

Multilateral aid: Linking Debt Relief and Poverty Reduction.

1960s	With donor support, developing governments displace private sector: nationalization, government led industrialization
1970s	Donors displace government: donor driven projects with management structures outside government
1980s	Donors ask governments to change policy by responding to 'conditionality', return of the private sector.
1990s	By late 90s, move toward partnership with government, attempts to ensure government buy in
2000s	Increased emphasis on participation, accountability, decentralization both in terms of donor –government and also within nations.

(modified from Christiansen and Hovland, 2003)

By the late '90s, a set of issues came together.

- 1) IMF being criticized for the role played in the 1997 Asia Crisis, internal and external reviews of the 'Enhanced Structural Adjustment Facility' (ESAF). Camdessus since 1987. 'social dimension of structural adjustment' approach is not seen as sufficient.
- 2) World Bank being criticized for the growing sense that their Structural Adjustment Programs, particularly in SSA, were not working. Things seemed to be getting worse if anything. Wolfensohn's arrival in 1995.
- 3) IMF and World Bank falling out of coordination around the previously used Policy Framework Paper / introduction by Wolfensohn's Comprehensive Development Framework (WB arguably started moving first, IMF came along after). Both sensing a need for more country 'buy-in' of policy.
- 4) Heavily Indebted Poor Countries Initiative (HIPC) launched in 1996/7 but encountering some problems.
- 5) DFID with a focus on poverty reduction following 1997 election, with DFID being elevated to separate ministry. DFID had been developing a focus on poverty reduction, sustainable livelihoods, participatory methods... Strong research component.

6) Jubilee 2000 focus on debt relief, NGO critiques, anti-globalization protests....Wolfensohn and Camdessus getting a lot of heat.

7) G7 getting a bit impatient with WB / IMF squabbling.

The Uganda experience is one of the key elements of this development. 1997 publication of the Poverty Eradication Action Plan, following a negative reaction to the 1994/95 WB 'trickle down' kind of strategy suggested.

It appeared to be relatively effective in improving things in Uganda. [poverty rates dropped from 56% in 1992 to 35% in 1999/2000]

This had a plan in place that seemed relatively successful. There was a sense that something that merited wider expansion had been identified.

World Development Report “Attacking Poverty” 2000/ 2001

This is the second take at this issue: 1990 WDR was “Poverty”

“Voices of the Poor” 3 volumes, first published in 2000.

Poverty Reduction Strategy (began December 1999)

Four core principles:

- 1) Country driven
 - a. Participatory approach to definition
 - b. Assurance of ‘buy-in’
- 2) Medium to long term in perspective
- 3) Comprehensive and results-oriented – focus on outcomes that will benefit the poor.
- 4) Partnership oriented – involving coordinated participation of bilateral, multilateral, NGO, government, and civil society.

By late 2005, of 66 countries that had entered the process, 49 had prepared a strategy, over half in Africa, and over half HIPC's. (in 2003 the number that had prepared a strategy was 21)

You can find these documents on the IMF site.

<http://www.imf.org/external/np/prsp/prsp.asp#cp>

Interim PRSP was often the start. This was the basis for a participatory exercise (sometimes a Participatory Poverty Assessment)

IPRSPs were enough to get access to some funding / debt relief if approved.

Then the final PRSP was submitted to the boards of the IMF and WB for consideration.

If it is approved, makes you eligible for funds.

Then there are updates and progress reports. There is an associated M&E capacity building, and an associated sense of accountability.

The World Bank funds come as part of the country assistance strategy (CAS).

The IMF funds through accounts which are in the Poverty Reduction and Growth Facility (PRGF).

Cutoff is \$895 GNI per head (2003 dollars).

Loans carry annual interest rate of 0.5%, repay semi-annually, begin repaying 5 years after disbursement, end 10 years. 77 countries on the eligible list, not all have used this access.

HIPC went through a review in 1999 that led to the explicit linking of external assistance, debt relief, and poverty reduction (sometimes see HIPC1 and HIPC2).

Eligibility for HIPC:

- PRGF eligible (and WB eligible).
- Heavily indebted: NPV of debt above 150% of exports or above 250% of government revenues.
- Good track record of reform.

(42 countries meet these conditions)

27 countries are in the HIPC program, 11 more are working on it

For those who went through the process:

- Debt stocks reduced by 2/3rds in NPV terms.
- Debt service over 2001 to 2006 reduced by about half.

Trying to get the incentives right on multiple levels:

- Moral hazard of debt relief.
- Commitment problem in structural adjustment.
- Ex post monitoring, enforcement, accountability.
- Desire for a particular type of growth – poverty reducing growth.
- Potential need for policy coordination where coordination enhances all efforts.

Work continues with countries not involved in the PRSP process through the overall Country Assistance Strategy (CAS)

Work with countries not able to go through such a process, fragile states, takes place through things called a Country Reengagement Note (CRN) or a Transitional Support Strategy (TSS)

On January 15, 2004 the World Bank created a Trust Fund of \$25 million for Low-Income Countries Under Stress (LICUS)

LICUS eligibility is based on an exercise called the Country Policy and Institutional Assessment. Below a score of “3” you are eligible.

Thirteen countries have been the focus of LICUS pilot work during implementation. (Angola, Burundi, Central African Republic, Comoros, Guinea Bissau, Haiti, Liberia, Papua New Guinea, Somalia, Sudan, Tajikistan, Togo, and Zimbabwe)

DFID “Why we need to work more effectively in fragile states” (2005) lists 46 fragile states.

Foreign Policy magazine reports (2005) a failed states index for 60 countries: Top 10 are Ivory Coast, Democratic Republic of the Congo, Sudan, Iraq, Somalia, Sierra Leone, Chad, Yemen, Liberia, Haiti, Afghanistan, Rwanda, North Korea, Columbia, Zimbabwe, Guinea, Bangladesh, Burundi, Dominican Republic, Central African Republic.

http://www.foreignpolicy.com/story/cms.php?story_id=3420&print=1

http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=99&Itemid=323

What is going on with USAID policy these days?

“Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity”
(2002)

Foreign aid elevated to a third pillar of national security: diplomacy, defense, and aid.

USAID is being more and more aligned with the state department.

“America is now threatened less by conquering states than we are by failing ones” (2002 National Security Strategy)

Six main issues of development assistance identified in the 2002 document:

- 1) Promoting democratic governance
- 2) Driving economic growth
- 3) Improving people's health
- 4) Mitigating conflict
- 5) Providing humanitarian aid
- 6) Accounting for private foreign aid (private assistance from the US estimated at around 60% of the total counting individual remittances which are about 1/3rd)

US foreign assistance act as amended over time specifies 33 goals, 75 priority areas, 247 directives.

This has gotten too complicated and internally inconsistent is the argument (made repeatedly since the 80s), so a new strategy is needed. Also, there is an idea that the post Cold War era requires a rethinking of objectives.

"Joint State-USAID Strategic Plan" (2002)

Strategic Objective 1: Achieve Peace and Security

Strategic Goal 1: Regional Stability (joint State-USAID goal)

Strategic Goal 2: Counterterrorism (joint State-USAID goal)

Strategic Goal 3: Homeland Security (Department of State-only goal)

Strategic Goal 4: Weapons of Mass Destruction (Department of State-only goal)

Strategic Goal 5: International Crime and Drugs (joint State-USAID goal)

Strategic Goal 6: American Citizens (Department of State-only goal)

Strategic Objective 2: Advance Sustainable Development and Global Interests

Strategic Goal 7: Democracy and Human Rights (USAID-only goal)

Strategic Goal 8: Economic Prosperity and Security (USAID-only goal)

Strategic Goal 9: Social and Environmental Issues (USAID-only goal)

Strategic Goal 10: Humanitarian Response (USAID-only goal)

Strategic Objective 3: Promote International Understanding

Strategic Goal 11: Public Diplomacy and Public Affairs
(Department of State-only goal)

Strategic Objective 4: Strengthen Diplomatic and Program Capabilities

Strategic Goal 12: Management and Organizational Excellence
(joint State-USAID goal)

The current policy direction is based on the idea that “promoting islands of stability in the developing world and reducing the roster of failing states are top priorities of U.S. international policy.”

In addition to these two groups, US foreign policy is also to focus on the following that may or may not overlap with the focus on the two groups of countries:

- 1) Global transnational concerns: disease transmission, climate change, narcotics, international trade, international trafficking...
- 2) Humanitarian response: manmade and natural disasters
- 3) Specific strategic foreign policy priorities (key partners in the war on terror, Middle East Peace, Stability Pact). (2004)

“...foreign aid supports country progress, rather than leading it. So, our aid will have the most development impact when used in countries that do the most to help themselves.” (2006, Policy Framework)

The 2006 strategy breaks the above listed points out a bit with a minor repackaging:

- 1) Promote transformational development in “...reasonably stable developing countries...with an emphasis on those with significant need for concessional assistance and with adequate (or better) commitment to ruling justly, promoting economic freedom, and investing in people.”
- 2) Strengthen fragile states.
- 3) Support strategic states.
- 4) Provide humanitarian relief.

5) Address global issues and other special, self-standing concerns.

“Fragile States Strategy” (2005)

There are failing, failed, and recovering states. “At least a third of the world’s population now lives in areas that are unstable or fragile...so that in 2003, excluding Iraq, almost one-fifth of USAID’s overall resources were spent in such settings”

Crisis states: Sudan, Afghanistan, El Salvador in early 90s, Sierra Leone in the late 90s.

Vulnerable states: Indonesia late 90s, Macedonia early 00s, Serbia-Montenegro late 90s-early 00s.

Who is on the US list? Some ambiguity here.

For those that are not on the list of failed states, a different approach is being used to target who gets funding. The idea is that you look at the stable states, and identify which ones are performing well, and reward them.

“The objective of the MCA is to help support economic growth and poverty reduction in the poorest countries in the world. The program is not designed for humanitarian assistance, to help in post-conflict situations, to further security interests, or to reward political allies.” From the mca monitor website.

Millennium Challenge Act, Millennium Challenge Corporation. “the single largest expansion in U.S. foreign assistance in decades”.

Announced in 2002. Increase over three years by 50% of core development assistance by 5 billion per year by 2006.

The MCA was initially intended to reach by FY 2006 an annual allocation of \$5 billion over and above existing U.S. development assistance. So far, funding levels have fallen short of this goal.

Fiscal Year	President's Request	Congressional Appropriation
2004	\$1.3 billion	\$1.0 billion
2005	\$2.5 billion	\$1.5 billion
2006	\$3.0 billion	\$1.77 billion

Set of indicators based on:

Ruling Justly	Encouraging Economic Freedom	Investing in People
<ol style="list-style-type: none">1) Civil Liberties2) Political Rights3) Voice and Accountability4) Government Effectiveness5) Rule of Law6) Control of Corruption	<ol style="list-style-type: none">1) Country Credit Rating2) 1-year CPI3) Fiscal Policy4) Trade Policy5) Regulatory Quality6) Days to start a business	<ol style="list-style-type: none">1) Public Expenditure on Health as % of GDP2) Immunization Rates (DPT3, Measles)3) Public Primary Education Spending as % of GDP4) Primary Education Completion Rate

You get a score in each of these as relates to the overall distribution scores.

<http://www.mcc.gov/selection/indicators/index.php>

If you do well, you can be selected into a MCA compact.

<http://www.mcc.gov/countries/index.php>

A nice collection of articles and reports on this is at the center for global development.

http://www.cgdev.org/section/initiatives/_active/mcamonitor