

Experience with Poverty Reduction Strategies in Latin America and the Caribbean

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Previous Synthesis Notes include: PRSPS - Key findings to date, DFID's engagement with PRSPs, Assessing participation, PRSPs in Asia (draft), PRSPs in the transition economies (forthcoming)

Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
AMHON	Association of Municipalities of Honduras
ASONOG	Association of Non Governmental Organisations of Honduras
CBO(s)	Community Based Organisation(s)
CCER	Civilian Committee for Emergency and Reconstruction (NGO umbrella in Nicaragua)
CDB	Caribbean Development Bank
CG	Consultative Group
CONPES	National Commission for Socio-Economic Planning (Nicaragua)
CSO(s)	Civil Society Organisation(s)
CSP	Country Strategy Paper
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development (UK government)
EBRP	Bolivian Poverty Reduction Strategy (Estrategia Boliviana de Reduccion de la Pobreza)
EC	European Commission
ENEE	Empresa Nacional de Energia Eléctrica (Honduran national electricity company)
ESAF	Enhanced Structural Adjustment Facility
FONAC	National Convergence Forum (Honduras)
FONDEM	Fondo Interamericano de Asistencia para Situaciones de Emergencia
FOPRIDEH	Private Development Organisation Federation of Honduras
FOSDEH	Social Forum on External Debt and Development in Honduras
FSS	Supplementary Social Fund (Nicaragua)
GDP	Gross Domestic Product
GoB	Government of Bolivia
GoG	Government of Guyana
GoH	Government of Honduras
GoN	Government of Nicaragua
GTZ	German Technical Cooperation
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
HONDUTEL	Empresa Hondrueña de Telecomunicaciones (Honduran national telecommunications company)
IADB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
JSA	Joint Staff Assessment (WB/IMF)
LAC	Latin America and Caribbean
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MECOVI	Programme for the Improvement of Living Standards Measurement
MTEF	Medium Term Expenditure Framework
NDS	National Development Strategy (Guyana)
NGO(s)	Non-Governmental Organisation(s)
ODA	Official Development Aid
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PAI	Programme for the Implementation of the Growth and Poverty Reduction Strategy
PMRTN	Master Plan for the National Reconstruction and Transformation
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP(s)	Poverty Reduction Strategy Paper(s)
PSIA	Poverty and Social Impact Assessment
RUTA	Regional Unit for Technical Assistance
SIDA	Swedish International Development Agency
SIGFA	Integrated System for Financial Management and Auditing
SINASIP	National System for Monitoring of Poverty Indicators
SISER	Sistema de Evaluación por Resultados
SWAP(s)	Sector Wide Approach(es)
UK	United Kingdom
UNDP	United Nations Development Programme
US	United States of America
WB	World Bank
WTO	World Trade Organisation

1. Purpose and Coverage

This report covers the PRSP process in Bolivia, Guyana, Honduras and Nicaragua, the four countries in the Latin American and Caribbean (LAC) region that are part of the enhanced Highly Indebted Poor Country debt relief initiative (HIPC II). An update on the PRS process in some non-HIPC countries (Guatemala, Paraguay, and some Caribbean countries) is also included.¹

The report was researched from the UK through key informants in each country concerned (see Annex 1 for a list of people consulted). It draws primarily on the reflections and perceptions of DFID's social development advisors and in-country civil society actors. See Annexes 2 and 3 for relevant country information and statistics.

2. Background to the PRS process in Latin America and Caribbean

2.1 PRSP and HIPC,: Status and Timing

All four countries reached HIPC decision point in 2000. Full PRSP documents have been written for all countries.

Bolivia completed its full PRSP in March 2001 and it went to the Boards in May 2001. It reached completion point in June 2001,² second to Uganda globally.

Guyana originally completed its PRSP in November 2001, but submitted its final PRSP (with an updated macroeconomic framework) for endorsement in May 2002. It went to the Boards in August 2002 and completion point is hoped for in early 2003.

Honduras is aiming for completion point in March 2003, having completed its PRSP in September 2001.

Nicaragua completed its PRSP in September 2001 but is some way off completion point due to negotiations around its Poverty Reduction and Growth Facility (PRGF).

The estimated total debt relief anticipated is nominally greatest for Nicaragua (US\$4.5 billion). For Bolivia debt relief amounts to US\$1.3 billion and for Honduras and Guyana US\$966 million and US\$590 million respectively. Annex 2 gives a summary table of the timing of documents produced and amount of debt relief anticipated for each country.

2.2 Ethnic, social, cultural traits

There is a strong civil society movement in Latin America which is often highly politicised. For instance, Bolivian mining unions and the Sandinista movement in Nicaragua have contributed to strong forces outside of government. Honduran civil society is sometimes perceived as a somewhat weaker force, although they have mobilised effectively around the PRSP process. The well-informed elite civil society movements in Latin America are able to create significant pressure on governments for change - concepts such as *control social* (social control) mechanisms,³ holding governments to account and social auditing are familiar. However, there are concerns around reaching the poor through these relatively elite (and politicised) organizations. The Catholic Church has a major influence in Latin American countries and was involved in the debt relief initiative through Jubilee 2000. Strong links remain between the Church and the ruling elites, and the Church also has strong political affiliations (as in Nicaragua). Evangelical Protestant organisations are gaining support amongst poor people. Government officers are often well educated and in a relatively strong position to negotiate with the World Bank, IMF and other donors.

Poverty in Latin America has strong cultural and political dimensions, with the poor excluded both economically and socially. There are racial tensions between the population of Hispanic origin and the less-powerful indigenous population who often constitute the majority of the poor; in Bolivia, for instance, indigenous groups make up the majority of the population (around 70%) and are the majority of poor people. Gender divisions remain a key constraint to poverty reduction in Latin America, and violence and insecurity are also rife. Some observers make powerful statements about levels and types of social exclusion: 'In Latin America, there is strong sentiment against poor people in the cities and surrounding urban perimeters.'⁴

In Guyana, the challenges are different to those of the Latin American countries. A country roughly the size of Britain has a population of less than one million. Tensions exist between the two main ethnic groups. Civil society is weaker than in Latin America and NGOs are less politicised. The level of critical analysis and force of social

movements ready to hold the government to account is less than the three Latin American countries.

2.3 Politics, governance and corruption

All four HIPC countries are democratic (though these democracies are fragile) with a relatively free press (though not unqualifiedly free). Changes of governments, whether the same party is re-elected or not, are normally marked by a re-drafting of policy and a rejection of what was in existence under a different government.

All the Latin American countries have recently undergone elections. In Bolivia, presidential elections took place in June 2002, resulting in a coalition government. Elections in Honduras have also seen a change in government in January 2002 and the new government is still developing policies.

People are very aware of corruption in Latin America as Transparency International's perception of corruption index highlights (see Annex 3). The press are increasingly able to expose corruption scandals, which has helped to bring justice to those responsible. This has been evident in the recent election of Bolaños in Nicaragua, while former president Aleman is formally accused of embezzling \$100 million. With the change in President, civil society feels that there has been a greater openness to participation and the possibility of genuine collaboration between government and civil society.

2.4 Economic issues and aid dependency

High levels of inequality⁵ in Latin America are a particular challenge for translating growth into poverty reduction. ODI estimates that Latin America and the Caribbean will only halve poverty by 2015 if they generate conditions for a more pro-poor pattern of growth.⁶ In addition, PRSP documents often overestimate the likely growth rate for the future. Nicaragua, for instance, predicts 5% growth in GDP per annum, in line with growth experienced in the latter 1990s, despite growth in 2001 of only 3% and additional adverse factors such as the fall in coffee prices, the rise in oil prices, a slowdown in the world economy and rising internal debt due to the banking crisis. Bolivia similarly aims for 5% growth in 2003 rising to 5.5% per annum by 2008. The JSA reports that this is 'challenging but feasible'. The Bilateral Cooperation Network, however, felt that the growth targets are over-optimistic, stating, 'This raises doubts as to the viability of the strategy and the level of ownership by the Bolivian government in particular.' Civil society networks also criticise the unrealistic growth projections.

Statistics on the four HIPC countries are given in Annex 3. Nicaragua, Bolivia and Honduras were all listed amongst the top 25 recipients of net official aid globally in 2000. Nicaragua was shown to be the most highly aid dependent with aid standing at 23% of GDP (compared to 7.6% for Honduras and 5.8% for Bolivia). Aid flows in Bolivia account for 'around 9-10% of GDP and 50% of public investment'.⁷ Additionally, aid accounts for 20% of Guyana's GDP and the IADB funded 2/3 of its capital investment last year (DFID).

The region as a whole (including the Caribbean) is even more dependent on remittance income from overseas than they are on aid (Annex 3). In addition, the economies are very vulnerable to changing global commodity prices, especially the small Central American states. Falling coffee prices and rising oil prices are having a major impact.

Negotiations are currently underway to create a Free Trade Area of the Americas which will come into effect in 2005; the debate continues as to whether or not free trade will have a negative impact on the poor. Trade links with the United States are particularly important for the Central American countries, and they are very vulnerable to economic shocks in the US (eg post September 11th 2001). Bolivia also has strong links with the US due to the export of raw materials.

3. Governmental ownership of the PRSP process

3.1 Links with existing planning processes

In Latin America, links between the PRSP process and pre-existing planning documents are relatively poor. In Honduras and Nicaragua, entry to HIPC II was immediately after Hurricane Mitch which brought much attention and aid to the region. Both countries had developed plans for spending the money allocated to post-Mitch reconstruction but PRSPs were developed as new (and separate) documents. Some observers feel that this was because there was the understanding amongst national governments that the two plans would be associated with different conditions and financial aid and therefore it was in the governments' interests to keep them distinct.

Box 1 gives examples of how governments see PRSPs fitting into other policy documents.

Box 1. The PRSP and other national policy documents in Guyana and Honduras

The Government of Guyana is proposing that its focus should be on three policy documents.

- The National Development Strategy (NDS) in the long term (25 years)
- The PRSP (particularly MDGs) in the medium term
- The Government's Annual Work Plan and budget in the short term. (April 2002).

The elections in Honduras (November 2001) and the resulting change in government (January 2002) meant that the PRSP took a back seat compared to political campaigns. The PRSP will become one of three core national policy documents.

- Ricardo Maduro's campaign promises
- PRSP
- Government Programme (Programa de Gobierno)

According to DFID initial signs are that there is good coherence between the plans (such as the Master Plan for the National Reconstruction and Transformation- PMRTN) and the PRSP is increasingly embedded into government policy.

3.2 Institutionalisation

In Latin American HIPC's, government opinion of the PRSP's role as a comprehensive national strategy is somewhat open to question. Some observers have been concerned that the PRSP process was originally driven by debt reduction rather than poverty reduction; however, some feel that poverty reduction has now taken on much more importance. Others believe that governments do not in general treat the PRSP as a tool for comprehensive planning and budgeting, although there are links between the PRSP and other planning instruments.

In Honduras, Nicaragua and Guyana, the Ministry in charge of developing the PRSP is linked to the President's Office. In Honduras, there are separate bodies responsible for PRSP formulation (the President's Office), PRSP implementation (the Ministry of Governance and Justice), the prioritisation of expenditure of HIPC funds (a Consultative Council which includes civil society representatives), and the management of the Poverty Reduction Fund through which HIPC funds will be channelled (the Ministry of Finance).

In Bolivia, the PRSP process has been institutionalised through a unique legislative framework. The legal framework has shifted in favour of participation and decentralisation which will be difficult for a new administration to change; indeed the new government has committed to continuing the Dialogue process. The 1994 Popular Participation Law strengthened poor people's voice, increased the resources channelled through municipal governments and gave civil society a role in overseeing the use of public funds - a National Dialogue then took place in 1997. The PRSP process strengthened this legal framework with the 2001 National Dialogue Law, which stipulated that dialogues should take place every three years and effectively institutionalised participation in national policy-making.

3.3 Parliament, politics and decentralisation

In all four countries, there have been criticisms about the lack of government ownership of the PRSP outside the key ministries involved in the drafting process. This lack of ownership is seen to be both political and technical. In Guyana, for instance, there have been concerns about the lack of genuine ownership and commitment to the PRSP. There are some indications that the PRSP process is seen by the Guyanan government as a hurdle in order to achieve HIPC debt relief and line ministries have not been closely involved in the preparation of the document. However, the PRSP describes the establishment of sectoral committees in the National Assembly to deepen parliament's role in the PRSP process. In all the Latin American countries, recent elections mean that observers are waiting to see what the new governments will make of the PRSP process.

Honduras and Nicaragua both had elections in November 2001. It is not clear what impact this will have on the PRSP and its implementation. However, in both cases, the new governments appear more open to discussions with civil society. In Honduras, the new government is in the process of joining the PRSP objectives (under the Ministry of the Presidency) with the Plan for Decentralisation (under the Ministry of Governance and Justice). Discussion and coordination is increasing between these two key ministries. The powerful NGO networks, who felt that their views were heard but not incorporated during the first round of consultations, feel that they may have a chance to influence the re-drafting by the new governments.

In the case of Nicaragua, the new government is developing the first pillar of the PRSP into its National Development Plan, focusing on growth and exports. The governance pillar is also being taken forward (although not in a formal strategy as yet), and the ministries of Education and Health are also moving ahead with reform

programs.

In pre-election debates in Bolivia, there was little mention of the PRSP, perhaps indicating its lack of importance within parliament and among the general public. According to some observers, 'the National Dialogue failed to involve party political leaders.'⁸ The new coalition government has formulated *Plan Bolivia* which has some areas of overlap with the EBRP. Immediately after the election it was not clear whether the GoB would adopt the PRSP as well. Indeed, the IMF predicted, 'The new administration may be reluctant to accept the PRS because opposition political parties consider that their views were not taken into account in the elaboration of the PRSP, even though they participated in the national dialogue.'⁹ However, the government has recently confirmed its intention to continue with the PRSP although it will review and revise it.

Decentralisation has gone further in Bolivia than elsewhere. The Law of Decentralisation includes a 20% transfer of central government tax revenues and empowerment to raise local taxes.¹⁰ Approximately 40-45% of 2002 public expenditure is going through municipalities.¹¹ The 2001 National Dialogue Law established poverty-linked criteria for the distribution of public resources through local government. This stipulates that 70% of all HIPC funding is for the poorest municipalities, and the remaining 30% is to be distributed equally amongst the nine departments.

4 Stakeholder engagement

4.1 Consultation processes

In all cases, consultations were carried out both formally and informally. In the three Latin American HIPCs, these consultations built on participatory mechanisms that have been somewhat institutionalised. The PRSP has strengthened the process of dialogue in all cases, and provided valuable lessons for the future. Bolivia and Nicaragua have provided a legal framework for participation. In Nicaragua this has been done at the national level whereas in Bolivia it is at the national and local level. However, there is a gap between the central policymaking fora (that often include formal civil society organisations) and decentralised, often informal, participatory processes. Critics in all countries felt that poor people and particularly the indigenous were not given the chance to participate due to lack of translation into local languages and inappropriate fora for dialogue; the representativity of some civil society groups is also open to question. In both Nicaragua and Honduras, civil society groups drafted independent PRSPs.

In Bolivia and Guyana the consultation process would have reached more people if local languages and easily understood formats had been used. A popular version of the Nicaraguan PRSP was produced, however the verbal explanation which is needed to accompany the distribution of such a document means that this exercise did not realise its full potential.

Bolivia

In Bolivia, the Dialogue Technical Secretariat was responsible for the technical aspects of the government-led consultation called the National Dialogue. The team comprised technical experts and academics with experience in participation. A Jubilee 2000 consultation initiative (led by the Catholic Church) was an important precursor to the National Dialogue. Efforts were made for the official process not to be seen as a Church-led initiative. In addition, donors contributed to a Social Consultation Fund in order to support other participatory initiatives; these enabled a larger amount of people to participate than through the official process. Beneficiaries of this fund included small producers through the *Comité de Enlace*, and The Federation of Indigenous People of the Lowlands who also made their own proposals. However, critics of the process felt that it did not properly include the voice of the majority indigenous population and did not reach the poor.

Box 2. The Bolivian National Dialogue

'The Bolivian National Dialogue was a government-led, countrywide consultation process implemented from June to August 2000, involving government, civil society, business and international actors. It was conducted through municipal, departmental and national level government structures, using round table discussions on economic, social and political themes.'

Source: Participating in Dialogue: The Estrategia Boliviana de Reducción de Pobreza (Christian Aid, January 2002)

'The national dialogue itself was designed as a bottom-up effort, with discussions taking place first at the municipal level, then at the regional level and last at the national level. ... One shortcoming was that organisations representing certain groups - such as homesteaders, peasants, and indigenous peoples - did not fully attend and were represented by local authorities.'

Source: Crafting Bolivia's PRSP: 5 Points of View (Finance and Development 39:2, June 2002)

Nicaragua

The JSA of the full PRSP states that the preparation of the PRSP 'provided a valuable opportunity to deepen a previous process of national consultation.' The National Commission for Socio-Economic Planning (CONPES) was established after Hurricane Mitch in October 1998. This became the 'primary channel of consultations between the government and civil society on social and economic strategy, and more recently for the preparation of the PRSP' (JSA). Although it receives much criticism from civil society and some groups feel excluded, it does have a constitutional mandate and is a useful platform for dialogue. The use of CONPES as a forum for policy debate and discussion has become more important under the new Bolaños government. In preparing the PRSP, the government also carried out working sessions with central government, sectoral ministries and autonomous entities and with donors. 'Proconsulta' was a government-led initiative to carry out consultations in 9 departments and with 16 focus groups; this was supported by DFID and UNDP. National NGOs and an NGO network (CCER) carried out consultations as did a group of four municipalities in Leon Norte (with support from IBIS).

Honduras

The JSA of the full PRSP states that the government followed a 'three pronged' strategy for consultations. As well as 19 broad-based regional consultations and meetings with congress and presidential candidates, there were efforts to set up a national level dialogue with civil society through the Commission for Civil Society Participation. Members included civil society organisations (FOPRIDEH, FONAC), Association of Municipalities of Honduras (AMHON) and the two main chambers of commerce (San Pedro Sula and Tegucigalpa).

It is noteworthy that Interforos and their partner organisation, the Social Forum on External Debt and Development in Honduras (FOSDEH) withdrew from this forum during the PRSP preparation process as they felt that the group was not taking account of their inputs. They developed their own PRSP rather than maintaining their support for the development of the official one, believing that this was a better way of influencing change. The document was prepared with some real participation and contained some views opposed to those in the official PRSP. Interforos felt that their PRSP was effective in raising an alternative view point but they were disappointed that the WB/IMF did not take more notice of it in their decision to endorse the government's strategy. The JSA also points to other parallel processes that contributed to the development of the PRSP: the National Anti-Corruption Commission and the national dialogue on the education sector, promoted by FONAC.

In Honduras, the climate for enhanced participation has improved with the new government, and civil society groups are re-evaluating their participation in the official PRSP process. The Commission for Civil Society Participation is no longer seen as the main discussion forum. Technical groups exist to discuss various aspects of the PRSP and comprise members of government, donors and civil society depending on individual technical areas of expertise. In addition, the Consultative Council has been created and is charged with the prioritisation and eligibility of projects to be funded through the Poverty Reduction Fund. It is composed of four representatives from the government, four from civil society organisations and one representative from AMHON.

Furthermore, there is a proposal (developed by civil society and government) to have joint committees comprising local government, representatives of line ministries, and civil society in micro-regions of the country. These committees would be responsible for the funding of local-level poverty reduction initiatives. DFID is supporting an NGO network (ASONOG) and FOSDEH to develop and strengthen these joint committees under the regional PRSP project. In addition, there is an international NGO group who are coordinating views and support for the PRSP. Trocaire was elected to lead this group and is optimistic about its potential. The IADB is funding a country-wide mapping exercise of civil society organisations in order to instil mechanisms for transparent representation in central government planning.

Guyana

In Guyana consultations were held between July and October 2001. This was at a fairly tense post-election period. Of the small population in Guyana (under 1 million), 1% were consulted through both community and regional exercises, with a national consultation held to discuss a draft PRSP. Participation was generally regarded as good throughout the preparation phase. The debate at community and regional levels was a particular strength, and the JSA particularly notes that the consultation process brought together diverse ethnic groups to discuss development issues. However, there is a lack of understanding among civil society as to why the communities were being consulted, despite some efforts by the government to communicate the results of consultations. There was also a lack of representation from the private sector. Finally, there is also no permanent forum for policy discussions to take place. The delay in implementation of the PRSP (due in part to protracted PRGF negotiations) may undermine the confidence that communities built up during the PRSP preparation. 'By the time the funds come through it is likely to be 18 months after communities were consulted on their needs.'¹²

4.2 The results of the consultation processes

In general, the consultations made some difference to the policies contained in PRSPs, especially in that governance was generally given a higher priority. However, the macro-economic framework was not influenced by the consultation processes. Experience varied considerably across the countries, with observers and participants expressing varying degrees of support for the final document.

Bolivia

In Bolivia, consultation effected significant change in the PRSP. The participatory process around the PRSP in Bolivia is often cited as a good example of what can be achieved through participation. The government was open to different types of dialogue which was supported by donors. Christian Aid notes: 'Some of the outcomes of the [Bolivian] National Dialogue were remarkable and brought about real policy change. Arguably the most significant of these is the fact that for the first time Bolivia's resources will now be allocated according to positive discrimination criteria, favouring the poorest municipalities.'¹³ In addition, the JSA of the full PRSP notes that the PRSP includes an annex stating issues that were raised in the national dialogue and how they are treated in the PRSP.

However, the Bolivian process has its critics. 'Many CSOs feel that the government, and international community had a pre-set policy agenda for the EBRP, which essentially preserved the structural adjustment measures already in place. They suggest that space for discussion was purposely restricted so that macroeconomic policies were not openly analysed. By firmly focusing the National Dialogue debate on debt relief resources, a broader discussion of the national budget and adjustment measures was avoided. Also, the division between social and economic agendas within the Dialogue structure, and the very selective invitations to participants for each round table meant that many interested parties were excluded from discussing economic issues.'¹⁴

There was little consensus amongst non-governmental actors on the strength of the final document. NGO groups lobbied in Washington for the document not to be approved. Seven networks of Bolivian NGOs and the Technical team of the Foro Jubileo 2000 sent a letter to Washington rejecting the PRSP in May 2001. The Bilateral Cooperation Network also expressed serious reservations. However, the WB and IMF Joint Staff Assessment (May 2001) was positive and endorsed the EBRP relatively enthusiastically.

Nicaragua

In Nicaragua, the consultation process meant some change to the PRSP. An NGO umbrella network (CCER) started its own process as it felt that an alternative view point should be put forward to challenge that of the government. The JSA states that the government did revise the I-PRSP on the basis of comments and recommendations received during the consultation process, by placing more emphasis on 'broad-based economic growth, rural development, social equity, transparency and better governance, and broad participation.' However, some groups (including civil umbrella groups) felt that the consultations did not influence the overall structure and approach of the PRSP.

Guyana

Again, consultation meant some changes to Guyana's PRSP. The JSA states that 'the PRSP candidly reflects the results of the consultations and the voices of the participants.' At both the local and national levels 'everyone agreed that tackling justice and governance issues was crucial to reducing poverty and encouraging economic growth.'¹⁵ The full PRSP is considerably more detailed than the I-PRSP with additional commitments in several areas - support to small and cottage industries, exploitation of mineral resources, information and communications systems, support to the private sector, creation of an HIV/AIDS strategy, targeted subsidies for schools, rural electrification and others. It is likely that consultation mechanisms went some way towards these changes, although attribution is difficult. Governance became more prominent as a result of the consultation process.

Honduras

The JSA acknowledges that the results of the consultation were mixed, with some groups rejecting the final PRSP as a document that does not represent a national consensus. The JSA also stresses that 'most observers agree that the government has made a good faith effort to follow a participatory approach.' The timing of the consultation was extended on the request of civil society groups (supported by some donors). A document was produced which included all the comments made during the consultation process although some NGOs felt that their policy recommendations were not taken into account. The existence of a parallel PRSP did not affect the WB/IMF decision to endorse the official PRSP, as noted earlier.

5. Budget processes and PRSP links

Budgeting systems are often weak in Latin America. Governments lack knowledge about donor and NGOs activity, and vice versa. The lack of a Medium Term Expenditure Framework (MTEF) in all four LAC countries is a major constraint to the prioritisation of the budget around poverty reduction goals. As mentioned earlier, it is not always clear that the PRSP is considered the over-arching strategic plan in LAC countries; how it is linked to budget prioritisation is often unclear. In Latin America, PRSP initiatives are usually dealt with through a poverty fund rather than mainstreamed in the budget.

In Bolivia, the lack of an MTEF is seen by some observers as a significant gap. The PRSP commits Bolivia to developing an MTEF; this was discussed with donors in the last CG meeting. As one observer points out: 'We have yet to see the national budget reorganised around poverty reduction. For most Bolivians, the [PRSP] process was about how to spend debt relief.'¹⁶ The JSA also points out that the emphasis on decentralisation means that municipalities will have considerable influence on local spending decisions; capacity will of course be a key issue in this regard.

Guyana has no MTEF in place, but the medium-term spending allocations in the PRSP do go some way towards establishing multi-year expenditure plans and discussions around the three year IMF programmes are an important part of the budget planning process. Key PRSP commitments have been included in the 2002 budget.

In Nicaragua, funds allocated under HIPC II are to be channelled through a joint donor funding mechanism already in place called the Supplementary Social Fund (SSF). An MTEF might help to update the preparation of annual budget planning linked to the SSF. The Decision Point Document for Nicaragua (December 2000) stated that an IADB loan is being prepared to strengthen the SSF's procedures and technical capabilities. The World Bank is also carrying out a Public Expenditure Review and Social Safety Net Assessment. Computer systems are being developed with WB support (SIGFA) but this remains very centralised.

In Honduras, HIPC II funds are to be channelled through the newly-created Poverty Reduction Fund (supported by the World Bank). A law has recently been passed to give this constitutional backing, although there are indications that some HIPC money may have been allocated or spent already. The Consultative Council will be responsible for prioritising how funds are distributed (see Section 4). However, some observers believe that the Poverty Reduction Fund creates a parallel system to central government budgeting, with the implication that any donor funding and influence will therefore be limited to this fund and not to the whole budget. The Consultative Council are also limited to decisions in relation to HIPC funds rather than the whole budget.

6. Monitoring and evaluation

Poverty data sources exist in LAC but need to be enhanced and disaggregated, and information also needs to be used more effectively. In terms of local level monitoring, *control social* and participation of the poor, all three Latin American countries are exploring how decisions can be made and monitored at local level. In Bolivia, there is considerable government support for such initiatives backed up with decentralised funding channels, whereas in Central America, civil society groups are working to develop local level plans and monitoring mechanisms in the hope of gaining government support as the PRSP is adapted and implemented. In all the countries covered by this report, monitoring and evaluation (M&E) systems are fairly weak both at the local and at the national level. There is a gulf between local and national level M&E, as well as between informal and formal systems. The link between lesson-learning through evaluation and the prioritisation of programmes and budgets remains very unclear. In all cases, governments must submit an annual report on progress in implementation to the World Bank and IMF.

Bolivia

The PRSP outlines how the way in which M&E will be carried out. The legal framework for formalising the participatory process is the National Dialogue Law (see Section 3.3), which will provide a certain level of feedback on the PRSP. The Programme for the Improvement of Living Standards Measurement Surveys (MECOVI) will be strengthened for poverty data monitoring through household surveys and the departmental level monitoring and evaluation system already in place (SISER) will be strengthened (JSA May 2001). The Catholic Church will coordinate civil society groups at the departmental and national level. In addition, *Comités de Vigilancia* have been set up under the Popular Participation Law as formal structures at the municipality level to hold governments to account. Under this system six elected Community Based Organisation (CBO) leaders act as a 'watchdog' ensuring that community-level project priorities are reflected in municipal investment decisions. They can legally call for regular audits and in the case of irregularities can petition Congress to freeze funding transfers until the

matter is resolved.¹⁷ However, weak capacity at municipal level and below remains a major obstacle to deepening the social control process.

Honduras

The IADB is supporting the National Institute for Statistics to strengthen its monitoring and evaluation capacity in the long-term. The IADB is also supporting the development of an M&E system to ensure transparency of public purchases in the context of the PMRTN. However M&E to date is very centralised, and there is a missing link between the local level (where interesting informal *control social* initiatives are taking place) and the national level official monitoring systems. There is a lack of trust within central government of the value of local level voice and the lack of capacity is often cited as a reason not to involve the poor or local level groups.

Ad hoc initiatives to support government accountability and local level monitoring exist but they are not linked up. Some of these include:

- UNDP support for a training programme for journalists, to strengthen media coverage and feedback on implementation
- The Catholic dioceses have supported an NGO (Caritas) to train over 600 community groups in social auditing skills.
- The NGO umbrella ASONOG is developing participatory tools for *control social* at the local level.
- Currently, there is also a coalition of CSOs lobbying in the national legislature to create and strengthen a new public institution (*el Tribunal Superior de Cuentas*) to ensure transparency and accountability of public expenses.

Nicaragua

The JSA of the PRSP suggests that the PRSP provides a credible plan for monitoring and evaluation, although not detailed enough. As implementation gets underway, the GoN hopes to improve efficiency, accountability, and information flows for M&E through greater decentralisation. However, some observers note that the decentralisation plan is ambitious in itself, and there is a need for realism. The IADB are supporting 11 municipalities in their implementation of the PRSP; this support includes piloting an M&E initiative (PAI). The IADB is supporting the development of an official M&E system for the PRSP (SINASIP). DFID are also supporting the development of capacity for M&E at the local level, the development of indicators, and moves towards participatory budget formulation and monitoring at decentralised level.

Like Honduras, a number of local level, non-official M&E initiatives are taking place. The NGO umbrella group CCER undertook two social audits involving 16,000 households from 150 communities nation wide. Germany is funding a continuation of this process in four municipalities. The development of local level PRSPs in Nicaragua will be useful in defining monitoring and evaluation at this level; however, there is a missing link between the local and national level.

Guyana

The JSA states that 'Guyana's ability to monitor and evaluate policies in general, and the PRSP in particular, remains weak.' The WB/IMF staffs felt that a number of initiatives spelled out in the PRSP would not yield results in the short term. The WB is supporting the development of an M&E framework that will include 'improving coordination and oversight of poverty-reduction activities, strengthening the Bureau of Statistics, expanding technical assistance to line agencies with PRSP responsibilities, piloting a community-based monitoring initiative, and launching an outreach program for enhanced public access to information and broad-based dialogue on government expenditures and programs to reduce poverty.'¹⁸ The IADB is also providing assistance in data collection, and for the strengthening of analytical capacity in the line ministries in quantitative data analysis, program evaluation, and policy formulation. At present, data used for the PRSP does not include remote areas where many indigenous people live and does not have a gender dimension.¹⁹

7. Donor behaviour

7.1 Donor Coordination

Donor coordination has become increasingly important in order to support PRSP principles, with greater understanding in LAC of the need for governments themselves to play a role in coordination. Some donors have

been active in promoting coordination, but the lack of government leadership in coordination of donors continues to be a problem. Personalities and the differences in relative decentralised decision-making power of donor agencies are also important.

In Bolivia, the PRSP incorporates the *Nuevo Marco de Relaciamiento* (New Relations Framework) which is developed along the same lines as the Comprehensive Development Framework. Government, donors and civil society groups need to adjust their behaviour and policies under a Bolivian government-led partnership.²⁰ The formation of a strong Bilateral Cooperation Network on the PRSP enabled a united position to be developed amongst bilateral donors which gave clear statements to the WB/IMF and the government. Civil society groups see this as an important way of influencing change in Washington. Two members of the bilateral group (UK and Dutch) were members of the team that prepared the draft Poverty Reduction Support Credit (PRSC) document. The self-evaluation of the network was positive about the amount of influence it had: 'the Network pushed for greater ownership of the EBRP by the GoB, as opposed to being totally dominated by ideas of the multilateral agencies and drafting by them of the document. The bilateral cooperation had a critical and important seat at the table during the entire PRSP process.'

The European Commission (EC) is in the process of changing its way of operation in Bolivia. A new Country Strategy Paper (CSP) was agreed in March 2002 which fully backs the PRSP and aspires to promote sector-wide working within the New Relations Framework. No projects or programmes have been agreed recently but identification is now closely linked to the PRSP and the CSP. The EC participated as a member of the Bolivian Consultative Group and leads the sub-group on exports and foreign investment which is part of the Consultative Group 1 on the (economic) sustainability of the PRSP.

In Nicaragua, the like-minded donors have formed a group. The pooling of funds for municipal support or around the anti-corruption fund stems from this group of donors. The WB has also coordinated with the like-minded group, and DFID had an input into the JSA of the PRSP. There are a variety of other coordination mechanisms, including the Good Governance Group and sectoral coordination bodies.

In Honduras, there is a donor coordination group which was set up after Hurricane Mitch as eight donors (G8); it is now the G15 and comprises most of the donors present in Honduras (both multi-lateral and bilateral). The group is not ideal, but does have coherence and a good relationship with the GoH. It has also improved information sharing amongst stakeholders. NGOs feel that the impact of the group is limited due to opposing views within the group, and question the extent to which donors have changed their behaviour around the PRSP.

In Guyana, the World Bank sees donor coordination as crucial to the success of the PRSP. The government has recently put forward its proposal to coordinate donors around a High Level Committee working with thematic groups involving donors and line ministries. This is welcomed by donors, but civil society and the private sector are not mentioned in the government's original proposal. For more detail on donor activity in Guyana, see Box 3.

Box 3. Donor activity in Guyana

'The UNDP has played the lead multilateral role on the PRSP in-country and they have been generally good at coordinating donor meetings and the dialogue with Government. The World Bank has played an important role in advising Government on the PRSP process but they have shown limited interest to date in involving other donors on PRSP missions, though this attitude appears to be changing. The IADB and Caribbean Development Bank (CDB) have not played a very proactive role on the PRSP. Limited country presence of the World Bank is a constraint and the IADB (who have a well-staffed country office) have chosen not to play a very significant role. The CDB is more proactive on poverty issues in other Caribbean countries, but is a minor player in Guyana. The Government should be leading the process, and they are to a large extent, but they have tended to misunderstand what the process is about and local donor offices have not been particularly well informed either. As a result, the process has been a bit haphazard and some donors have felt left out of some discussions.'

Source: DFID Caribbean, Response to Questionnaire on Engagement with PRSPs (October 2001)

7.2 World Bank and IMF behaviour

There remain concerns amongst civil society groups across the LAC region that the World Bank and IMF have not translated their rhetoric of participation and transparency into improvements in their own behaviour. In addition, it is sometimes difficult to ascertain whose voice counts in what policies are and are not included in the PRSPs. Civil society groups often feel that the Bank and Fund maintain a strong influence over the content of PRSPs throughout the region.

In Nicaragua, for instance, civil society feels that the Bank and Fund do not recognise the extent to which low ownership was responsible for the lack of implementation of previous conditionalities, and the distance that must be travelled to support ownership today. The first draft of the I-PRSP was sent to the headquarters of the IMF and WB in English. Civil society organisations were able to obtain an unofficial copy from Washington but not from their own government until it was translated into Spanish several months later. However, the IADB notes that in both Nicaragua and Honduras there were some areas of policy disagreement with the government but the IADB

accepted the fact that its comments were not fully incorporated into PRSPs in these cases.

Honduran NGOs criticised the lack of open discussion around the macroeconomic chapter of the PRSP. This chapter was included in the final version of PRSP without having been circulated to civil society organisations or parliamentarians for discussion and input. The working drafts were published in the newspapers after negotiations with IMF were concluded (Trocaire).

In Bolivia, the Danish NGO IBIS has said that the 'IMF has forced through its economical perspectives without trying to measure the impacts on the poor.'²¹ The Bilateral Cooperation Network (see Section 7) was rather more cautious than the WB/IMF in its endorsement of the PRSP, but it is not clear to what extent the JSA took this view into account.

Civil society groups in Central America have expressed concerns over conditions for HIPC completion point that are not based on the PRSP, such as progress on World Bank and IADB-funded projects. In Nicaragua, there are concerns that donors have not carried out sufficient analysis of the impacts of privatisation, with particular concern over opportunities for corruption. CSOs in Honduras have questioned why the PRGF requires privatisation of HONDUTEL, the national telecommunications company, given that it has been a profitable State enterprise providing substantial income; other observers point to poor management and corruption as arguments for privatisation.

Work is needed to analyse the impact of macro-economic and structural policies on the poor. DFID and the WB are undertaking some work on Poverty and Social Impact Analysis (PSIA) which should inform this debate, encourage openness and defuse some of the above criticisms of Bank and Fund behaviour. Guyana and Honduras are part of new initiatives lead by the WB and DFID respectively to examine social impacts in more detail. In Honduras, this work will examine the impact of electricity privatisation and in Guyana it will examine utility reform.

The criticisms of World Bank and IMF behaviour and the impact that this has on the PRSP is summarised by Trocaire. 'The manner in which the PRGF was negotiated and the lack of any attempts to cross-reference this to the PRSP exercise has led civil society organisations in both Honduras and Nicaragua to conclude that macroeconomic policy formulation continues to be dominated by the conditions imposed by the IFIs under PRGF with the social development policies elaborated under PRSP remaining the poor relation.'²² Some donors agree that the WB/IMF have not been transparent or communicative either with other donors or with civil society.

8. Aid instruments

8.1 Bilateral Instruments

There is a move towards budget support by some bilateral donors; however, high levels of corruption and the resulting lack of trust between donors and governments remains a major constraint. In addition, some of the largest donors in the region (US and Japan) cannot pool their funding with other donors due to constitutional requirements in their respective countries.

In Bolivia, like-minded donor practices in relation to the PRSP were reviewed at the Heads of Bilateral Cooperation meeting in Oslo, January 2002 (Box 4 below).

Box 4. Bilateral aid instruments in Bolivia

'Interesting divergence in approaches between DFID and Netherlands: within the PRSP the latter has identified three sectors for budgetary support (education, decentralisation and rural development) and handles significant cross-cutting issues only within those sectors. DFID has opted to support certain PRSP outcomes (pro-poor growth, social inclusion, participatory governance) and supports both Government (largely budgetary support) and civil society initiatives in relation to these. Sweden and Denmark have opted for direct budgetary support, without earmarking, on the one hand and support to programs and sectors on the other. We also look favourably towards participating in SWAs – but so far the conditions have not been created by the Government for such financing.'

Source: Briefing note from DFID Bolivia prepared jointly by four country offices in La Paz (January 2002)

In Honduras, the G15 group of donors has helped to move donors to joint funding in some cases. However there is much resistance to basket funding initiatives partly because donor representatives in Honduras have generally not had experience of this way of working elsewhere and partly because of the high perception of corruption in Honduras. Sweden is the first donor to put money into the Government of Honduras' central budget (US\$ 6 million).

In Nicaragua, the Government is planning SWAs with the support of the EU, and several other bilateral donors are expressing interest in basket funds. There are some cases of donors pooling funding in support of HIPC (the FSS described in Section 5) and for decentralisation (through FONDEM).

In Guyana, there do not yet appear to be many shifts in aid instruments among bilateral donors as a result of the PRSP in Guyana. However, the WB's Poverty Reduction Support Credit (PRSC) provides an opportunity for donors to focus on critical poverty reduction goals if there is space for collaboration. The World Bank is working closely with the IADB on many components of the PRSC-associated Technical Assistance Credit.

9. Non-HIPC countries in LAC embarking on a PRS process

Some non-HIPC countries developing a PRS in the region include Guatemala, Paraguay and some Caribbean countries.

Paraguay

The PRS process in Paraguay is lead by the Secretaría de Acción Social. A document has been drafted which has not yet been adopted by the government as its strategy. The UNDP, WTO, World Bank and IADB are supporting the Secretaría in the development of the strategy but they are now waiting until the government approves it. In Paraguay, as elsewhere, growth rate projections are over-ambitious and the strategy requires considerable fiscal resources to be implemented.

Guatemala

The government finished a draft PRS in November and presented it to the Consultative Group (CG) in February 2002. As yet, the consultation process has only just begun, although there are plans to deepen the level of consultation. There are also concerns that existing processes (including the Peace Accords) should be built upon as much as possible. Donors do not feel that the government is presently showing the prerequisite commitment to poverty reduction and human rights; hence donors such as the EU are channelling funds through civil society in preference to government.

Caribbean

Within the Caribbean, a number of PRS processes are underway, many of them through support provided jointly by the CDB and DFID. St. Vincent & the Grenadines, Grenada, St. Kitts & Nevis and the Turks & Caicos Islands are all in the process of formulating PRSs, whilst Anguilla, the British Virgin Islands and Dominica are implementing poverty assessments. Belize prepared a National Poverty Eradication Plan in 1997 and Jamaica will shortly be reviewing its National Poverty Eradication Programme, developed in 1995. None of the poverty reduction strategies produced to date is as comprehensive as a full PRSP in a HIPC country, but significant improvements in poverty data and consultative processes have been achieved. The main areas of weakness are a narrow focus on anti-poverty expenditure programmes (rather than broader pro-poor policy reform) and weak integration between the PRS and budget processes.

10. Emerging lessons and forward-looking issues for HIPC countries

- Governmental ownership of PRSPs is improving although there are often several national policy documents that play an overarching strategic role, and the role of the PRSP is occasionally unclear.
- There is some way to go in bringing parliaments and line ministries on board in the PRSP process. Similarly, the involvement of local governments will need to be monitored. In Bolivia, local government capacity for implementation and monitoring will be particularly important for efforts at participatory monitoring through municipalities, while in Honduras, the presence of local level PRSPs means that local government capacity is especially pressing.
- Formal political processes have had a significant effect on PRSPs in Latin America, with recent elections in three of the four countries providing a challenge for the PRSP process. However, early experience suggests that the PRSP will survive elections in both Honduras and Nicaragua.
- In Bolivia, the National Dialogue brought about some significant policy changes. However, civil society participation has had a limited influence on the content of other official PRSPs, and CSOs have sometimes

chosen to initiate an alternative PRSP process. There are particular challenges around inclusion of indigenous peoples in future participatory processes.

- The Bolivian experience shows that decentralisation and participation can be institutionalised in a national legal framework. Participation is also becoming somewhat institutionalised in Honduras and Nicaragua, although the same is not true of Guyana. All countries have to establish effective and permanent channels of information flow from the grassroots to the centre and back as the PRSP process continues.
- More needs to be done to analyse the poverty implications of policies and to debate the macro-economic and structural framework openly with civil society. PSIA work from DFID and the Bank will go some way towards this but there is more to be done.
- There are concerns over the realism of the targets in PRSPs, with attendant concern over the feasibility of the strategies as planning instruments. Implementation capacity is particularly low in Guyana. There are presently no MTEF systems in place for budget prioritisation in line with PRSPs.
- Donor coordination is increasing, with Bolivia a good example of better donor coordination. However, there remains considerable room for improvement in most countries. In addition, WB / IMF Joint Staff Assessments of the PRSPs and the associated PRSCs could be informed more effectively by joint donor statements developed in-country.
- Joint donor funding mechanisms are gradually being brought in to varying degrees. Donors have differing views of the effectiveness of such instruments in the LAC context, and lack of trust between donors and governments is a major constraint.

Endnotes

¹ Note that Haiti is currently not eligible for HIPC and while engaged in a PRSP process relatively little information is currently available on the topics covered by this review.

² Bolivia and Guyana were also part of the HIPC I initiative.

³ 'Control social' essentially means mechanisms for the accountability of the state to civil society.

⁴ World Vision Submission to the comprehensive review of the PRSP approach, December 2001

⁵ In Bolivia, for instance, the top 10% of the population earn 58% of the total income and control most political, military and social institutions (DFID, 'Assessing Incentives and Capacity for Poverty Reduction: A Practical Framework for DFID Staff' 2002).

⁶ Lucia Hanmer, John Healey and Felix Naschold, 'Will Growth Halve Global Poverty by 2015?' ODI Poverty Briefing, July 2000

⁷ DFID 'Country Plan for Bolivia: Consultation Draft', April 2002

⁸ Ramiro Cavero Uriona, Juan Carlos Requena P., Juan Carlos Nunez, Rosalind Eyben, and Wayne Lewis, 'Crafting Bolivia's PRSP: 5 Points of View' *Finance and Development* 39:2, June 2002

⁹ *Ibid.*

¹⁰ DFID, 'Assessing Incentives and Capacity for Poverty Reduction: A Practical Framework for DFID Staff' 2002

¹¹ Personal communication Andrew Dixon, IDD, Birmingham

¹² Gregory Briffa, DFID Guyana 'Taking Forward the PRSP Process – Draft for External Discussion', May 2002

¹³ Christian Aid 'Participating in Dialogue?: The Estrategia Boliviana de Reducción de la Pobreza', Jan 2002

¹⁴ *Ibid.*

¹⁵ DFID Caribbean 'PRSP Process in Guyana – Some Feedback From Regional and Local Level', March 2002

¹⁶ Ramiro Cavero Uriona, Juan Carlos Requena P., Juan Carlos Nunez, Rosalind Eyben, and Wayne Lewis, 'Crafting Bolivia's PRSP: 5 Points of View' *Finance and Development* 39:2, June 2002

¹⁷ IDS 'Bringing Citizen Voice and Client Focus into Service Delivery, Case Study – Vigilance Committees: Law of Popular Participation, Bolivia', March 2001

¹⁸ From JSA of full PRSP. For details see Project Concept Technical Note 'Guyana: Proposed System of Monitoring and Evaluation of the PRSP' April 2002

¹⁹ 'PRSPs: Progress in Implementation' World Bank and IMF, September 2002

²⁰ For more details see April 2001 'The Bolivian Poverty Reduction Strategy - Final Evaluation Report to the Informal Bilateral Cooperation Network on Poverty'.

²¹ IBIS Contribution to the PRSP Review, December 2001. See also IBIS 'The PRGF, conditions, participation and ownership: The Nicaraguan Case', November 2001

²² Trocaire 'PRSPs – Policy and Practice in Honduras and Nicaragua: Trocaire's contribution to the WB/IMF PRSP review process' January 2002

Annex 1

List of Key informants

We are grateful for the contributions to this report provided by personal communications with the following people:

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Annex 2

Timing of PRSP and HIPC process for LAC Enhanced HIPC countries and estimated total debt service relief anticipated

Country	Bolivia	Guyana	Honduras	Nicaragua
Date of I-PRSP document	January 1 2000	October 30 2000	March 1 2000	August 1 2000
I-PRSP World Bank Board Date	January 27 2000	November 14 2000	July 6 2000	December 21 2000
Date of Decision Point (date of press release)	February 8 2000	November 17 2000	July 10 2000	December 21 2000
Date of PRSP document	March 1 2001	May 3 2002	September 27 2001	September 13 2001
Full PRSP World Bank Board Date	June 5 2001	September 19 2002	October 11 2001	September 25 2001
Completion Point (date of press release)	June 8 2001	Anticipated first half 2003, once PRGF is agreed and implemented for six months	Delayed due to off track PRGF, new date set - March 2003	Awaiting agreement of PRGF which then has to be implemented for one year.
Estimated total nominal debt service relief (millions US\$)	1,300	590	900	4,500
% reduction in NPV of Debt	30	40	18	72

Source: World Bank www.worldbank.org

Annex 3

Country Statistics

	Guyana (1999 data)	Honduras (2000 data)	Bolivia (2001 data)	Nicaragua (2000 data)
Population :	756,300	6.5 million	8.3 million	5 million
Surface area:	215.0 thousand sq. km (1997)	112.1 thousand sq. km	1.1 million sq. km	130 thousand sq. km
Population per sq. km:	4.3 (1997)	58	7.7	41.5
Population growth :	0.8 %	2.6 %	2.3 %	2.5 %
Life expectancy:	64 years (1998)	70 years (1999)	62 years (1999)	69 years (1999)
Population below national poverty line :	35% (1999)	53 % (1993)	67% (Jubilee Research)	50.3 % (1993)
Percentage of population undernourished. Source: Jubilee Research 2001	18	22	23	31
GNP per capita :	760 US\$	850 US\$	US\$ 1,000	420 US\$
GDP :	0.6 billion US\$	5.9 billion US\$	8.5 billion US\$	2.4 billion US\$
Corruption perception index (Out of 102 Countries) Source: Transparency International 2002 - higher ranking countries are perceived as less corrupt	N/A	72nd	89th	83rd
Total Overseas Development Assistance Received (US\$ million, year 2000) Sources: OECD, World Bank	1108	449	477	562
Top 5 donors of gross ODA (1999-2000 average) Source: OECD, World Bank, and DFID	IDB, IDA, UK (£6m), US, IMF	IDA, US, IDB, IMF, Japan (UK not significant)	US, IDB, IDA, Germany, Japan (UK 7th £7m)	IDA, IDB, US, IMF, Japan (UK not significant)

Source: World Development Indicators, unless otherwise stated.