remains inefficient." (p. 61)

  "While the private sector is doing a very good job of satisfying the demand for mobile phone services for those who can afford them, there is a need for some intervention to support rural communications." (p. 62)

  "Only 3% of Ugandan households in rural areas and 8% in urban areas have access to grid electricity;" (p. 64)

  Future plans to strengthen the infrastructure network are then fairly detailed, with a distinction between transport (roads, railway and air transport), communications and energy infrastructure.

  The section on education (in the human development part) makes explicit reference to the importance to achieve sustained economic growth

- **Trade**
  A specific section is dedicated to it, although there is no analysis of constraints to trade. The section is made of a list of recommendations of best practices, as recognised by the IFIs.

  "Government does not intend to pursue a policy of firm-specific interventions.
  Firm specific interventions are undesirable because they are widely perceived to be inequitable (thus eroding the certainty of the investment climate and increasing its risks), inefficient (Government is less well equipped than the private sector to 'pick winners') and create a climate for lobbying rather than entrepreneurship. Government's policy is to create a level playing field for all investors, whereby private incentives are not distorted by public policy, to minimise economic cost and risk, to reduce barriers to production and to address market failures through sector-wide interventions. These latter policies will be covered in greater detail in the section on Production, Competitiveness and Incomes." (p. 49)

- **Other constraints**
  Security and conflict Resolution. The document has an entire chapter (chapter 5) on the way in which it plans to increase security across the country (and in particular in the northern part). This is one of the pillars of the overall PRS also because insecurity is perceived to be one of the major obstacles to economic growth in the country.

4.2. **Is there a clear distinction between constraints in the public and private sectors?** YES to a certain extent. The role of different actors in promoting poverty reduction is identified at the outset (pp. 8-9), with a specific description of both the government and the private sector role.

"The state is responsible for ensuring a basic framework of legality, rights and freedom and intervening in the economy to promote economic efficiency, equity and growth. Interventions are appropriate for three main reasons:
- *Promoting the right incentives to encourage private production*
- *Ensuring that public goods are supplied*
- *Reducing inequality. (This is particularly relevant in a context where income*
- *inequality has been increasing sharply)*

One of the objectives of the PEAP is to develop consensus on how to interpret these principles in Uganda. All sectors were asked to analyse the public sector's role in their submissions for the PEAP revision. Likewise, the PMA and the MTCS provide frameworks for the public sector's role in supporting economic production. This PEAP re-emphasises the importance of some public goods, such as agricultural extension, while exploring the option of public funding for private provision in a number of areas." (p. 8)

Generally speaking, there is a strong belief that the role of the government is mainly related to providing public goods to facilitate the process of growth

The role is clearer in the sectoral strategies, such as with agriculture.

"Information is an important constraint in smallholder agricultural production and it can be effectively addressed by public action." (p. 54)

4.3. **Is there any analysis of whether binding constraints differ by sector?**
Yes to a certain extent. Despite the constraints are usually identified in economy-wide approach (see Chapter 3 on Economic Management), the sectoral analyses (in Chapter 4) identify sector-specific constraints. Such constraints are often listed without mentioning the source which has identified them.

"Studies in Uganda show that constraints on smallholder agriculture include: information, organisation of marketing, infrastructure, access to assets, physical depletion of assets, and finance." (p. 52)

"Recent work has shown the importance of livestock in household incomes, indicating that the poor tend to lack livestock." (p. 55)

4.4. Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

Not explicitly, although there are some references to the insecure situation of the northern region which negatively influences its economic development prospects.

4.5. Does the analysis of constraints take into account that constraints may differ by group of people?

No

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

Not really, it seems to be carried out more in a textbook way, rather than through an analysis specific to the context. There are three types of rationale on the basis of which growth-related intervention are planned throughout the document:

- Quoting (mainly mainstream) economic theories without reference to the specific situation of the country (such as inflation control is good for growth or "government will seek to ensure that large scale investors in farming face a conducive business environment")
- Unspecified references to Uganda-specific problems (e.g. "Information is an important constraint in smallholder agricultural production and it can be effectively addressed by public action" or "in Uganda, as in other countries, farm size is negatively associated with output per hectare and total factor productivity")
- Reference to studies and empirical analyses specific to Uganda ("Research [quoted in the footnote] on returns to public expenditure (discussed in more detail in Chapter 8) has shown that the impact of spending on agricultural research and extension on income poverty is higher in Uganda than that of spending on roads, education or health."

5.2. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human (capacity constraints)</u>
The document does not explicitly deal with these constraints. The only reference made to it is in the context of trade negotiations.

<u>Financial</u>
The document has an entire chapter (number 8) dedicated to the public resources needed to implement the poverty reduction plan. This section also includes a calculation of supplementary resources needed per sector (relative to the previous fiscal year) and one of sectors' shares expenditure in 2003/04 and 2013/14.

Are alternative options (with relative cost-benefit analysis) presented?

No.

Trade

6. Is trade treated as important?

6.1 Is there a specific section on it in the PRSP?

Yes. There is a sub-section of the economic management chapter. Further sub-sections on exports (Strategic Exports Programme and Access to International Markets) are included in the Production Competitiveness and Income section (Chapter 4).

6.1.2. Are there frequent references to it in the document?

61 occurrences for "trade", 129 for "export" and 20 for "import" in 271 pages. These numbers provide some evidence on the way trade has been interpreted throughout the document: as an activity related to exports but not to imports.

6.2. Does the treatment of trade take into account poverty reduction considerations? Is there any discussion on poverty reducing effects of trade?

There is some passing reference to the importance of trade in poverty reduction, although no analytical link is established.

"Increasing agricultural commercialisation and export production is particularly important for poverty reduction given the dependence of the majority of the poor on agriculture as their main source of income." (p. 33)

"Uganda's strategy on export diversification and value addition is primarily intended to boost agricultural output and productivity, thus boosting economic growth and poverty reduction, but it is also in part designed to mitigate the effects of fluctuations in global commodity prices on export performance." (p. 50)

"Sustainable economic growth and poverty reduction will depend on access to sustainable markets, both regional and international." (p. 90)

6.3. Does the PRSP discuss trade policy options explicitly?

Yes. There is a clear vision on the trade policy the government wants to pursue in general.

"it will maintain its current trade policy, which is broadly liberal." (p. 48)

"The Government trade policy supports the export sector by minimising domestic and international barriers to trade. Government does not levy taxes on exports, and export procedures in the country have been simplified. The exchange rate is market determined" (p.49)

6.3.1. Is there an understanding of how they might differ from sector to sector?

The strategic exports programme identifies a few sectors and even enterprises for export promotion, which is in open contrast to the idea of creating a level playing field with no picking the winner activity by the government, expressed in Chapter 3.

"In September 2001 Government launched the Strategic Exports Programme (SEP) aimed at increasing competitiveness through stimulating value addition investments in selected sectors of the economy and removing bottlenecks that impede the private sector's ability to take advantage of emerging trade opportunities under various initiatives including AGOA and EBA. The selected sectors include coffee, cotton, tea, fish, livestock, horticulture, Irish potatoes, and information and communication technology (ICT)." (p. 56)

"The Agricultural Zoning Initiative will contribute to the realisation of the objectives of SEP and the NAADS enterprise development component by ensuring the selection of zonal commodity enterprises based on factors that go beyond agro-ecological conditions. Critical to the selection of enterprises will be additional factors such as profitability, value addition, export potential, availability of service providers and infrastructure. Commodity/sector clusters will be created to ensure that selected sectors will be supported on a sustainable basis. This will ensure that farmers will produce products that can be marketed, in quantities and standards that meet the requirements of the market. The development of the National Export Strategy will provide the framework within which SEP and the Zonal Production Initiative will be implemented." (p. 56)

"One of the key factors hindering Uganda's competitiveness is the export of low value and unprocessed products. Efforts to add value to Uganda's leading exports such as coffee, cotton, fish and livestock products through processing and other innovative marketing approaches such as branding, export of organic products and others hold the key to increased export earnings. Unfortunately, available processing technologies tend to be not most suited for Uganda's production systems. Coffee roasting plants, milk powder processing factories and textile mills are beyond the reach of the average entrepreneur." (p. 68)

There is also some analysis of sector-specific constraints in particular with respect to declining commodity prices for certain export products (especially coffee)

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?

Yes, there is an acknowledgement of the vulnerability of farmers involved in commodity production.

"Reducing the economy's dependency on any single commodity, and shifting production to the value-added end of the market is designed to reduce this vulnerability, and will be complemented by market-based insurance schemes for farmers to hedge against short-term price volatilities during a production season, which are currently being piloted in Uganda." (p. 50)

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?

No

6.4. Does the PRSP cover other national and international factors affecting trade?

6.4.1. Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

Supply-side constraints are usually addressed within the general discussion of constraints to economic growth, although they are sometime specific to trade, in particular with respect to infrastructure and marketing.

“Government also intends to strengthen its institutional ability to respond to export challenges, through the institutionalisation of quality management in industry, enforcement of standards, quality assurance and procurement of market information.” (p. 50)

“Railways provide bulk haulage capacity for Uganda’s export and imports.” (p. 60)

“The infrastructure consists of an international airport at Entebbe, which is a key outlet for high-value agricultural exports and an inlet for tourism, and 16 other main upcountry aerodromes and airstrips, five of which are near national game parks and are therefore important for tourism.” (p. 61)

“Efforts to add value to Uganda’s leading exports such as coffee, cotton, fish and livestock products through processing and other innovative marketing approaches such as branding, export of organic products and others hold the key to increased export earnings.” (p. 68)

“UEPB’s [Uganda Export Promotion Board] major activities are market intelligence, market entry strategy support and export skill training. UEPB has facilitated the development of some infrastructure and is promoting export villages. It is assisting producers to meet the standards under the European Union’s Good Agricultural Practices initiatives. UEPB is also pursuing access to ‘soft markets’ in middle-income countries, which often present less severe barriers than those in Europe and America, and has plans to develop an export training school to inform entrepreneurs about marketing products for export.” (p. 91)

6.4.2. In particular, is there any reference to trade related technical assistance (including IF)?

No

6.4.3. Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

“Sustainable economic growth and poverty reduction will depend on access to sustainable markets, both regional and international.”

“Negotiations regarding the formalization of a customs union with by the three East African partners (Uganda, Kenya and Tanzania) will see Ugandan goods enjoy free movement within a market of approximately 85 million people. Uganda has also gained from the US market access initiative, African Growth and Opportunity Act (AGOA), which has allowed it to export textiles and apparels to the American market. Furthermore participation in the EU’s Everything But Arms (EBA) initiative a well as other Generalized System of Preferences (GSPs) such as those of Canada and Japan has been beneficial to Uganda.” (p. 90)

6.4.4. Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?

"Negotiations regarding the formalization of a customs union with by the three East African partners (Uganda, Kenya and Tanzania) will see Ugandan goods enjoy free movement within a market of approximately 85 million people." (p. 90)

"In addition, as of 2004, Uganda with its other partners in East African Community (EAC) will finalize a Protocol establishing a Customs Union. This will have implications in terms of revenue and trading arrangements. The negative revenue effects of the Customs Union, which include trade liberalization within the EAC and the likely abolition of import commission, might impede revenue growth in the medium term." (p. 44)

"Standards have been agreed among the EAC countries. The tourism industry has used a number of cheap and simple methods to market Uganda as a high quality tourist destination, such as the use of the www.visituganda.com website and participation in trade fairs and public relations campaigns." (p. 67)

6.4.4.1 In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?

Not explicitly, although the document seems to refer to the EAC as its own region.

"This calls for capacity building in trade negotiations within the relevant institutions such as the Ministry of Tourism, Trade and Industry (MTTI). Such capacity is currently limited and needs developing. However, the approach to trade negotiation may sometimes bring faster results when done as a trading block rather than as individual small countries. Therefore, government will, where possible negotiate for better trade arrangements under the East African Customs Union (EACU) or the Common Market for Eastern and Southern Africa (COMESA)."

6.4.4.2 Are ongoing discussions in the WTO referred to and analysed?

Yes, only with a view to strengthen negotiating capacity.

"At the WTO level, Uganda has continued to comply with its commitments, allowing Uganda to maintain its position in an important forum through which its voice can be heard on trade issues. Challenges include strengthening the capacity of negotiators and ensuring a common position, and continued efforts to reduce tariff and non-tariff barriers. As a lead institution, MTTI has the responsibility for conducting negotiations under the WTO, EPA, EAC and COMESA" (p. 90)

6.4.4.3 Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

6.5 Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human</u>

Yes, mainly with respect to capacity building for negotiations of international trade agreements.

"Government is to strengthen its capacity to engage in multilateral, regional and bilateral trade negotiations to help reduce market access problems to both trade in goods and services through negotiations." (p. 50)

"This calls for capacity building in trade negotiations within the relevant institutions such as the Ministry of Tourism, Trade and Industry (MTTI). Such capacity is currently limited and needs developing." (p. 87)

"Challenges include strengthening the capacity of negotiators and ensuring a common position, and continued efforts to reduce tariff and non-tariff barriers. As a lead institution, MTTI has the responsibility for conducting negotiations under the WTO, EPA, EAC and COMESA." (p. 90)

Also, plans for providing export-related training through Uganda Export Promotion Board are mentioned, although it is not clear what the content of such training may be.

"UEPB's major activities are market intelligence, market entry strategy support and export skill training. UEPB has facilitated the development of some infrastructure and is promoting export villages. It is assisting producers to meet the standards under the European Union's Good Agricultural Practices initiatives. UEPB is also pursuing access to 'soft markets' in middle-income countries, which often present less severe barriers than those in Europe and America, and has plans to develop an export training school to inform entrepreneurs about marketing products for export." (p. 91)

<u>Financial</u>

Not specifically addressed in the context of trade.

Kenya

Analysis of Kenya’s PRSP
(Economic Recovery Strategy for Wealth and Employment Creation)

Summary
The review shows that the PRSP is very similar in structure and content to the other 2nd generation PRSPs analysed:
- it considers growth as the main element of the strategy
- it is divided into a general horizontal analysis of strategies for economic recovery, centred around macroeconomic stability, good investment climate, well functioning factors’ markets, and a vertical analysis of sectors to be promoted for growth.
- the vertical analysis appears to be more rooted in the country’s circumstances than the horizontal analysis.
- trade promotion is considered an important element of the strategy and a specific section is dedicated to it

The main differences with other PRSPs are:
- the document is far shorter than the other ones analysed (less than half of the average length of the other 2nd generation PRSPs). This shorter size is reflected in the lack of detailed discussions, although the general content is very similar
- the Kenya’s PRSP lacks any reference to financial resources needed for the implementation of the plan
- there is no detailed poverty analysis as in most of the other documents reviewed.

Growth

1. How is growth treated in general?

“The major challenge facing the NARC Government is how to restore economic growth, generate employment opportunities to absorb the large army of the unemployed, particularly the youth, and reduce poverty levels.” (p. 1)

“The core aim of the economic recovery programme is to achieve economic growth rates that are consistent with the creation of 500,000 jobs annually.” (p. 6)

1.1. Is growth included in the title of the document?
No

1.2. Is there an explicit statement that growth is relevant for poverty reduction?

1.3. Are there frequent references to it in the document (count number of occurrences of "economic growth")?
31 times growth related words in 56 pages (0.55 per page).

1.4. How important the references to economic growth are relative to social issues (ratio of number of occurrences of "economic growth" relative to "social")?
31 "health"; 54 "education" (ratio: 0.36).

2. Is there a vision for how to achieve growth?

2.1. Does the document specify a target rate of growth?
Yes, although no indication is given on what basis the expected sustained growth is going to be achieved.

"Achieving a high real GDP growth rate - rising from an estimated 1.1 percent in 2002 to 2.3 percent in 2003 and 7 percent in 2006;" (p. 3)

2.2. Does the PRSP provide a basis for achieving growth in terms of sectors or other components of growth (e.g. identification of key sectors)?
Yes, there is a discussion on the relative contribution expected by the different sectors to the target rate of growth, although no clear

"The sector expected to lead in reviving the economy will be building and construction, which is projected to grow annually by 16.7 per cent on average… The other major source of growth is manufacturing sector, which is projected to grow during the recovery period at an annual average rate of 8.6 per cent compared with 1.2 per cent in 2002.
The agriculture sector, which has been faced with myriad structural problems, is expected to grow by an average of 3.1 per cent annually during the recovery period as investments in rural infrastructure, agricultural research and extension services begin to yield desired results.
Tourism is also expected to make a significant contribution to the economic recovery, growing by an annual average of 5.4 per cent over the period. Similarly, the Information and Communications Technology (ICT) sector is expected to contribute significantly to the overall growth, increasing by annual average growth rate of 5 per cent. The strategy therefore is to make Kenya a less agricultural-dependent country by diversifying to other sectors while still recognizing the strategic position of agriculture in fighting poverty. The agricultural sector share of GDP will consequently decline from 24.0 per cent in 2002 to 22.2 per cent in 2007." (p. 3-4)

2.3. Is the PRSP set in national economic development plans or national economic visions (e.g. does it refer to any other documents, such as a "vision 2020")?
No

3. Does the treatment of growth take into account poverty reduction considerations? Is there a discussion on the pattern of growth and the effects of growth on poverty and distribution

a. Poverty

The document provides an estimation of the poverty rates' expected evolution although no clear rationale for it is offered.

"On the assumption that income inequality does not worsen and population growth remains at 2 per cent per annum, the poverty rate is estimated to decline from 56.7 per cent to 51.8per cent - an improvement of 5 percentage points." (p. 7)

b. Income inequality

No

c. Spatial inequality

No

4. Have key constraints to growth been analysed?

4.1. How, if at all, have the following constraints been analysed?

- **Macroeconomic stability**
  An entire section is dedicated to macroeconomic policy whose objective is "the maintenance of a stable macroeconomic framework, but within the context of structural reforms that will lead to wealth and employment creation aimed at poverty reduction." (p. 3). Standard orthodox recommendations characterise the entire section without any reference to possible trade-offs between different policies (e.g.: it is assumed that the government needs a reduction of fiscal expenditure, without considering the possible consequences of it).

- **Well defined property rights**
  A generic mention to the importance of property rights' protection is given in the discussion on investment climate.

  "Improve the investment environment by putting in place an Investment Code that consolidates into one Act all incentives, property rights' protection and institutional arrangements in order to reduce the red tape and cost of bureaucracy." (p. 27)

- **A good investment climate e.g. in the form of appropriate administrative procedures, and other regulatory procedures.**
  Yes, the document has several discussions on the crucial importance of reducing administrative procedures and improving investment climate to promote growth in the country.

  "In an effort to revive the economy and meet the expectations of Kenyans for better living conditions, the starting point is better governance, improved security in the country and restoration of the rule of law. These steps are necessary because bad governance, insecurity and breakdown of the rule of law have led to misappropriation of productive resources thereby undermining economic development by discouraging investors, both local and foreign, raising the cost of doing business," (p. 8)

  "The existing regulatory framework imposes significant costs on business and has been identified as a major hindrance to the development of Medium and Small Enterprises (MSEs), and the formalization of the informal sector. To ensure that the cost of regulation is minimized, the Government will establish a Commission to review all business-related regulations, covering both legal and institutional aspects." (p. 14-15)

- **An attractive incentive framework (e.g. are incentives aligned with economic strategies)**
  Some discussion on incentives is given in the tourism sector analysis.

  Provision of Incentives: "There will continuously review taxation measures that adversely affect the sector with an aim of providing incentives to the private sector" (p. 26)

- **Well-functioning factor markets (labour, capital and land)**
  Some mention of restrictions in the factors' market is provided in the sectoral analyses with respect to access to credit and in the general analysis with respect to labour markets and land tenure.

  Access to Credit: "To raise the productivity of farmers, access to affordable credit (in terms of collateral and repayment terms) is critical. The Government through the Financial Sector Assessment Program (FSAP) will review the institutional framework with a view to encouraging development of institutions that are well placed to provide credit to agriculture. This will include development of micro-finance institutions (MFIs) and the revival of the Agricultural Finance Corporation (AFC);" (p. 24)

  "Put in place measures to expedite settlement and arbitration of trade disputes to
  - *Promote industrial harmony;*
  - *Enforce the laws aimed at promoting health and safety standards and protecting workers from occupational hazards by implementing surveillance and hygiene audits at work places;*
  - *Strengthen the recently established National Productivity Centre with a view to institutionalizing a productivity measurement process and internalizing the same in labour policy formulation process especially as relates to wage setting; and*
  - *Improve Labour-Employers-Government interaction and policy understanding through the National Economic and Social Council." (p. 33)*

"The land tenure systems in pastoral areas have constrained their social and economic development. The communal land use, access, controls and management is central to pastoral production systems but is poorly recognized in current land tenure arrangements. Currently there are three legal land holding categories. These include Government land, Private land, and Trust land." (p. 38)

- **Broad access to infrastructure and education**

  "Physical infrastructure is an important prerequisite in creating and supporting a business environment that facilitates private sector investment, growth and job creation. The provision of adequate infrastructure and the services thereof, coupled with macroeconomic stability and a long-term development strategy, are essential preconditions for sustainable economic and social development." (p. 16)

  "Kenya is currently characterized by a dilapidated road network, inadequate and dilapidated railway network, unreliable supply and costly electricity, poor telecommunications, neglect of Information Technolgy, and inadequate and poor quality of water supply systems." (p. 16)

  "The broad objectives of education sector interventions are to achieve 100 per cent net primary school enrolment rate and reduce the disparity in access and quality of education. Secondary objectives are to improve access and quality and to reduce disparities at all levels of education." (p. 31)

- **Trade**
  The importance of trade for the country's development is stated throughout the document. In particular:

  "The trade and industry sector is strategic to economic recovery because it is the sector likely to recover fastest." (p. 27)

- **Other constraints**
  Corruption, security and lack of enforcement of the rule of law to which specific sub-sections are devoted (p. 8-10)

4.2. Is there a clear distinction between constraints in the public and private sectors?

The PRSP dedicates an entire section to the reforms of the public sector. These include civil service reforms, reform of local authorities and of public enterprises.

"Improving public administration is essential to economic recovery. The sector is excessively large thereby absorbing inordinately large amount of national resources. The sector is also characterized by wastefulness and inefficiency. Consequently, the sector has become a bottleneck to the overall development of Kenya. Therefore, one of the priorities of the economic recovery strategy is to downsize the public sector and make it more efficient and investor-friendly in order to promote private sector-led growth and poverty reduction." (p. 11)

4.3. Is there any analysis of whether binding constraints differ by sector?

Yes, there is a section (number 6) dedicated to the analysis of important sectors of the economy, i.e. agriculture and fishing, tourism, trade and industry, information broadcasting and film, forestry and mining.

"Reasons for the decline in agricultural productivity include:

- *Poor governance in key agricultural institutions, particularly the cooperative sector and lack of a comprehensive legal framework to guide formulation of consistent policies;*
- *Institutional failure due to lack of capacity by the private sector to take over functions previously performed by the state after liberalisation; and lack of markets and weak marketing systems;*
- *Poor access to farm credit, high cost of farm inputs, insecurity in certain parts of the country, and taxation of farmers through local authority cess and other levies;*
- *High prevalence of HIV/AIDS affecting agricultural productivity;*
- *Low level of public funding and inefficient use of public resources resulting in inadequate and inefficient infrastructure which has led to high cost of production; and*
- *Inappropriate technology that is unresponsive to variations in agro-ecological zones; and inadequate funding for research and extension services." (p. 23)*

4.4. Does the analysis of the constraints take into account sub-national units (e.g.: regional, provincial)?

No

4.5. Does the analysis of constraints take into account that constraints may differ by group of people?

Yes. The document discusses the relevance of the economic growth strategy in particular for the youth.

"The major challenge facing the NARC Government is how to restore economic growth, generate employment opportunities to absorb the large army of the unemployed, particularly the youth, and reduce poverty levels." (p. 1)

5. Are there feasible plans for addressing these constraints in the particular country?

5.1. Is the discussion of constraints set in the specific circumstances of the country?

The discussion is more tailored to the Kenyan conditions in the sectoral analyses than in the general analysis of constraints to growth, where policy prescriptions seem to be assumed ex ante rather than derived from a proper analysis of the constraints in Kenya (exceptions to this include factor markets and investment climate).

5.2. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

Human (capacity constraints)
No

Financial
No

Trade

6. Is trade treated as important?

6.1.1. Is there a specific section on it in the PRSP?
Yes. Section on trade and industry (6.4)

6.1.2. Are there frequent references to it in the document?
18 for "trade", 20 for "export" and 7 for "import" (0.80 occurrences per page)

6.2. Does the treatment of trade take into account poverty reduction considerations?

6.2.1. Is there any discussion on poverty reducing effects of trade?
No

6.3. Does the PRSP discuss trade policy options explicitly?
Yes, the document (in section 6.4) discusses a series of policies aimed at promoting Kenyan exports, although no clear rationale for these options is provided. It seems a wishful list of actions to be undertaken not derived through a thorough analysis of the constraints to the export sector and without considering possible trade-offs of these options.

6.3.1. Is there an understanding of how they might differ from sector to sector?
Yes, the trade strategy is focused mainly on garments and clothing.

"Focus on garments or clothing manufacturing to take advantage of the AGOA market. This market provides an opportunity for development of long-term clothing supply capacity with high potential for rapid employment creation, foreign investment, export earnings, and transformation of the MSE sector through linkages with external markets;" (p. 28)

6.3.2. Is there an understanding of how they might differ in their impact on vulnerable groups?
No

6.3.3. Does the discussion differentiate between consumers, producers and employees, large and small firms, in both urban and rural environments?

Yes. The document discusses the importance of rural micro enterprises in developing industrial trade.

"A 1999 survey of MSEs indicated that these enterprises are faced with many constraints. The most serious constraints identified are: lack of adequate market (34 per cent) for their products; access to affordable credit; insecurity and harassment by local authorities; and dearth of serviced commercial worksites. The study findings suggest that policy and programme attention or priority should increasingly be targeted towards rural-based enterprises, which account for 65.6 per cent of total micro and small-scale enterprises." (p. 27)

6.4. Does the PRSP cover other national and international factors affecting trade?

6.4.1. Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?

"A number of constraints limit the realization of the full potential of the sector. These factors include low morale occasioned by poor governance, poor infrastructure, high business transactions costs, insecurity unfair competition from counterfeit import goods…" (p. 27)

6.4.2. Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?

The document mentions the "problems of access to external markets" (p. 27) as one of the main constraints to the trade and industry sector.

6.4.3. Does any discussion cover regional aspects, including regional integration, cross-border/regional issues impacting growth and poverty reduction, and REC membership?

Yes, there is some mention to regional agreements such as EAC and COMESA.

"active participation in regional and international integration and cooperation schemes such as EAC, COMESA," (p. 27)

"Axle load control system will be reviewed regularly in consultation with other member states within COMESA and EAC regional framework." (p. 17)

6.4.3.1 In particular, if the country is member of more than one REC, is there a prioritisation of strategy around that?

No

6.4.3.2 Are ongoing discussions in the WTO referred to and analysed?

No

6.4.3.3 Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

6.5. Do the plans make adequate reference to need for human and financial resources to overcome constraints?

<u>Human</u>
No

<u>Financial</u>
No