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Poverty Reduction Strategies and the Rural Productive Sectors:

Insights from Malawi, Nicaragua and Vietnam

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Summary

Poverty Reduction Strategies (PRS) were introduced by the Bretton Woods institutions in 1999 as a new form of conditionality for accessing debt relief and concessional loans. Since then, PRSs have evolved into wider policy tools, adopted and transformed by the governments of developing countries worldwide.

After more than five years of experience with PRS formulation and implementation many lessons have been drawn and many new challenges identified. A lot has been said about the PRS process itself – in particular about its participatory nature, the degree of ownership of national governments, and the nature of the engagement of aid agencies – but not enough about the rural productive sectors and their contribution to poverty reduction and growth.

This paper looks at the treatment of rural productive sectors in PRSs – particularly agriculture but also, more briefly, tourism, forestry and fisheries. The **motivations** for doing this are as follows. Firstly, the momentum is currently very strong for robust and targeted research and action to eliminate poverty. Secondly, poverty is to a large extent a rural phenomenon and the potential contribution of the rural productive sectors to poverty reduction and growth is quite significant. Thirdly, the controversy on the treatment given by PRSs to the rural productive sectors suggests the need for further research.

This study is based on the **premise** that agriculture and other rural productive sectors have a major role to play in poverty reduction. The guiding **hypotheses** are that first generation PRSs have not given adequate treatment to rural productive sectors and that PRS are an important policy tool to address rural poverty through policy action in these sectors.

The following **research questions** have been addressed by this study:

(i) To what extent have PRSs contributed to resolving the critical development policy debate about the role of the rural productive sectors in poverty reduction and about policy towards them?

(ii) What is the place of the PRS in the country's policy making, with respect to other policy making processes? Is the PRS an adequate tool to address rural poverty reduction and growth?

(iii) To what extent is the government, and are the governance bodies of the rural productive sectors in particular, prepared and structured to deliver its part in the poverty reduction strategy?

(iv) To what extent have donors been committed and supportive of poverty reduction strategies which take into account the role of rural productive sectors?

Three **countries** have been selected to test the validity of the hypotheses and adequacy of the framework of analysis: Malawi, Nicaragua and Vietnam. These countries were chosen on grounds of information and expertise available, and, most importantly, the diversity of experiences they represent in relation to growth and agricultural development.

On the basis of the country work, this study provides **ten observations** in response to the four proposed research questions.

Regarding the wider debate and policy agenda on the role of the rural productive sectors in pro-poor growth:

(i) there is little consensus over paths to pro-poor economic growth – both internationally and at country levels;

(ii) the state's role in delivering pro-poor growth is far from clear and there seems to be a bias in government intervention towards spending, and away from the critical 'enabling' measures;

(iii) insufficient progress has been made in enhancing the contribution of the rural productive sectors to pro-poor growth – resulting partly from the public spending bias and from lack of vision, capacity or motivation to perform an 'enabling' role.

On the specific contribution of PRSs to the pro-poor growth agenda:

(iv) PRSs are part of a wider configuration of policy instruments and strategies – they are not (or not yet) the overarching framework for pro-poor growth;

(v) the growth model adopted by PRSs tends to be one of 'trickle down', with a lack of specific measures to address the particular needs of the rural poor;

(vi) PRSs are biased towards public spending – reflecting broader concepts of the role of the state (point (iii) above) – and there is insufficient treatment of rural productive sectors and a failure to explore their potential contribution to pro-poor growth.

On the engagement of the governance bodies of the rural productive sectors in PRS processes:

(vii) the lack of internal capacity, vision and motivation have constrained the engagement of the rural productive sectors;

(viii) the wider political interests are determinant of the type of engagement – vertical patronage politics seem to be a pervasive feature of the rural productive sectors;

(ix) stronger accountability mechanisms and civil service are key ingredients for improving the terms of the engagement with (and commitment to) poverty reduction.

On the role of aid agencies:

(x) aid agencies have failed to support the engagement of the governance bodies of the rural productive sectors or indeed the importance of PRS as a policy tool to address pro-poor growth issues, in particular with regards to the role of the rural productive sectors.

Overall, this paper attempts to expand the focus of the analysis beyond the PRS itself to consider also the broader policy context in which PRS processes operate.

The scope and depth of this study was limited by time available and the small number of country cases analysed. The study could be significantly improved by extending the analysis 'horizontally' – to other countries – and 'vertically' – by breaking further down the topics covered here and adding some complementary research questions. A list of suggested research questions/issues is presented in the Annex. This could constitute the basis for further research on pro-poor policy processes and the rural productive sectors.

Acronyms

CFA	Core Function Analysis
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
ERCERP	Reinforced Strategy for Economic Growth and Poverty Reduction
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
IFAD	International Fund for Agricultural Development
IFI	International Financial Institution
IMF	International Monetary Fund
MASAF	Malawi Social Action Fund
MDG	Millennium Development Goals
MEGS	Malawi Economic Growth Strategy
MGDS	Malawi Growth and Development Strategy
MoA	Ministry of Agriculture
MPI	Ministry of Planning and Investment
MPRS	Malawi Poverty Reduction Strategy
MTEF	Medium Term Expenditure Framework
NGO	Non Governmental Organisation
ODI	Overseas Development Institute
PAF	Performance Assessment Framework
PND	National Development Plan
PPA	Participatory Poverty Assessment
PPE	Priority Poverty Expenditure
PPP	Purchasing Power Parity
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credits
PSIA	Poverty and Social Impact Assessment
SEDS	Socio-economic Development Strategy
SGR	Strategy Grain Reserve
SP	Starter Pack
SWAP	Sector Wide Approach
TAF	Tobacco Auction Floor
UNDP	United Nations Development Programme

1 Introduction

Endorsed by the International Monetary Fund (IMF) and the World Bank in 1999 as an alternative to conditionality for debt relief and access to their loans, Poverty Reduction Strategies (PRS) are currently the central policy instrument to address poverty reduction in many developing countries. Despite the initial tight association with the Enhanced Highly Indebted Poor Country (HIPC) facility, PRS evolved beyond it and quickly became linked up with wider international development initiatives and processes – the most prominent being the Millennium Development Goals (MDG). Today almost 50 low and middle-income countries have completed a full PRS and many others have completed an interim PRS (World Bank Poverty Net 2005). A second generation of PRSs is now under way.

The PRS prescription devised by the IMF and World Bank had (and still has) some distinctive features which are worth noting. It proposes to tackle poverty through intervention in four priority areas: macroeconomic stability and structural policies to support economic growth, sectoral policies and programmes to address human capital (in particular its education and health-related attributes), infrastructure development, and good governance and healthy institutions. Five underlying principles should guide the PRS process: country-driven and owned, results-oriented, comprehensive in scope (recognising the multidimensional nature of poverty and the strategies to alleviate it), participatory and partnership-oriented, and based on a medium and long-term perspective on development and poverty reduction (World Bank, 2004).

With these general features PRSs became part of a 'New - New Poverty Agenda' (Maxwell, 2003a) which quickly gained adherence worldwide. Other distinctive elements of this agenda include the centrality of the MDGs, the adoption of specific approaches to delivering international aid (such as General Budget Support and Sector Wide Approaches) and a strong commitment to results-based management.

Experiences with PRS formulation and implementation have shown a wealth of variations from the original recipe. Diversity has been shaped by variations in the status of the PRS relative to other national policy instruments, the type of design choice (from overarching strategic document to a more operational nature), the time length of the exercise (from short to medium term), the participatory nature of the formulation and implementation processes, the degree of sophistication of supporting monitoring mechanisms, the level of detail in costing of interventions, and so on.

The diversity of experiences has been matched by a variety of reflections, debates and studies. The Overseas Development Institute (ODI) has been at the forefront of the research and policy debate from the start and has been offering many insights on the experiences with PRS processes – well summarised by Booth (2003) and Driscoll with Evans (2004).

On the whole, the first generation of PRSs is thought to have attained three important achievements (Driscoll with Evans, 2004): it put a much stronger focus on poverty reduction in the policy agenda, it fostered a more open dialogue by engaging civil society in policy debates as never before, and it drew attention to the importance of donor coordination in the process of pro-poor policy implementation. However, despite the significance of progress made, very important challenges still lie ahead. These include needs to:

- break down the principle of 'national ownership' and understand how low levels of some aspects of it may affect policy effectiveness and sustainability (Booth, 2003);
- give due consideration to the politics of the PRS and broader domestic policy processes (Booth, 2003; Driscoll with Evans, 2004);

- make the appropriate design choice for the PRS: overarching framework, operational plan, policy subset, or compact with donors around poverty reduction (Driscoll with Evans, 2004);
- enhance linkages between PRS and other policy planning instruments such as Medium Term Expenditure Frameworks (MTEF) and budgets (World Bank and IMF, 2005);
- broaden and deepen meaningful participation (*ibid*) and involve parliaments and parliamentary committees from the early stages (Booth, 2003);
- deliver on the donor alignment and harmonisation agenda (Driscoll with Evans, 2004);
- tailor the approach to conflict-affected and fragile states (World Bank and IMF, 2005);
- strengthen the linkages between policy objectives, policy actions and poverty outcomes (Proctor, 2002); and
- deepen the understanding of poverty and strengthen the mechanisms for selecting and prioritising policy strategies that tackle it (*ibid*).

After five years of practice, PRSs remain a challenging research topic and an important 'window' into government policies and policy processes.

This paper looks at the treatment of rural productive sectors[1] in PRSs – particularly agriculture but also, more briefly, tourism, forestry and fisheries. There are three main reasons for undertaking this analysis.

Firstly, the momentum is very strong for robust and targeted research and action to end poverty. 2005 has been a particularly vibrant year for international debate, diplomacy and action on poverty reduction with events and campaigns such as the 2005 World Summit, the Africa Commission, the G8 summit on Africa, and the Make Poverty History advocacy campaign, among other.

Secondly, world poverty is to a large extent a rural phenomenon and hence the potential contribution of the rural productive sectors to poverty reduction is quite significant. According to IFAD (2001) 75 percent of the world's poor (people living on less than one dollar a day) live in rural areas. In developing countries agriculture is often the single largest source of employment, and both the second largest sector in the economy in value terms (second usually to services), and the main source of export revenues. In such cases, the overall economy is unlikely to grow unless agriculture grows. Agriculture is also widely recognised as a sector where growth is especially likely to lead to poverty reduction – either directly through raising productivity and incomes of farming households and generating jobs for farm labourers, or indirectly through its production and consumption linkages with rural and urban non-farm economies. It is important also to bear in mind that staple foods – which accounts for half the consumption of poor households – are produced mainly from domestic agricultures (Lipton, 2004). For all of these reasons, agriculture and other rural productive sectors should play a major part in policy strategies designed to tackle poverty.

Thirdly, this study is a response to concerns that PRSs, or at least the first round of them, overlooked the importance of the contribution of the rural productive sectors to poverty reduction. Secondary sources (Proctor, 2002; FAO, 2003; IMF/IEO, 2004; World Bank/OED, 2004) maintain that agriculture, along with other rural productive sectors, has not given adequate treatment in PRSs and that the links between growth and poverty reduction have not been sufficiently addressed. Within agriculture, export markets and liberalisation are said to receive more attention than food crops and livestock that may have greater potential to reduce poverty.

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[1] The use of this term to refer to economic activities – such as agriculture, trade, tourism, mining – in no way implies that the 'social' sectors, health, education, water and sanitation, are not productive in an economic sense.

Other analyses of the content of PRSs note, however, that the problem has been not so much the lack of policies targeting the rural productive sectors but rather the nature and reach of those policies. Recent reviews of PRS experiences (Shepherd and Fritz, 2005; Xenogiani and Shepherd, 2005)[2], all of countries in their second or third PRS cycle, where there are progress reports available, note that some PRSs *have* actually addressed rural poverty issues through a heterogeneous range of priority actions in the rural productive sectors – such as the creation of favourable environment for commercial agriculture (Ethiopia), training in management of farmer associations (Rwanda), creating and consolidation of rural micro-financial institutions (Madagascar), simplification of procedural mechanisms to land use (Ethiopia), liberalisation of fertiliser market (Rwanda), etc. These studies recognise however that greater weight was usually given to macroeconomic stability with little consideration to the trade-offs between macroeconomic stability and poverty reduction. They also note that although the productive sectors often appear among the primary policy objectives, they do not get the necessary attention in terms of policy actions. This is argued to be partly because PRSs focus mainly on public expenditure neglecting the importance of non expenditure enabling and regulating policies in the productive sectors. Other reasons for weak pro-poor policy intervention in the rural productive sectors might have been, with variations from country to country, the insufficient alignment between PRSs and wider policy processes (in particular the budgetary process) and the lack of commitment to pro-poor policies from the productive sector stakeholders.

This study is hence based on the premise that agriculture and other rural productive sectors have a major role to play in poverty reduction. Our hypotheses are that first generation PRSs have not given adequate weight or treatment to the rural productive sectors and that PRS are an important policy tool to address rural poverty through policy action in these sectors.

The aim of this study is to test these hypotheses and in doing so also identify key additional issues that allow us to extend this analysis further.

In order to pursue this aim the following research questions have been identified:

(i) to what extent have PRSs contributed to resolving the critical development policy debate about the role of the rural productive sectors in poverty reduction and about policy towards them?

(ii) what is the place of the PRS in the country's policy making, with respect to other policy making processes? Is the PRS an adequate tool to address rural poverty reduction and growth?

(iii) to what extent is the government, and the governance bodies of the rural productive sectors[3] in particular, prepared and structured to deliver its part in the poverty reduction strategy?

(iv) to what extent have donors been committed and supportive of poverty reduction strategies which take into account the role of rural productive sectors?

This study places PRSs within broader policy processes and therefore analyses PRS experiences from a wider policy angle. This is partly because the productive sectors have often been addressed

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[2] The IFAD-commissioned literature review carried out by ODI with DFID funding – with feedback from the World Bank, FAO, GTZ and DFID – examined the findings and conclusions from various studies on PRSs which have been carried out from a sectoral perspective and analysed the five issues raised by World Bank and IMF (2005) – medium term orientation of PRSs, mutual accountability, participation, linkages with Medium Term Expenditure Frameworks and budgets and conflict affected and fragile states (see Shepherd and Fritz, 2005).

[3] These governance bodies include ministries of agriculture, ministries of tourism, ministries of fisheries and other governmental offices whose mandates includes service provision and investment at the rural level .

more vigorously by other policy instruments and processes. Our second research question(s) highlights the need for factoring in those policy processes.

The study constitutes an entry point into wider investigations on PRS and the rural productive sectors. Three countries have been selected to test the validity of our hypotheses and adequacy of our initial framework of analysis: Malawi, Nicaragua and Vietnam. These countries were chosen on grounds of information and expertise available, and, most importantly, the diversity of experiences they represent. Hence we selected countries from different continents, with quite different socio-economic characteristics and different motivations and experiences with PRS processes. The expectation was that the diversity of the country cases would constitute an opportunity to identify different issues and alternative ways of addressing them as a starting point in mapping the issues.

The material for this paper was drawn from a review of literature for each country and brief visits to the three selected countries. The field visits enabled discussion with key informants in the policy community.

It is important to stress that this study was not designed to produce general conclusions or lessons about the experience with PRSs and the rural productive sectors. Indeed, the small size of the sample makes that an impossible task. Certainly the results found here should not be taken as representative; selecting another group of three countries would probably have produced very different results. Instead, the aim was to test and improve our framework of analysis. This working paper represents work in progress and indeed the start of a wider and more comprehensive action-oriented research programme on the theme, hopefully together with other interested parties. A list of additional questions/issues to consider in future research studies is included in annex.

It is worth mentioning that other similar studies are currently being produced (namely by the World Bank and GTZ) and IFAD has been developing mechanisms for collaboration and coordination between the various agencies working on the theme to take stock of available evidence and identify important knowledge gaps and needs for additional country-specific research.

This working paper is organised into four sections. Following this introduction, section 2 introduces the three country cases and summarises their experience with PRS processes. Section 3 draws out some observations and insights, organised by four themes (linked to our research questions): role of rural productive sectors for pro-poor growth, PRS and the rural productive sectors, engagement and motivation of national governments, role of aid donors. The fourth and final section concludes, with discussion of the lessons for governments and donors and identification of issues for further research.

2 The country cases in brief

This chapter describes briefly the experience to date with PRSs in Malawi, Nicaragua and Vietnam. These countries vary not only in terms of socio-economic indicators (Table 1) but also in terms of their experiences with PRS processes, as described in detailed in the sections that follow.

Table 1. Country cases – selected socio-economic indicators

Country	Population (million)	Poverty index (% pop. below national poverty line)	GDP per capita (PPP US$)	Position in HDI rank 2005 (rank of 177)	Agriculture as % of GDP	Agriculture as % total employment
Malawi	12.3	65.3%	$605	165	39%	80%
Nicaragua	5.3	47.9%	$3,262	112	18%	31%
Vietnam	82.0	50.9%	$2,490	108	22%	63%

Sources: Human Development Indicators 2005 (UNDP, 2005) and World Development Indicators 2004: (http://publications.worldbank.org/WDI/).

2.1 Malawi

Malawi is an extremely poor country: about two-thirds of the population lives below the locally-defined poverty line, and it ranks 165/177 in terms of human development (UNDP, 2005). The economy is heavily dependent on agriculture, which accounts for over 80 percent of employment and foreign exchange earnings, and nearly 40 percent of GDP. The estate sub-sector, occupying about one-sixth of cultivated land, is a major contributor to growth, employment and export earnings through tobacco, tea and sugar production. The smallholder sub-sector is characterised by a small number of 'emergent' farmers producing tobacco, maize and a range of other crops for the market. The vast majority in this sub-sector barely produces enough maize – Malawi's traditional staple food – for family needs, impeded by mounting land pressure, declining soil fertility, and falling maize productivity.

Overall economic performance has deteriorated significantly over the last 20 years. Malawi's small size and land-locked position makes it difficult to compete in regional and global markets, and it is particularly prone to difficulties in years when domestic maize production is insufficient for meet food needs. Negative outcomes from economic liberalisation in the 1980s and 1990s, and poor macro-economic management associated with patronage-based politics, have accentuated Malawi's poverty reduction and economic growth crisis, reducing economic growth rates from a 6 percent average until 1979 to around 1 to 2 percent more recently. A recent Vision 2020 modelling exercise predicts that, even under the best conditions, average per capita income in 2020 will be no more than 1964 levels in real terms.

The Malawi Poverty Reduction Strategy (MPRS) was published in April 2002. Its overall goal was "sustainable poverty reduction through empowerment of the poor" to be pursued through intervention in four priority areas or pillars:

(i) Sustainable pro-poor growth, focusing heavily on investment in rural and other enabling infrastructure; encouraging sustainable use of natural resources; and increasing agricultural research and extension;

(ii) Human capital development, primarily in basic education and essential healthcare (costed at as much as the sum of the other three pillars);

(iii) Improving the quality of life for the most vulnerable; an innovative programme of social protection offering four types of safety nets: distribution of agricultural inputs, public works programmes, targeted nutrition programmes, and disaster mitigation;

(iv) Good governance, including political will and mindset; improving safety, security and access to justice; and developing responsive and effective public institutions.

The PRS process was started by leading lights within the political establishment, who recognised the opportunity it presented to release Malawi's massive debt burden for government spending. Civil society, line Ministries and local administrations were given the opportunity to comment and contribute, although the Ministry of Finance had the final say on spending priorities. The first PRS expired in June 2005 and the preparation of a second generation document, and its integration with other macro-economic management instruments and policy frameworks which elaborate the economic growth elements, is currently in progress and expected to be concluded by December 2005.

Difficulties with PRS expenditure tracking have highlighted inadequacies in Malawi's traditional budget system, which has been described as "budget as theatre" (Rakner *et al*, 2004) and relates as much to poor economic governance, with its links to the patronage-based political system, as to lack of capacity. Typically, only 15 percent of the budget is directed towards the specified Priority Poverty Expenditure (PPE). Within the PPE, it is difficult to identify how much is being spent on substantive pro-poor activity (compared to staff allowances, for example). As a result of a failure to meet macro-economic management targets agreed with the IMF, budget support has been, since late 2001, intermittent and unpredictable, and the availability of funding for PPE has been piece-meal.

It is not clear that the stated PRS goals will be delivered without reconciling the PRS with two trends within the structure of government. On the one hand, an aggressive programme of decentralisation is under way which, from 2005, will give all 27 new District Assemblies considerable powers to have individual Chief Executives as Controlling Officers and to set expenditure priorities for themselves. On the other hand, very little has been done to reform central government to reflect the new PRS priorities. Thus in the Ministry of Agriculture, a Core Function Analysis designed to identify a new structure more in tune with pluralistic service delivery and a higher profile for regulatory and enabling functions, has been stalled by fears of job cuts in extension and of staff losing their traditional travel allowances.

More fundamentally, the new President elected in 2004, senior Ministry of Finance staff and large private sector players have decided that the PRS's pillar one goals are inadequate for promoting a rapid enough pace of economic growth, and have produced a Malawi Economic Growth Strategy (MEGS) designed to fill this gap, and more recently a Malawi Growth and Development Strategy (MGDS). However, it has been observed that MEGS focuses on a 'shopping list' of immediate actions to make large-scale private sector activity easier, such as 'more reliable power supplies', and is not underpinned by an agreed model of economic growth and poverty alleviation for Malawi. In particular, it does not include any provision for maize-based subsistence agriculture, on which two thirds of the population currently rely.

Malawi's economic development strategy in the first two decades after Independence in 1964 emphasized agricultural production, based on hybrid maize and chemical fertilizer, and infrastructure, and delivered good growth up to the early 1980s. The failure to re-assess the basic assumptions of the smallholder agricultural development model has been a continuing characteristic of development planning in Malawi. Although official policy does not yet reflect this, there is some recognition among Malawian and donor analysts of the need to differentiate policies for distinct agricultural sub-sectors (see Box 1), and identify core supporting functions that government can provide, recognizing the positive and distinct role of other service providers in the commercial and NGO sectors.

Realistic policies to effectively re-integrate the 'missing middle', some 1.75 million small farmers, are most noticeable by their absence. The widespread and politically popular request is for a return to the old system of state agricultural marketing services and subsidized fertilizer. Alternatively, a strategy of encouraging 'trickle-down' from richer farmers through employment effects is promoted by some players, but the employment-generating capacity of small-scale maize production is hotly debated. Starter Pack, Malawi's free inputs programme, has operated in various forms since 1998 and is also promoted as an effective strategy for supporting economic growth and poverty alleviation in the smallholder sector. However, there are questions about the programme's long-term impact on economic growth and poverty alleviation, particularly when targeted to the poorest families.

Box 1. Differentiation in the agricultural sector in Malawi
The agricultural sector in Malawi is made up of four distinct sub-sectors:
• **estates**: already growing strongly and benefiting from considerable economic and political support.
• **commercial small farmers**: no more than 10 percent of all small farm families; relatively well capitalized; engage in significant cash crop production and relatively well integrated into input and output markets.
• **small farmers with commercial development potential**: currently constrained by high transactions costs in post-liberalisation input and output markets. Numbering perhaps 50 percent of total, these are the small, dispersed farms outside the central commercial agricultural zones, that previously relied on state extension, credit and market support.
• **severely resource-constrained small farmers**: possibly 40 percent of all farm families. On top of limited land, these households are characterized by labour constraints due to migration, chronic disease and malnutrition. They therefore have little prospect of independent economic activity and are likely to be reliant on safety nets for the foreseeable future.

Tourism in Malawi, perhaps more than any other sector, has clear linkages with the goal of poverty reduction and thus has the potential to achieve the objectives of the PRS. Tourism creates opportunities for the small entrepreneur, promotes awareness and understanding among different cultures, breeds a unique informal sector, helps to save the environment, creates economic linkages with agriculture, creates linkages with the services sector (health and beauty, entertainment, banking and insurance), and provides significant employment opportunities (see Roe *et al.*, 2004). Tourism can also play a strategic role in dynamising other sectors of the economy: the agriculture sector that benefits from the tourism industry (increased demand for new agricultural products and services such as organic agriculture and farm tourism), the manufacturing sector (the supply of furniture and fittings, construction, linens, pots, pans, etc.) as well as crafts (wood-working, curios and fine art). In Malawi, a Strategic Tourism Development Plan underpinned the tourism components of the PRS, but lack of funding and institutional capacity has constrained implementation.

Overall, Malawi's PRS process has opened a previously closed door to civil society engagement in policy processes, which has been seized upon to provide a nascent forum for debate around issues of poverty alleviation and economic growth. Malawi's scarce economic planning and analysis capacity now needs to focus urgently on identifying an agreed model of economic growth and poverty alleviation for the country, whether this is operationalised through a second generation PRS, MGDS or some other poverty planning tool. It remains to be seen whether this can be achieved in a country where economic management has to date been dominated by a dangerous mixture of elite political patrons and often over-weaning and capricious donors.

2.2 Nicaragua

Nicaragua is a small country, with less than six million inhabitants and plenty of land suited to farming and forestry. Most of its economy depends on agriculture and associated activities in the agriculture and food chain. By Latin American standards, Nicaragua is very poor, with living standards that have still to return to those experienced in the 1970s: nearly 50 percent of the population live below the poverty line and the country ranks 108/177 in terms of human development.

During the last 30 years, the economy has varied from modest to slow growth, to outright recession and shrinkage. With an economy very open to the world market, the country imports twice as much as it exports, leaving it heavily dependent on remittances and aid receipts. The distribution of incomes and assets, including land, is highly unequal, with Gini coefficients of about 60 percent.

The PRS (ERCERP)[4], drafted in 2001, consists of a set of goals closely linked to the MDGs. These are, to be achieved by actions under four pillars:

(i) Economic growth, widely-based, structural reform

(ii) More and better investment in human capital;

(iii) Better protection of the vulnerable;

(iv) Good governance and institutional development.

As a plan, the ERCERP is generally considered to be well drafted and coherent, stronger on social dimensions than on economic growth, and very much a donor requirement, and thus a donor document.

Nicaragua's PRS has been closely linked to achieving debt relief, given that the country has been one the world's most indebted nations. HIPC debt relief was achieved in January 2004: annual debt repayments fell from over US$300 million to less than US$100 million. However, no more than 40 percent of HIPC funds have subsequently been spent on poverty relief: the rest has gone to fill a veritable black hole of internal debt, largely stemming from bank failures – see Box 2.

Box 2. Internal debt in Malawi and Nicaragua

Both Malawi and Nicaragua are cursed by high levels of internal debt, with high and attractive interest rates being offered by the state for bills and bonds. Consequently, those with spare funds can subscribe to these instruments and make easy returns, with little or no risk. Capital for productive investment is thus crowded out.

How has this come about?

In the case of Malawi it has mainly been fuelled by the 1992-2004 government consistently and repeatedly spending beyond its means. This failure to adhere to agreed monetary and fiscal targets is a complex area. On the one hand, there has been wilful lack of restraint in certain areas (such as the Strategic Grain Reserve, diplomatic and military), intimately connected with Malawi's patronage-based politics. But the economic downturn also contributed, begging the question "how low can you go?" before budget cuts to remain within the resource envelope effectively immobilise government functioning. The economic downturn has arisen not only from ineffective macro-economic management, but also from structural difficulties responding to global trading opportunities, and the constraints imposed by economic reform.

In Nicaragua, the internal debt has mounted owing to two factors. Governments since 1990 have felt compelled to reimburse property owners for seizures of land, factories and businesses during the Sandinista regime. Compensation has been offered in bonds worth around US$900M. In the 1990s, banking was privatised and liberalised. Some bank managers granted large credits to friends that could never be repaid — and probably were never expected to be repaid. In 2001 four banks, holding 40 percent of the country's bank assets, collapsed with liabilities of over US$500M, that were assumed by government to rescue depositors.

It is estimated that payments on the internal debt will cost Nicaragua more than US$100M a year annually until 2011. To put this into context, these payments are higher than sums being repaid against the external debt, following the reductions achieved under HIPC.

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[4] *Estrategia Reforzada de Crecimiento Económico y Reducción de Pobreza*: the Reinforced Strategy for Economic Growth and Poverty Reduction.

When in January 2002 a new government took over, there were doubts over how acceptable the ERCERP was to the new administration. To reflect new priorities, a National Development Plan (PND) was drafted by a close-knit team in the planning secretariat of the Presidency and presented towards the end of 2002.

The PND stresses economic growth, with a model of encouraging private sector investment, including attracting foreign capital, and concentrating on geographical nodes seen as ‘clusters’ (although, as commentators have pointed out, the conception in which large-scale foreign capital more or less establishes the supply chain lock, stock and barrel looks more like an enclave than a cluster, as discussed in Box 3). The document stresses the need to raise competitiveness, citing Michael Porter’s arguments.[5] Exports are seen as critical in driving the economy, given the limited local market. The key clusters identified for development include: meat and dairy, coffee, shrimp and prawn, textiles and clothing, and forest products.

Box 3. Clusters or enclaves? Strategic choice in Nicaragua
The Nicaraguan National Development Plan lays heavy emphasis on promoting clusters of enterprises, drawing on the ideas of competitive advantage of Michael Porter who has visited and advised the country. Foreign investment is seen as key to establishing the clusters, most of which are likely to be located in high potential areas of the country. Despite the mentions of competitive advantage, the strategy seems more a matter of comparative advantage, basing clusters on extracting and processing natural resources, using cheap labour. Moreover, the idea of large-scale investments with the supply chain organised by a dominant company sounds more like the development of an enclave than a cluster. However, this was not the only option. Within Nicaragua there are incipient industrial clusters, such as the wood-working and furniture workshops of Masaya and Masatepe, which are small-scale enterprises with local capital. Indeed, there is a wider concern that in Nicaragua small-scale local initiatives, especially when located in more remote areas, do not register on the radar of national planners. The dynamism of small-scale cheese producers in the mountains, who send produce to El Salvador and even the USA, do not seem to figure in the thinking of decision-makers. And yet it is the smaller-scale endeavours that are likely to generate more jobs per unit of capital invested, and more likely to generate links within the domestic economy.

Growth comes first and foremost in the PND while poverty reduction is attained by ‘trickle down’ effects and by the poor migrating to the cluster nodes to find jobs.

The PND was seen as weak on detail and criticised for lack of consultation in its preparation. In response to some of the criticisms, an ‘Operative’ PND (PND-O) was published in late 2004, with more details of specific public actions. At first sight, this might have served as a second-round PRS but the World Bank has insisted on drafting a separate ‘PRS II’, while accepting this may be a reworking of the PND-O. The second PRS has been drafted, but at the time of our country visit (August 2005) was still to be published.

In the meantime, a sector-wide programme for agricultural and rural development (PRORURAL) has been prepared and presented in 2005 for funding by a group of donors. The strategy and programme derives in large part from the PND-O.

Planning has taken place against a background of considerable efforts to reform the public sector in the late 1990s and early 2000s. Measures have included better management of public budgets, more control over public investments, and some decentralisation of administration and budgets to municipalities. That said the key question remains: how much reform is possible in a context of a state very much in the hands of the ‘big battalions’ - the few families that dominate large-scale commercial concerns in Nicaragua - who have for most of the last 150 years expected the state to support their interests? Nicaragua’s stiffest development challenge remains the creation of an

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[5] Michael Porter has visited Nicaragua, his views and advice are treated with the highest respect.

'autonomous' state capable of guaranteeing property rights and ensuring fair dealings amongst competing economic interests[6].

2.3 Vietnam

Vietnam is a densely-populated developing country and half of its 82 million inhabitants live below the poverty line. It ranks 107/177 in terms of human development but its GDP per capita is lower than Nicaragua. The economy has a strong agricultural base and more than 60 percent of the labour force works in the agriculture sector.

Since the late 1990s Vietnam has been seen as a development success with high rates of poverty reduction. The crisis of the economy and political legitimacy in the 1980s led to a series of economic reforms. Since 1990, this resulted in an impressive broad-based growth and poverty reduction in the transition from a planned to a mixed economy, at the same time restoring the legitimacy of the political regime (Abuza, 2002). While the configuration of the political leadership changed (in terms of the individuals in key posts), the regime (which confers legitimacy solely upon the Communist Party) survived with only relatively minor concessions to centres of power outside the Party.

There are increasing and inevitable tensions between the objectives of poverty reduction and the promotion of growth. Much of the success was achieved through large-scale changes to an ailing system, such as those made in land allocation which maintained some equity in agricultural production, alongside the greater productivity achieved by the introduction of green revolution techniques. To *sustain* this growth, as well as equity, and to encourage the tertiary and manufacturing sectors remains more of a challenge.

The PRS or Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was signed in 2002. Vietnam had already produced a 10 year socio-economic development strategy (SEDS) (Communist Party of Vietnam, 2001) and the five year plan (Socialist Republic of Vietnam, 2001a). They also have National Targeted Programmes, including the Hunger Eradication and Poverty Reduction programme and Programme 135 (Socialist Republic of Vietnam, 2001b) which provide a framework for pro-poor policy and spending and have their own targets. Poverty reduction was high on the agenda of the Vietnamese government before the PRS process began but it is difficult to see how Vietnam could have realistically absorbed a new set of poverty policies and targets. To date, the PRS is weakly embedded in the ministerial and provincial five and ten year planning cycles and there is little incentive for PRS goals to be included in ministry plans or be adequately budgeted for.

There is consensus amongst donors and officials that the document was designed for external consumption and the main purpose was to obtain concessional financing from the International Financial Institutions (IFIs) (Weeks *et al*, 2004; Pincus and Thang, 2004). However, Vietnam is not the typical aid-dependent state with weak institutions for which PRSs were designed. As it does not qualify for HIPC debt relief there are not huge incentives to produce a strategy acceptable to the IFIs and this has helped the Vietnamese to hold the donors to the principle of national ownership (Conway, 2004).

The PRS drafting process was done by the Vietnamese and based on existing Vietnamese plans (SEDS and the five year plans) and existing targets and can be said to be 'owned' by some of the senior leadership. On the other hand the PRS does not fit easily into the Vietnam policy cycle and was alien to thinking in the sense that it moved away from production targets. It was the process

[6] This question is closely related to the politics of Nicaragua. Currently, the state apparatus can be used to pursue partisan interests with relatively few checks and balances. Hence the battle for power can be intense in contests where the winner takes more or less all. Opposition parties then have little to do other than react in outrage to ways the regime exercises its power, producing highly charged and polarised debates.

which was the most heavily donor influenced, incorporating different forms of participation and transparency through participatory poverty assessments (PPAs), local consultations, targets and monitoring and evaluation systems. This can be said to have opened up a space for new actors and sectors to become involved.

There is some debate over the level of ownership of the PRS by the Vietnam government. The overlapping of the objectives in the PRS and the SEDS and five year plan suggest that the PRS does reflect the government's policy intentions. Vietnam did opt into the process on their own and, despite being led by requirements for donor funding, the document does contain policies which the IFIs and donors are uncomfortable with but which the government felt to be important, most notably those on state-owned enterprises and the state monopoly of the financial sector (Conway, 2004). Above all, the government was determined to maintain the role of economic growth as a driver of poverty reduction and (supported by the Japanese) increased their focus on infrastructure in the document. Drafting was led by the Ministry of Planning and Investment (MPI) and donors were restricted to providing comments. So although the final draft reflects donor and international NGO vision more than other strategy documents it does remain a government of Vietnam document. This has presented a dilemma for the donors as the Vietnam policy documents tend to present visions of future outcomes with little detailed analysis of linkages between problems, objectives and resource constraints common in IFI documents (de Tray, 2001). Some have argued that the IFIs and donors decided to accept a document which they felt was technically flawed but because of the levels ownership they felt it had a high chance of leading to some change in thinking during implementation (de Tray, 2001; Wolff, 2002).

Government defensiveness over the role of donors does not mean the PRS was 'owned', and when considering ownership of the PRS a distinction can be made between, on the one hand, donor influence in the process and on the other, the level of commitment to the subsequent policy. The document has not been debated in the National Assembly (as highlighted in the Joint Staff Assessment - IMF and IDA, 2002) and the document is not familiar to many of the provincial authorities. Familiarity, even at the national level, is limited to those who were involved in the production and there is confusion at the sub-national levels over the relationship between the PRS and the SEDS (Pincus and Thang, 2004), a relationship which may be clarified during the current (2005) drafting of the five year plans and current moves to incorporate lessons from the CPRGS[7].

The PRS does not have an allocated budget but the government's Public Investment Program, which was produced after the CPRGS, allocates resources to large set-piece projects that appear to have little poverty alleviation focus and none or little linkage to the PRS's prioritisation and objectives (*ibid*)[8]. It is perhaps early days to assess the level of commitment at sub-national levels, but this is crucial given the high level of control of expenditure at the provincial level.

The PRS process is felt to have played a modest but significant role in improving policy and planning systems which will assist in the complex policy challenges and changes that lie ahead as the dramatics gains from liberalization in Vietnam level off. There are also claims that the process has changed the way in which poverty reduction is conceptualized amongst some actors away from targeted programmes, as promoted by the Ministry of Labour, Invalids and Social Affairs, towards an approach which integrates growth linkages and involves the MPI in resource allocations. The extent to which this shift has spread throughout the policy arena is yet to be seen.

The level to which the lessons will be incorporated into future planning relies to a large degree on politics. Some provinces and ministries may mainstream the document into their plans but others

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[7] MARD, for example, has requested donor assistance in incorporating the CPRGS into the sector Five Year plan (Interview held February, 2005)

[8] Pincus and Thang (2004) however, praise the PIP for its apparent poverty focus and the World Bank (2004) has made a case for a linkage between poverty reduction and the PIP when looking at per capita PIP investment and levels of poverty reduction in provinces.

will view it as a donor document or one imposed on local government and line agencies by central planners. The legitimacy of the PRS at the sub-national level lies only in the extent to which it reiterates the SEDS.

Key features of the PRS policy content are:

(i) Economic growth combined with social progress and equity and continuation of structural and public administrative reform;

(ii) Human development, reducing inequality and vulnerability;

(iii) An equal business environment for small and medium enterprises and foreign direct investment; and

(iv) Establishment of development and poverty indicators to monitor the PRS.

The government plans contain reference to poverty alleviation and the focus of SEDS on industrialisation and modernisation is also reflected in the PRS. Poverty reduction is dealt with through growth and economic development or though programmes targeted at the poorest areas. There is however no real analysis of what type of growth in which sectors or regions is most likely to have the greatest impact on poverty rates. The result has been a lack of focus for funding and prioritisation for donors. The World Bank's PRSC is replacing the PRS as the coordination mechanism for donor funding. However the PRSC does not have the same consultation procedures

In the 10-year SEDS the sectoral objectives are to build large-scale commodity agriculture and generate labour-intensive employment in rural regions, with a view to expanding home markets and increasing access to international markets. Poverty reduction is for the most part undiscussed and is assumed to be addressed by growth and the national targeted poverty programs. The PRS closely mirrors government and sector plans, which give little attention to detail in the productive sectors other then a set of economic targets for agriculture and major export commodities.

The productive sector focus is primarily on the link between sectoral priorities and growth and job creation. The productive sectors (with agriculture as a high priority) are seen as providing the base for industrialisation, modernisation and growth. However future vision is that of a shift of labour in rural areas away from agricultural employment by increasing links to industry, product processing, off-farm activities and infrastructure. Although agriculture contributed 21 percent of GDP in 2003 (World Bank, 2003a), the five year SEDS plans for the industrial and service sectors to achieve a higher proportion of GDP. There is some doubt in the government strategy about the future of a farm-based economy.

It is recognised that the poor largely reside in agricultural areas but links to poverty reduction by the productive sectors are largely assumed rather than made explicit. The need for access to investment, training, technology and extension as well as the development of infrastructure to enable poor households to take up opportunities in these areas are given extensive space in the PRS document. However the detailed plans are left to sectoral planning, where detailed strategies to achieve this expansion are often missing and may be left to national targeted programs, whose adequacy in dealing with these problems has been questioned (MOLISA/UNDP, 2004). It could be argued that the productive sectors require a greater degree of additional focus on sub-sectoral policy development, household and farm-level analysis, and recurrent spending to produce sustained results than the service sectors.

In addition, other policies, such as the decentralisation of public spending, may make the achievement of PRS goals very difficult. Provinces have high budgetary discretion; in 2002 80 percent of the agricultural spending was decided at the provincial level (World Bank, 2003a). The greatest challenge remains at this level especially in the poorer provinces where capacity is weakest (Pincus and Thang, 2004) and the links between the current planning system and the PRS are not yet clear.

3 PRS and the rural productive sectors – analysis of selected issues

This chapter analyses some of the issues thought to be important in understanding the reasons behind the approach to the rural productive sectors in PRSs. These issues are directly linked with the four research questions guiding the analysis:

- debate and policy agenda regarding pro-poor growth and the rural productive sectors;
- PRS as tool for pro-poor growth;
- rural productive sectors' engagement with PRS processes; and
- the role of aid donors.

It is worth stressing that these four selected issues do not by any means exhaust all the relevant topics to the proposed theme. They are meant to instigate the debate and generate ideas on how to take the analysis further. Additional topics or issues of interest are suggested in annex 1.

3.1 Pro-poor growth and rural productive sectors – the underlying debate and policy agenda

In order to understand the way PRSs have addressed the role of the rural productive sectors in poverty reduction it is important to analyse the wider debate and policy agenda on pro-poor growth. This should allow us to qualify the extent to which PRSs might have failed to incorporate key ideas on the role of the rural productive sectors or the extent to which those ideas were absent or unsettled in the underlying policy debate.

The analysis that follows observes three important patterns:

- little consensus over paths to pro-poor economic growth – both internationally and at country levels;
- an unclear role for the state in delivering pro-poor growth – a bias in government intervention towards spending and against 'enabling' measures; and
- insufficient progress on the contribution of the rural productive sectors to pro-poor growth – resulting partly from the public spending bias and from a lack of vision, capacity or motivation to perform 'enabling' role.

To some extent the rise and fall of different plans and initiatives responds to varying ideas and contests over the conditions and public policies necessary for economic growth and poverty reduction. Since the year 2000, there has been little consensus over paths to pro-poor economic growth than a decade or so ago. At that time the 'Washington Consensus' – on the importance of macroeconomic stability and liberalised and open markets – gave policy-makers, and certainly those advising and influencing the Bretton Woods institutions, the confidence to prescribe policy programmes that could be applied almost everywhere.

During the 1990s it became clear that the Washington Consensus as a prescription was failing. Countries that followed the orthodoxy sometimes, perhaps often, failed to generate the expected levels of economic growth – Bolivia and Ghana were examples. Some argued that incomplete implementation of the prescription also explained failure – the 'partial reform syndrome'[9]. But evidence shows that open financial markets, as recommended, have often been the scene of spectacular financial and currency collapses: Mexico, 1994; East Asia, especially Indonesia and Thailand, 1997-98; Russia, 1998; Brazil, 1999; Argentina and Turkey 2000. Meanwhile, the worlds' fastest growing economies, including China, India, and Vietnam, were following anything but orthodox policy. Reflecting on these experiences, economists worldwide have been made highly aware of the importance of variables that are highly contextual - including economic institutions; so that the emerging consensus is a country-by-country approach to development policy (see, for example, Rodrik 2003).

In this international context, it is small wonder that policy-makers at country level find themselves with less guidance on economic strategy than they might have expected. Add to that the usual problems of having to make policy with too little information, almost inevitably hindered by preconceptions that generate blind spots and sacred cows, and having to accommodate the demands of the political economy. It is hence not surprising that country economic growth strategies are both diverse and imperfect. Moreover, all of these considerations become that much more complicated if we add the requirement that growth translate as fully as possible into poverty reduction.

So how have policy makers in three country cases approached the strategy for pro-poor economic growth?

Macroeconomic stability seems to be widely accepted as a necessary condition to encourage economic growth. All three countries under analysis include macroeconomic stability as a key component of the 'economic growth' priority area or pillar. But holding to this in the face of competing political pressures has not been easy (Box 2 on internal debt in Malawi and Nicaragua illustrated some of the difficulties faced).

Creating an **attractive climate for investment** is generally a priority in the pro-poor growth agenda, through deregulation, publicity, tax breaks and promotion. Nicaragua puts heavy emphasis on this, particularly in seeking to attract foreign investors to the country. Domestically, however, this strategy has been compromised by the heavy internal public debt that drives up interest rates, and attracts domestic funds into government bonds rather than productive enterprise. Moreover, investment is seen primarily as something for wealthy individuals and large companies. Less urgency has been applied to solving the failures in financial markets that prevent smallholder farmers and small-scale informal businesses securing credit to invest in their enterprises.[10]

In Vietnam, private investment in the aquaculture sector is booming with little or no state regulation but encouraged by state policies such as favourable tax exemptions and credit provision which encourages a dynamic and influential private sector. Vietnam's experience also suggests that regulation in itself is not such a great barrier to encouraging investment; agriculture is also growing rapidly, despite much state regulation.

Malawi is something of an exception. The business climate is extremely difficult owing to several factors: domestic debt which starves business of credit; the opportunities taken by the state to 'tax' business at critical flow points - like the prohibitive landing fees now pertaining at Malawi's airports which have contributed to the ending of direct international flights to the country; and the apparent xenophobia of Malawi's elite, which refused to consider foreign investment in the textile sector under the African Growth and Opportunity Act.

Public spending on **physical infrastructure** is another priority for economic growth across the three country cases. It dominates the Vietnamese strategy for economic growth. Indeed in this case, it is seen as central to poverty alleviation as well. Before small industry can become an engine of

[9] van de Walle, N. (2001) *African Economies and the Politics of Permanent Crisis, 1979-1999*. Cambridge University Press.

[10] The issue is not ignored in the national plan. On the contrary the inability of smallholders to obtain formal credit is clearly recognised as a critical limitation. But it is not clear that solving this blockage has sufficient priority.

growth or a solution to rural job creation it is felt that the inadequacy of infrastructure must be overcome. Seventy percent of the funding attached to the National Target Programmes, which are targeted at the poorest communes, are allocated to infrastructure with a strong focus on linking poor and remote areas to services and markets. The emphasis on infrastructure in the Vietnamese PRS is, partly on extending services to the poorest and most remote communes to enable poor households to take up opportunities, whilst also on those remote and rural communities with industrial zones. While the PRS does not have a committed budget, the Public Investment Program sets aside large amounts for large infrastructure and electricity projects. However, the vast majority of infrastructure investment in Vietnam seems to be primarily directed towards new capital formation with little concern with maintenance of old infrastructure.

An important overall point in the growth strategies lies in the **different roles of government**. Broadly speaking, the state can invest directly in physical infrastructure and human capital, or it can enable the private sector to invest and take risks, through a mixture of incentives (taxes, subsidies, trade rules, etc.), regulations, and by fostering the institutions that underpin the workings of market economies. PRS, however, seem to have a clear bias towards spending – arising partly from their original connect with the HIPC initiative and their close links to ministries of finance, and from the attractions of focusing on health and education targets where public spending provides a fairly straightforward way to link government action to the achievement of pro-poor goals. Not only is there a bias towards spending, but enabling policies may be ignored completely. For example, in Vietnam, policies on migration which restrict migrants' access to stable employment and basic services are vital in determining behaviour and outcomes in terms of service delivery to the poor; but go unmentioned in the PRS.

With regards to the potential contribution of the rural productive sectors to pro-poor growth, progress has been disappointing. This is partly because the policy narratives on pro-poor rural development are not converging. Some of the "sticking" points include: whether agriculture can be the engine of pro-poor growth; the role of small farms; the potential of the non-farm economy; and social protection and redistribution versus growth (Ashley and Maxwell, 2001). The controversy of the debate is also reflected by the conflicting policy agendas subscribed by the leading international development agencies on rural development and pro-poor growth, as demonstrated by Maxwell (2003b).

A particularly difficult challenge concerns the controversy on the nature of state intervention in the rural productive sectors, which is implicit in many of the policy narratives on pro-poor growth. For the rural productive sectors, the priority may not be public spending – indeed in as much as overspending can lead to domestic debt and high interest rates (recall Box 2 on internal debt), such spending can actually harm them. Instead, it may be the skill by which the state can enable private enterprise that matters most. It is, however, much less straightforward to plan and programme enabling measures, particularly those that are institutional in nature - that is, those that set the 'rules of the game' - for several reasons. Perhaps most important is that theoretical guidance in this area is limited, owing to the complexity of the systems and the degree to which they are thus embedded in contexts that can vary considerably from country to country, making generalisations a difficult task. Some institutions are politically sensitive since they determine the relative rewards to different social groups – see Box 4 on the changes in the rules for the Malawi tobacco auction: change may thus be difficult. Reforming institutions is often an arduous business – for example, surveying, registering and titling property or bringing in value-added tax. Institutional changes often require some legislation, with ample scope for the measure to be held up or significantly altered in parliamentary processes. Finally, as will be discussed in the section 3.3, most line ministries and their staff are not experienced in these areas.

While enabling measures may be considered in the national plans for economic growth, it is often far from clear as to how objectives will be reached, and, in particular, how they link with poverty reduction. For example, the National Development Plan for Nicaragua records clearly and cogently the problem of missing formal financial services for rural communities. The potential for micro-finance to fill part of the gap is considered; but overall, it is far from evident that there is a sufficiently well resourced and supported set of measures to tackle this problem. Not that it would be simple to do so: across the developing world, great efforts have been made for at least two decades to provide rural financial services – with only patchy results. It would be surprising if the Nicaraguan plan were to solve this problem.

The Malawi Economic Growth Strategy is targeted at addressing big businesses' constraints and large- and small-scale commercial agriculture. So, for example, increasing the reliability of power supplies, access roads to rural areas, power supply, drainage, irrigation, storage, and grading facilities, are mentioned but details of how the Ministry of Agriculture and the private sector can work together to achieve these policy objectives are not specified.

Box 4. Adjudicating among different interests
An example from Malawi would be to end the Tobacco Auction Floor (TAF) oligopoly (purchasing monopoly). Malawi is dependent on tobacco for around 60 percent of its foreign exchange earnings, but most tobacco is grown on large-scale politically powerful estates. For years, these producers have sought to sell their produce directly on the international market, rather than through TAF quotas. In 2004, under pressure from big companies in the tobacco sector, and mindful of the need to appear supportive of private sector activity, government agreed tobacco could be sold through private contract. However, prices have fallen so low on TAF, which is now in effect a residual market servicing smaller tobacco producers producing more variable tobacco, that the TAF market had to be temporarily suspended during the 2005 marketing season. Whilst the estates have benefited from liberalised sales, for Malawi as a whole there are longer term concerns about liberalisation encouraging over production and deteriorating quality.

3.2 PRS as policy tool for pro-poor growth?

This section looks specifically into PRS experiences, discussing where PRSs fit in the wider pro-poor policy processes, how they have addressed pro-poor growth and what role they allocate to the rural productive sectors.

The discussion below highlights the following issues:

- PRSs are part of a wider configuration of policy instruments and strategies – they are not the overarching framework for pro-poor growth;
- the growth model adopted by poverty reduction strategies tends to be of the 'trickle down' variety, with a lack of specific measures to address the needs of the rural poor; and
- the bias of PRSs towards public spending with insufficient treatment of the rural productive sectors and a failure to explore their potential contribution to pro-poor growth.

In the three country cases addressed here, PRSs have been either superseded by national plans where the focus is on stimulating growth, or have been distanced from the start from influence on key government decisions due to its incomplete incorporation into budget processes, as in Vietnam. Countries tend to have their own approaches to policy: in Vietnam, the ten and five year socio-economic development plans and the annual planning process, with its associated national targeted poverty programmes and provincial plans and budgets; in Nicaragua, the National Development Plan; in Malawi the Malawi Economic Growth Strategy has been developed subsequent to the PRS. In all three cases, the PRS has tended to become one of several sources of policy ideas, rather than the leading policy framework on poverty reduction. PRS have also become out of date with time, or with changes in government.

The main reason for this is that PRSs are simply not well enough 'owned' by governments, or indeed civil society. They have not always been effectively incorporated into budgeting and programme implementation processes or into legislative programmes (approved or monitored by parliaments) – the 'institutionalisation' aspect of ownership stressed by Booth (2003: pp. 45-46). They have been very much seen as requirements of the aid donors, to be completed to obtain debt relief under the Enhanced HIPC initiative. Ownership has been further undermined when governments have changed, as in Malawi and Nicaragua. Incoming administrations have seen the PRS as the project of the previous regime, to be replaced by a new plan with the priorities of the new government.

Another reason for the weakening role of PRS has been doubts within countries that the PRS did not address economic growth strongly enough – or indeed that it failed to establish the necessary links between economic growth and poverty reduction. Not surprisingly, then, economic growth is the first concern of the new plans and programmes, with poverty reduction as a secondary consideration. In this they presumably reflect the priorities of national elites and governments – see Box 5 for an exploration of the 'project' of the Malawi elite. Vietnam is the only country of the three whose economic growth strategy is explicitly pro-poor, although, as discussed below, the approach to poverty reduction may be questioned.

Box 5. Malawi's elite 'project'

Throughout the post-Independence period, Malawi's elite have benefited from explicit and implicit support of the estate sub-sector, in the form of preferential access to land, protected access to lucrative crops, and producer price protection. During the Banda era, members of the elite were encouraged to become estate owners to 'lead by example' in the country's agricultural development; the opportunities for personal aggrandisement were significant but not the only aspect of the political compact.

Since the end of the one-party state, some observers suggest personal aggrandisement and patronage opportunities have become the major drivers of politics in Malawi, which is dominated by business people. Numerous examples include the transport cartel closely associated with former President Muluzi, the lack of transport imposing significant constraints on the free movement of agricultural produce and inputs at critical times of the agricultural season; and the sale of Malawi's Strategic Grain Reserve (SGR) in 2002 involving senior political figures, which directly contributed to national food shortages in 2002-03.

This situation has contributed to the phenomenon of '*de facto*' policy making, now noticeable in the productive sectors: official policy describes one set of activities, but in practice what happens is completely different. An example is the distribution of 30,000 tonnes of maize from the (replenished) SGR in early 2004. The release was made by Ministry of Agriculture officials without the knowledge of the National Food Reserve Agency multi-stakeholder managing committee, leading to accusations that it was politically motivated to ensure food supplies in key constituencies in advance of the upcoming national elections.

The new President wa Mutharika has vowed to clamp down on this kind of unauthorised activity, which has constrained the development of the small-scale semi-commercial agriculture sector and done little to address the longer-term needs of the poorest of the rural poor, whilst allowing the estate sector to continue its rapid growth (9 percent in 2004).

The pro-poor growth model adopted by first-generation PRSs seems to have failed to establish the necessary connections between poverty reduction and the productive sectors.

Poverty in Vietnam has been defined primarily as geographical, with a priority in investments to poor communes. There are contradictions however in this respect as while poor *communes* may benefit from infrastructural development, poor *people* within communes are being taxed or charged for these developments through required community contributions. Vietnam has long given priority to equity, but this may conflict with growth, as seen in the case of land allocation (Box 6).

In Nicaragua, the pro-poor growth model is very much one of 'trickle-down'. It is expected that if economic growth can be accelerated, jobs will be created. In this case, the focus on developing industrial 'clusters' gives priority to the more favoured parts of the country in land potential and access to markets. The implications for the poor in remote areas are that they would have to migrate and relocate to take advantage of jobs created.

Malawi, in contrast, has direct measures to assist the poor through an ambitious and wide-ranging set of social safety nets. The Malawi Social Action Fund (MASAF) invests in public works programmes as well as offering direct transfers. What is not clear, however, is how best to link social protection instruments to the broader economic growth effort. However, there is a widespread failure to recognise that under present circumstances a large proportion of the smallholder population in Malawi are highly unlikely to make the transition to the high input model of increasing maize productivity that has underpinned agricultural development strategies in Malawi for the last 30 years. Realistic policies to effectively re-integrate the "missing middle" 1.75 million small farmers are most noticeable by their absence. There is an urgent need to differentiate policies for distinct agricultural sub-sectors, and identify core supporting functions that government can provide, recognizing the positive and distinct role of other service providers in the commercial and NGO sectors.

Box 6. Shifts in the emphasis on equity in land policy in Vietnam

Tensions have emerged in the land sector in Vietnam between pro-poor objectives and the promotion of growth. The pro-poor features built into the design of the land allocation process have generally been far less rigorously enforced in the south and central highland regions of Vietnam, and this is an increasing trend throughout the country. In the absence of these features, land allocation has, in many instances increased socio-economic differentiation, as manifest in increased land concentration and landlessness in the Mekong Delta. These outcomes have occurred for a variety of reasons: some are the result of a failure, or inability, to implement the policies effectively, while others are a result of corruption and misapplication of the policy.

In areas of rapid economic development (such as many coastal, urban and peri-urban areas) commercial interests obviously *vie* with equity concerns. This has led to a groundswell of pressure and support for 'economic farms' (*trang trai*) and for government-promoted policy to allow for a higher limit on the size of land-holdings (Marsh and Macaulay, 2002).

Such policies can act to undermine the equitable intentions of the original land allocation policies. Indeed, many of the policy decisions over land can be viewed as safe-guarding the rights of certain groups, as for example in the case of the recent recognition of informal urban land rights, which can be seen as a reaction to complaints and demands of the elite (Shanks *et al*, 2004).

Hence, what seems most apparent is that economic growth and poverty reduction are only loosely related in much planning and policy-making. There is little evidence that ideas about pro-poor growth have yet taken root. Indeed, the management of the same resource is sometimes seen as either about growth or social protection. For example, in the water sector, integrated water management is usually seen as a policy for economic growth, while water and sanitation is seen as a means to reduce poverty (Slaymaker and Newborne, 2004).

This paper also argues that PRSs have been largely focussed on public spending. Previous studies have argued likewise: a survey of sixteen PRSs (Xenogiani and Shepherd, 2005) concluded that most priority policy measures were expenditure-based, and that far fewer were enabling or regulatory in character. This stems from the strong role ministries of finance have played, since the PRS has usually been a pre-condition for debt relief, the World Bank's Poverty Reduction Strategy Credits (PRSC) or the IMF's Poverty Reduction and Growth Facilities (PRGF). The already mentioned lack of attention to enabling measures, that often require legislation, may be both the cause and the consequence of the way in which parliaments and legislatures have usually played only a minor role in preparing the PRS. The stress on public spending has tended to reinforce the bias against the productive sectors, since these depend less on expenditure and more on an enabling environment.

3.3 Rural productive sectors and the engagement with PRS processes

The previous two sections pointed out, amongst other things, the lack of clarity on pro-poor growth strategies, in particular with regards to the roles of government, and failure of PRSs to explore linkages between growth in the productive sectors and poverty reduction. It is now important to understand what has been the actual engagement of the rural productive sector actors in PRS processes and the poverty reduction debate.

This section notes that:

- lack of internal capacity, vision and motivation have constrained the engagement of the governance bodies of the rural productive sectors in PRS processes;
- wider political interests are determinant of the type of engagement - vertical patronage politics seem to be a pervasive feature of the rural productive sectors; and
- stronger accountability mechanisms and civil service are key ingredients for improving the terms of the engagement with (and commitment to) poverty reduction.

By and large, the line ministries responsible for addressing directly economic growth, and ministries of agriculture in particular, have established track records in two areas. One is public spending on development programmes. The other is regulation of particular activities, although usually with a focus on preventing, rather than facilitating, action - for example, preventing movement of grain from one district to another, banning the planting of beans amongst coffee trees, or checking that agricultural chemicals have not been adulterated. The development programmes of the past have usually been conceived within a framework where the public sector is seen as the leader and prime mover. Ministries of agriculture, fisheries or forestry and associated parastatals and agencies have often seen it as their role to supply seed and fertiliser, to run a credit programme, and to collect and market crops.

Tourism ministries and agencies, by contrast, have had somewhat different mandates combining regulation to ensure standards are met, but also promotion of the country as a tourist enterprise. Expenditure on services has been a minor role, compared to agriculture, fisheries and forestry. Tourism ministries and agencies have tended to have a close relationship with the private firms they have promoted, and with them have formed something of a policy enclave, which has not interacted well with the mainstream policy making process. As a result, tourism is under-valued in public policy making in many countries. Whereas there is some thinking on harnessing tourism for national economic growth, there is as yet little thought given to its potential role in poverty reduction. However, compared to the natural resource-based ministries, it should not be so difficult for tourism policy makers to focus on how their sector can contribute to widely shared growth. Nevertheless, there will be strategic choices to be made here too – between up-market and modest tourist markets, large and small suppliers of accommodation and other services, and the role of eco-tourism.

The new consensus that the prime role for the public sector is to facilitate private sector development takes away from line ministries the older style regulatory and expenditure-based programmes and with it much of their previous reason for existence. The agenda of facilitating the private sector is relatively new. Even where ministry staff can appreciate the need for such change, what they can actually do, given their skills and experience and the ways in which public funds are made available, is far less clear. Experiences to date with changing the roles of government staff have shown that reforms take time and sustained effort - think, for example, of getting agricultural extension staff, long used to instructing farmers, to facilitate groups of farmers; or taking forest guards and have them become community forestry advisers.

Changing roles may be resisted by some staff. A Core Function Analysis for Malawi's Ministry of Agriculture intended to map out the new functions of the agency in preparation for Malawi's revised agricultural Sector Wide Approach (SWAp), ran into opposition from staff fearful of losing jobs and allowances, effectively paralysing the project while critical debates and arguments about agriculture's role in economic growth and poverty alleviation proceed in other quarters (see Box 7).

A major challenge for the rural productive sectoral ministries is expanding their horizons. When state agencies previously monopolised important market functions, ministries of agriculture, for example, had no need to look beyond their own filing system to know how much fertiliser was delivered, the size of the credit programme, or the amount of maize marketed. That no longer applies: there are many other actors, private and civil society, providing such services. Furthermore, trade liberalisation means that international market prices and trends that in the past may have been irrelevant to most activities other than a few export crops, have increasing influence on the development of the agricultural sector.

Ministries have not always responded to the challenge of collecting information or accessing available data that is pertinent to their policy-making and operations. For example, Malawi has never tracked commercial trade in maize, its staple crop, across neighbouring borders despite evidence that quantities can be significant and in Malawi's favour. A recent study (Whiteside *et al*, 2003) following the 2001/02 food crisis concluded that if government policy towards maize imports had provided more consistent positive messages to importers, this trade could have almost entirely provided for Malawi's food gap in 2002. Lack of such information has hampered informed debate about policy options for ensuring food availability within Malawi, and in effect closed off a promising option[11].

Box 7. Malawi Ministry of Agriculture's 'core functions'

The Ministry of Agriculture (MoA) is one of the first in Malawi to start the Core Function Analysis (CFA) that is planned to take place across government in recognition of the need to review roles in the light of reduced resources and plural service providers. The MoA CFA is intended to form the basis for a revised Malawi Agricultural Sector Investment Programme and Sector Wide Approach (SWAp).

The proposed future focus for the MoA is on food security, standards and regulations, and basic agricultural research, with a gradual withdrawal from service delivery such as extension. The CFA is designed to assess MoA capacity to deliver such functions, through an assessment of alternative service providers (NGOs and the private sector) and a client survey, and to promote the findings through a civic education strategy and communications strategy.

Whilst the service provider assessment and client survey have been completed, the next steps have not gone ahead, as MoA staff realised the implications in terms of job losses. Jobs in the MoA are particularly valued because they provide plentiful opportunities for field and travel allowances to boost low salaries. A further sticking point for the CFA is the unpredictable impact of the current round of decentralisation on MoA functions and budgets.

In addition, it appears that the fundamental question of which farm sub-sectors should be the focus of MoA activities is once again not being asked. Relying on the opinions of interested stakeholders through surveys is another example of the preference for policy-making by consensus in Malawi rather than informing policy through interrogation of evidence.

The degree to which national data sources – household surveys, censuses, participatory poverty assessments, etc. – are capable of generating knowledge about sectors and sub-sectors is often unrecognised. Line ministries concerned with production often interact relatively little with the statistical offices which collect and analyse such information; and are relatively poor at generating their own data. Data, even modelling, may go unused - as in the Malawi PRS and subsequent

[11] As a result of the southern Africa food crisis, donors have funded monitoring of cross-border trade at selected points across the region on a pilot basis. Initial results show that some 70,000 tonnes of maize (in excess of Malawi's food gap in all but the worst seasons) entered Malawi between July 2004 and March 2005 (FEWSNET, 2005).

Economic Growth Strategy which did not refer to the economic modelling work carried out for Malawi's Vision 2020.

Of course, deciding which data to collect for productive sectors, and obtaining it, can be more difficult than in other sectors, such as education. In the latter, for example, ministries can collect large amounts of data simply by asking teachers on the payroll to complete forms on enrolment, pass rates, etc. For agriculture the range of relevant data is wider, and collecting some of this involves travelling to remote areas and interviewing farmers who rarely keep written records of their operations. It is easy to see how, when drawing up a PRS, the more ready data from education would make it so much simpler to programme with confidence for that sector. However, household surveys in particular often contain substantial unanalysed data on agriculture and rural livelihoods.

Moreover, monitoring is one of the first activities to be cut when there is a budget squeeze. In Malawi, for example, civil society organisations were alone in monitoring the PRS during the first two years of its existence. The quality of monitoring data and its analysis is another problem: doubts over these have led donors to prefer other sources.

In addition to the rural productive sectors' internal capacity, information and incentives for reform, another factor that hinders these sectors' engagement with pro-poor growth is related to the underlying wider political economy.

Box 8. The 'big batallions' and the Nicaragua state: the case of sugar

On paper, Nicaragua subscribes whole-heartedly to trade liberalisation and deregulation. For example, despite widespread concern amongst civil society bodies, there is every intention of signing trade treaties that would open up the Nicaraguan domestic market for maize to imports. The fear is that US maize, grown by farmers who receive generous subsidies, will arrive at low prices and displace domestic maize production, much of it grown by smallholders.

The same commitment to free trade does not apply to sugar, however. Here a high tariff barrier — *ad valorem* tariff of 55 percent — ensures that domestic sugar prices are held well above international levels, to the detriment of consumers. In comparison, the tariff on white maize is just 10 percent, and with exemptions for some neighbouring countries. Much of the sugar is grown on large estates, and processed in refineries, owned in both cases by some of the wealthiest families in the country.

The power of vested interests, in some cases in control of the state, looms large in policy for productive sectors. Class-based or vertical patronage politics often features significantly in the productive sectors, with interest groups seeking privileges and rents. Box 8 looks at how in Nicaragua, protection for sugar is much higher than for other crops.

Box 9. The Malawi Strategic Grain Reserve story
The severe food crisis that affected one third of Malawi's population in 2001-02 is a good example of how patronage-based politics can divert the pursuit of growth and poverty alleviation policies. The crisis had its physical origins in two poor maize seasons and a new crop estimates system which over-estimated the availability of roots and tubers. The crisis was greatly exacerbated, however, by Malawi's response to IMF pressure to reduce the national Strategic Grain Reserve (SGR), which had swollen as a result of a series of good seasons and failure to rotate stock. A "developmental state" in a land-locked country like Malawi might be expected to put forward evidence making a case for maintaining relatively high SGR stocks to support food availability and reduce food price fluctuations. In Malawi, however, the response to IMF advice was to sell off most of the SGR at very low prices to – it transpired – grain-market operators linked to the then President's circle, with considerable diversion of funds to corrupt officials. The SGR grain then seems to have disappeared from the Malawi market, thus further limiting domestic food availability and significantly increasing market prices, in the hiatus before government and donor food imports started to arrive. This hiatus was significantly prolonged by the inability and/or unwillingness of the then government to provide evidence donors would accept relating to the procedures surrounding the SGR sell-off, resulting in delayed disbursement of donor funds to finance food imports. Indeed, it seems that the agreements to put in place institutional checks and balances on the SGR had never been committed to paper or made legally binding. Thus, by April 2002, food prices in some areas were 4-6 times the average for the time of year, at which point the grain market traders started to release grain onto the domestic market. The failure to put in place effective institutional checks and balances and to pursue policies to deliver growth and poverty alleviation, rather than opportunities for the political and economic elite to accumulate resources, are consistent with a political economy with strong patrimonial tendencies. It is to the donors' discredit that so few take account of this context when promoting policy change and reform. Whilst pillar 4 of Malawi's PRS contains specific goals for improving political will and mindset, improving safety, security and access to justice, and ensuring responsive and effective public institutions, the extent that these have been achieved is not clear.

Another, related problem, is that of polities where political imperatives dictate that ministers be seen to act frequently and decisively, even when their actions run counter to well-known statements of government intent and longstanding policies – see Box 9. This gives rise to a political dynamic of 'interference' in implementation for political gain. This is inherent in all political systems, but in systems with more developed checks and balances, there are more limitations on executive action. Political interference also arises in systems where there is no expectation that the plan or the policy as announced should be so implemented: the public debate that should have taken place before the policy decision then gets suppressed into *ad hoc*, subsequent actions where the important decisions are made.

A further problem is where dysfunctional institutions and public agencies provide benefits to powerful actors who are thus in no hurry to see reform and capacity building. In Nicaragua, for example, the judicial system works slowly and judges have a poor record for impartiality. While this is to the detriment of most citizens, it is not necessarily so for the rich who can pay lawyers, and judges, to get decisions in their favour or else have cases likely to go against their interest held up in interminable legal process. In the forest sector, the resource exists as a significant source of potential income and as a result is often the locus for competition between different stakeholders, including the local poor, private sector commercial interests, and the state – see Box 10.

Box 10. Specific political features of the forestry sector in Vietnam
In Vietnam, as in many other countries, state institutions, engaged in the sector, struggle to balance the multiple policy objectives of environmental protection, economic growth and improvement in the livelihoods of the poor. Significant rent-seeking opportunities exist for those involved in the networks of personalities who control forest resources. Attempts at pro-poor reform are often successfully resisted or subverted for their own benefit by the forest bureaucracy during implementation (often with support from commercial elites or sub-national government) (Conway *et al*, 2004). In trying to reconcile multiple policy objectives, the interests of non-poor groups (local elites, commercial interests, state forest enterprises, politicians and ministry and military officials) often win out over the poor, either during the implementation of rules or during their subsequent implementation.
There has been a limited expression of the linkages between forestry development and poverty reduction in the on-going policy debate in Vietnam, and there has been resistance to implementing certain pro-poor strands of policy on the ground. High-level policy documents – for instance, the Forest Sector Development Strategy for the period 2001-2010 - speak about poverty reduction as being an integral part of the mandate of the sector. Yet even in these statements, the poverty reduction agenda is somewhat subsumed in the multiple other functions of the sector[12] (Shanks *et al*, 2004).
State Forest Enterprises (SFEs) in Vietnam control around 40 percent of forest land (World Bank, 2003b) and considerable areas of protection forest are under the jurisdiction of the Forest Protection Branch. In forest-rich provinces, the forestry lobby is therefore an important political constituency, both historically and through the large number of well-educated forestry professionals on the ground (Shanks *et al*, 2004). The relationship between the centre and the regions in the forest sector is also starkly different to that in other sectors. While the resources are ultimately controlled at the local level, many of the central-regional mechanisms are designed in such a way to ensure some revenue accrues to the centre.
The remoteness of many forest areas results in poor links with central administration and increased contact with weakly regulated logging and the military. At the same time many forestry administrations have also been systematically weakened by political elites in order to capture revenues, to the point where forest licensing becomes a key instrument for patronage, and enforcement capacity is severely under-resourced.
In other cases forestry cadres are the main frontline representatives of the state administration which local people come into contact with. This results in a situation where the forest sector is an important regional constituency that heavily influences the direction which policy adaptations take, and it can therefore act as a conduit for infrastructure development and service delivery to remote areas.

It would be wrong to suggest that the workings of political systems are always problematic. Vietnam's experience suggests that strong, if one-party, regimes can adapt their strategies to good effect. While there is still little concession to interests outside the Communist Party, it could be argued that the individuals and interests incorporated within it are sufficiently broad and pluralist in orientation to develop useful economic and social strategies.

What is to be done to counter the excesses of the political economy? One bulwark is in many cases not in place: an independent and neutral civil service. Public employees, on the contrary, may not be rewarded for delivering stated policies. Indeed there may be political risks to close identification with particular policies.

More generally, the answer is to improve the accountability of politicians and public agencies to the rest of society - legislatures, the public, voters, and the media; however, it is not the place to address this issue here. Specifically for PRS, the idea is that civil society will monitor implementation. Of the country cases, this has occurred in Malawi and some progress is evident in Nicaragua. Of course, the impetus for such monitoring falls as and when PRS are supplanted in political importance by other plans. For these, there is generally no such explicit provision for public monitoring.

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[12] In the objectives of the Forest Sector Development Strategy it is stated that: "the forestry sector has to strengthen forest resource protection, restoration and development, ensure environmental and ecological security for the country's sustainable development; develop advanced processing technology to gradually secure sufficient supply of forest products for domestic demand and export. In the meantime, the sector has to contribute to the socio-economic development, poverty reduction, ensure political security in mountainous, remote areas, create employment, raise the income of people…" (Ministry of Agriculture and Rural Development, 2002).

Poverty and Social Impact Analysis (PSIA), a technical tool to appraise intended reforms and other policies, can help to generate somewhat greater accountability, if they are widely publicised. There are cases where they have generated strong debates, for example with rice tariffs in Indonesia and the ideal level of inflation in Rwanda. While PSIA can help with public accountability in difficult policy areas, other approaches and mechanisms will clearly be needed to generate the sort of level playing field in government which will be capable of assuring 'pro-poor growth' through the productive sectors.

Box 11. Poverty and Social Impact Analysis and rural productive sectors in Malawi
Malawi conducted a Poverty and Social Impact Analysis (PSIA) on agricultural market restructuring in 2003. It is difficult to evaluate from PSIA summary sheet how widespread and inclusive consultation was. The truth is that the PSIA is certainly not referred to within Malawi as one of the key inputs into this very difficult and high profile policy area. Of greater impact has been grassroots consultation activities and policy follow-up. For example, Malawi Economic Justice Network – one of the civil society organisations established as part of the PRS process - conducted Service Delivery Satisfaction Surveys in 2002-03 and 2003-4 and used the results relating to the state's Agricultural Development and Marketing Corporation (ADMARC) to pursue a high profile national media and policy engagement campaign pushing for re-opening of ADMARC markets in remote areas.

3.4 Role of aid donors

This section looks at the role of aid donors in promoting the engagement of the rural productive sectors with PRS processes. It argues that donor agencies have failed to support this engagement or indeed the importance of the PRS as a policy tool to address pro-poor growth issues.

The large aid donors appear to have mixed history with PRSs in the country cases. Some donors have been unable to lend their full support to the initiative partly because they are not allowed to offer general budget support by their enabling statutes. Harmonisation of donor efforts has proved difficult, partly owing to differences in procedures and mandates, but partly to disagreements on development policy – Box 12 provides an illustration from Malawi. The consequence of these is that the bulk of donor funding remains linked to specific programmes and projects, with the funds being outside the normal government planning and budgeting systems, or 'off-budget'.

On a wider scale, donors have made the planning and implementation of policies for the rural productive sectors more difficult. On some issues, such as the role of the state and legitimacy of direct support to producers, donors have taken hard and fast positions that have reduced the room for manoeuvre of developing country governments. The case of disputes over the Malawi Starter Packs is a case in point (see Box 12).

Donors have also encouraged fragmentation of the public administration by the creation of special units to receive off-budget support and by unbundling public agencies prior to privatisation. At worst off-budget funding can provide resources to line ministries that can become sources of patronage.

Box 12. Donor disagreement on agricultural policy: the case of the Starter Pack scheme in Malawi
In the late 1980s, Malawi was on the verge of a homegrown Green Revolution thanks to the flinty hybrid maize varieties developed by the national agricultural research system, strong extension, subsidised fertiliser and guaranteed markets. However, with the dismantling of the agricultural support system, this stalled in the mid-1990s. Malawi's home-grown solution was the Starter Pack scheme (SP): small bags of seed and fertiliser to be distributed to all small farmers to get them over the initial inputs investment hurdle. It was anticipated that once yields increased as a result of SP, small farmers would finance their own input purchases on a self-sustaining cycle. DFID and some other donors supported government efforts to run SP from 1999, as a productivity-enhancing programme, and the scheme was successful in the first two years (aided by two good agricultural seasons). However, donor disagreements since then have significantly reduced the intended impact of the scheme. DFID increasingly felt the need to justify investment in SP in terms of social protection impact and, accordingly, required the scheme to be targeted to the poorest households. This had a number of negative aspects: difficulties in reaching the poorest households, jealousy, reduced macro-economic impact on domestic food prices. More fundamentally, productivity-enhancing agricultural inputs may not be a good social protection instrument for land- and labour-constrained poor households. Meanwhile, USAID and the European Union became increasingly critical of SP, citing the perceived negative impact on private sector input traders and their own agricultural credit programmes. Whilst these debates continued, SP became a major component of the government's PRS spending on agriculture, arguably to the exclusion of other relevant agricultural expenditure (on rural infrastructure, extension, etc). At the same time, the suspension of budget support resulted in annual donor-government negotiations on funding which delayed procurement and distribution of inputs and impeded the delivery of accompanying extension advice. With the 2004 election campaign, returning to fertiliser subsidies was added to the list of policy options, apparently primarily for political reasons. In 2005, the debate about agricultural support in Malawi appears to have ossified around the ideologically-held positions of the major players. Neither donor nor government are engaging in the kind of evidence-based debate that is needed to identify the most appropriate components of an agricultural strategy for Malawi.

What is perhaps most notable about the role of the donors is that they themselves seem to have become disillusioned by the PRS process. With a PRS in place and approved, and with regular reports on progress backed up by monitoring data, the structures for a co-ordinated, harmonised, and unified system to handle aid funds should be to hand. But donors have been reluctant to accept national monitoring systems and the Annual Progress Reports from PRS as the basis for disbursement of funds (Booth *et al*, 2005). Instead they have retreated to procedures where the Bretton Woods institutions are firmly in control: the Performance Assessment Frameworks (PAF) that are linked to Poverty Reduction Support Credits (PRSC). The matrices that make up the PAF consist of readily-observed policy actions, in contrast to the descriptions of outcomes seen in the PRS progress reports. The former hold government more closely to account for its actions than the latter, where all manner of exogenous events could determine the outcomes.

4 Concluding remarks and further research

This study has focused on PRSs and the rural productive sectors. It looked at four issues under this broad theme: the debate and policy agenda on pro-poor growth and rural productive sectors, PRS as policy tool for pro-poor growth, rural productive sectors' engagement with PRS processes, and the role of aid donors.

This study represents work in progress. We have as yet only interrogated limited evidence from three countries. There is a need for further country case studies to generate a fuller and more reliable picture. Consequently, the conclusions presented here are necessarily tentative.

PRSs represent a brave attempt to improve poverty reduction efforts. They move poverty reduction up the policy agenda and in particular highlight the MDGs, constituting a way to marry high aspirations to the practicalities of budgeting. Their preparation has involved in many cases an unprecedented level of participation by civil society and they include monitoring processes to hold governments to account. These advances are all the more commendable when implemented, as so often applies, in unpromising circumstances of political systems inclined more to patronage and protection of elite interests than to alleviating poverty. The lack of capacity in public administrations represents further obstacles to such efforts.

But, as the record increasingly shows, the PRSs have only gone so far. In all three cases countries the PRS stands in political importance second to a national plan or economic growth strategy, produced either before or after the PRS. The most damaging weakness of the PRS has been the lack of ownership by the countries in question. Despite the considerable efforts to allow host countries far more latitude in designing programmes linked to donor funds than seen to date, the image of the PRS as a donor initiative, requirement, or even an imposition has been dominant. This is exacerbated in cases where funding PRS activities is dependent on donor approval (or not) of budget support.

As far as the productive sectors are concerned, the PRS have not yet been able to address the key issues. In part that stems from a bias towards the social sectors, and in particular health and education. This orientation, in turn, inherited from the make-up of the MDGs where there are many more social than economic targets, from the tendency for PRS to be concerned with public spending (use of HIPC 'released' funds) and not the enabling roles of government, and the far more straightforward possibilities for programming public intervention in social sectors compared to support for productive sectors.

The difficulties of addressing the needs of the latter sectors are not restricted to the PRS: they apply equally to economic development plans. They are worth restating. Technically, there is much less reliable guidance on how to stimulate economic growth than was imagined ten years or so ago. So much, it seems is down to context; and high on the agenda of context are complex variables such as the investment climate and the functioning of economic institutions. There are no ready off-the-shelf prescriptions for advances in these areas. Some policy options here have been closed off by the preferences of donors, above all the Bretton Woods institutions, where there was little justification for the hard positions taken on issues such as direct support to sectors. But, above all, the promotion of growth demands approaches from ministries and state agencies that stress enabling measures, facilitation and fostering economic institutions. Against this are arrayed factors ranging from vested interests that stand to lose by reforms to the lack of experience and, capacity of state agencies in addressing such issues.

In sum, this study has provided ten important observations in response to the four proposed research questions.

Regarding the wider debate and policy agenda on the role of the rural productive sectors to pro-poor growth:

(i) little consensus over paths to pro-poor economic growth – both internationally and at country levels;

(ii) an unclear role for the state's role in delivering pro-poor growth – a bias in government intervention towards spending with lack of 'enabling' measures;

(iii) insufficient progress on the contribution of role of rural productive sectors to pro-poor growth –resulting partly from the public spending bias and from a lack of vision, capacity or motivation to perform 'enabling' role.

On the specific contribution of PRSs to the pro-poor growth agenda:

(iv) PRS are part of a wider configuration of policy instruments and strategies – they are not the overarching framework for pro-poor growth;

(v) the growth model adopted by PRSs tends to be one of 'trickle down' with lack of specific measures to address the particular needs of the rural poor;

(vi) the bias of PRSs towards public spending - reflecting broader perspective on role of state (point (iii) above) - with insufficient treatment of rural productive sector and a failure to explore their potential contribution to pro-poor growth.

On the engagement of the rural productive sectors in PRS processes:

(vii) the lack of internal capacity, vision and motivation have constrained the engagement of the governance bodies of the rural productive sectors;

(viii) the wider political interests are determinant of the type of engagement - vertical patronage politics seem to be a pervasive feature of the rural productive sectors;

(ix) stronger accountability mechanisms and civil service are key ingredients for improving the terms of the engagement with (and commitment to) poverty reduction.

On the role of aid agencies in fostering that engagement:

(x) donors have failed to support this engagement or indeed the importance of PRS as a policy tool to address pro-poor growth issues, and in particular with regards to the role of the rural productive sectors.

All in all, it seems that the major challenges of development remain to be confronted. Prime among these is how to improve governance towards the 'developmental state', recognising that the path to improvement probably lies in a sustained effort to make marginal changes, rather than expecting rapid, comprehensive measures to achieve results. Close behind comes the quest for improved performance of public bodies, weakened by structural adjustment cuts, and lacking experience germane to the current set of challenges. Added to this is improving the efforts of donors, through harmonisation of practice, and perhaps taking a more realistic view of host country politics.

It is easy to state the big goals that may be reached in the long run, but what is to be done in the short and medium terms?

Should the donors, and above all the Bretton Woods institutions, persist with the PRS on the grounds that in subsequent rounds of planning the defects of the first round can be ironed out? Or should they be quietly shelved, and the focus turned on how to support and improve other policy instruments that might be more important for domestic policy-making? Or does substantial improvement lie in more radical and heterodox solutions that challenge the very idea of the state planning for development? One suspects, and this may not be helpful, that the answers to these questions vary by context.

If the PRS are to remain the centre-piece of donor-funded development, then there are clear lessons for subsequent rounds of planning. One is the need to rectify current biases in PRSs, and devote sufficient attention to production (and indeed rural poverty) as well as the social sectors; and to treat enabling measures as seriously as plans for public spending. Line ministries, where they are prepared to contemplate change, need more guidance on how to assist their sectors, and in particular, how to play a facilitating role, when previously they were directive or operational. Politicians need strong reasons to engage in reform.

Finally, donors need to improve their performance if their advice and conditions is not to look hypocritical. The challenges of donor harmonisation and improved aid architecture should not be under-estimated, but they are surely somewhat less than those faced by many developing governments that have far fewer resources to deploy.

As a last note it is important to stress that the scope of this study was limited by the small number of country cases analysed. The study could be significantly improved by extending the analysis 'horizontally' – to other countries – and 'vertically' – by breaking further down the topics covered here, and adding some complementary research questions. A proposed list of research questions/issues is presented in annex. This could constitute the basis for further research on the wider theme of pro-poor policy processes and the rural productive sectors.

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Annex. Guiding questions for further research – work in progress

This study has shown that in order to discuss the treatment given to the rural productive sectors in PRSs it is important to understand the **pro-poor growth narratives** – perspectives and debates on pro-poor growth strategies and roles of government – and **policy processes** – engagement of the rural productive sectors, capacity constraints, external interests, influence of donor policies, etc. – that lie behind.

Further research is expected to provide answers to the questions raised below. This is not an exhaustive list and represents work in progress.

1. PRS treatment of the rural productive sectors

1.1. Content of PRS documents

1.1.1. Is rural poverty well understood? Do poverty assessments disaggregated poverty at rural level?

1.1.2. Are the policy objectives and prioritised interventions in PRSs consistent with the poverty assessments and the characteristics of poverty (in particular those related to rural livelihoods)?

1.1.3. Do PRSs establish connections between poverty reduction, growth and the rural productive sectors? Are the policy strategies and prioritisation of interventions consistent with those connections?

1.1.4. Are the responsibilities and areas of intervention of the rural productive sectors clearly specified? Is there any significant difference of roles with regards to other sectors (such as health and education)?

1.1.5. Are priority actions budgeted for and disaggregated spatially and by sector?

1.1.6. Are there result and process indicators? Are they consistent with the policy objectives and specific sectoral areas of intervention, in particular for the rural productive sectors? Are they spatially disaggregated to account for regional specificities of poverty?

1.2. PRS process – formulation, implementation and monitoring and evaluation

1.2.1. Have the key rural productive sector stakeholder (in particular the governance bodies and the rural poor) been engaged? How?

1.2.2. To what extent have participatory processes influenced the content and implementation of poverty reduction strategies?

1.2.3. What are the capacity constraints faced by the rural productive sectors in engaging with PRS processes?

1.2.4. What interests/incentives might determine (facilitate or obstruct) the terms of the engagement with PRSs?

2. Pro-poor growth and rural productive sectors

2.1. Narratives and policy agendas

2.1.1. What are the prevailing narratives on the rural productive sectors' contribution to pro-poor growth? Are those views contested? How and by whom?

2.1.2. What are the perceptions/narratives regarding the role of government, and the governance bodies of the rural productive sectors in particular, in implementing pro-poor policies?

2.1.3. Are there clear rural productive sector strategies/programmes? How do they link with existing research evidence? How does new evidence influence policy formulation?

2.1.4. Are the key enabling and regulatory issues for pro-poor growth recognised in those sectors?

- Is there recognition of any of these in the PRS/policy process?
- Why are some issues emphasised and not others if that is the case?

- Learning from what does get recognised, what is the scope for better recognition of what needs to be done?
- What sort of enterprise is the target of policy, and what impact (direct and indirect) does this have in the sector?
- What regulations are effectively implemented and why?

2.2. Policy strategies

2.2.1. What pro-poor growth policies are being adopted and implemented?

2.2.2. What/who are the key drivers of any existent rural productive sector policy strategy/programme? And how do they interact with each other?

2.2.3. Are there fundamental weaknesses – such as extreme resource scarcity, poorly functioning markets, or lack of incentives – which undermine implementation of policy reforms?

3. Rural productive sectors and wider policy processes

3.1. Importance of PRS and other policy instruments with regards to rural productive sectors policy

3.1.1. What is the configuration of policy instruments with regards to the rural productive sectors? Where do PRSs fit?

3.1.2. To what extent are the rural productive sectors' policy options translated into other planning and operational instruments (MTEFs and annual budgets)?

3.1.3. What policy instruments determine the allocation of resources to the rural productive sectors?

3.2. Relative influence and roles of the rural productive sectors (and within)

3.2.1. What is the relative strength of agriculture and other rural productive sectors in national policy-making? How are the rural productive sectors different from other sectors (such as health and education)?

3.2.2. Is the degree of institutional and policy change 'required', 'expected' or proposed significantly greater than in other sectors (especially health or education)?

3.2.3. Are the disincentives for pro-poor institutional or policy change stronger than in other sectors?

3.2.4. What are the key spending items of the Ministry of Agriculture (extension, veterinary services, etc.)? How is agriculture affected during budget implementation? (i.e. affected by cuts in case of revenue shortfalls just as everybody else?) How are budgetary resources channelled to rural areas (such as in share in revenues, degree of decentralisation, etc.)?

3.3. External influences (donor policies and international trends)

3.3.1. What are the external factors/actors influencing the debate and policy agenda on pro-poor growth?

3.3.2. How determining have these external factors/actors been? Have the swings of donor policy fashion or ideology and/or the differences among donors on policy affected real policy outcomes?

3.3.3. What is the relationship of Ministries of Agriculture and other rural productive sectors with donors? What does this mean for aid allocations?

3.3.4. Is there need and scope for donor harmonisation? Is donor harmonisation more difficult around the productive sectors? What would it require?

3.3.5. What scope is there to move from off- to on-budget donor funding in the productive sectors? What interests might prevent such moves? What does the absence of on-budget funding constrain? (E.g. infrastructure investments? Sensible public market interventions?).