

Rethinking the Poverty Reduction Strategy Paper (PRSP) as an Instrument for Mainstreaming Trade Capacity Development

Draft speaking notes for an intervention by David F. Luke, Trade, Debt and Globalisation Advisor, UNDP Southern Africa Sub-Regional Resource Facility, at the Regional Workshop on Trade Capacity Building: Experiences in an African Context, Mombasa, Kenya, 26-27 August 2002. Please check against delivery.

During 2000, mandated reviews of the functioning of both the Joint Integrated Technical Assistance Programme for Selected Least-Developed and Other African Countries (JITAP) and the Integrated Framework for Technical-Related Assistance, Including Human and Institutional Capacity Building to Support Least-Developed Countries in their Trade and Trade-Related Activities (Integrated Framework or IF) were undertaken. These reviews occurred at a time of renewed effort at the World Bank and the International Monetary Fund (IMF), and in the wider donor community, to address the trade constraints faced by the poorest countries in a more comprehensive manner while taking into account key factors such as ownership, sustainability, market failure, and institutional resistance to donor coordination. It is therefore not surprising that these were the themes that provided the subtext for the JITAP and IF reviews.

The overall message from these reviews was the need to ‘mainstream’ trade as an integral part of the overall national development and poverty reduction effort. The IF in particular was subsequently restructured to ensure that trade policy, trade-related technical assistance, and capacity-building needs are articulated in a broad development context, and not addressed in isolation. In addition, the IF review designated the PRSP as the main instrument for mainstreaming trade capacity building in country level development initiatives.

As a growing number of full PRSPs are concluded and approved, there are good grounds for suggesting that the PRSP faces major shortcomings in fulfilling the role allocated to it by the IF review. In practical terms, the PRSP is primarily a means of recycling the proceeds from debt relief to the social sectors. PRSPs were conceived as a basis for external debt forgiveness under the Heavily Indebted Poor Country (HIPC) Initiative, begun in 1996 and ‘enhanced’ through more generous terms in 1999. A PRSP has also become a pre-condition for financing from the IMF under the Poverty Reduction and Growth Facility (PRGF) and from the World Bank’s International Development Association (IDA). The main features of the PRSPs comprise an analytical framework, integrating macro-economic, structural, sectoral and social considerations and laying out of a set of poverty reduction measures and policies. PRSPs are intended to be nationally owned, and developed through a participatory process. They are expected to be results-oriented, particularly with respect to the Millennium Development Goals (MDGs).

Aside from the controversy over the extent to which a PRSP is ‘home grown’, a particular characteristic of the PRSP is the overwhelming focus on the social sectors in the poverty reduction effort. The consultative and participatory process embracing elements of civil society that is expected to be an integral part of PRSP formulation reinforces this focus. A normative orientation that is emphatically distributive

underlies specific policy choices that are being advocated and supported. This is of course both crucial and critical in the light of the very real and pervasive human needs that can be found in low-income countries as well as the human development imperative and commitments that have been made to achieve the MDGs. In addition, the priority given to the social sectors as reflected in budgetary allocations and arrangements is a condition on countries that wish to qualify for debt relief. In effect, the political economy driving the PRSP facilitates transparency in debt recycling and related donor support to the social sectors, rather than a comprehensive development framework including mainstreaming trade capacity building. Indeed, on the basis of current trends, a good case can be made that poverty reduction strategies and the PRSP process have narrowed the space for focusing on broader development issues.

This means that in practice, at the country level, relatively little attention is being given to *income generation* through the productive and export sectors as the engine of diversification, productivity gains and employment especially in the context of the challenges low-income countries face for integration into the regional and global economy. In other words, income generation activities, trade and investment strategies and policies, are not receiving adequate attention. Meanwhile, low income countries still have exports concentrated on products derived essentially from exploitation of natural resources and the use of unskilled labour which have little prospects for productivity growth and lack dynamism in world markets. Yet, in most of the PRSP countries, exports account for more than 25 per cent of GDP (and imports for a higher proportion). Trade is therefore a determining factor for growth and distribution. Moreover, in recent years, many poor countries have been caught in the scissors of declining primary commodity export prices and rising oil import costs.

Although the PRSP learning curve is only just beginning to point upwards, few of the countries that are concerned show signs of achieving policy coherence on mainstreaming trade capacity building through linkages with the poverty reduction effort with the promise of effective results. In sub-Saharan Africa, Uganda stands out as an example of good practice in this area. Almost right from the start of the policy reforms in the early 1990s, the poverty reduction strategy process in Uganda had a pro-business, pro-private sector, and pro-small scale enterprise development bias to complement the social initiatives. This was reflected in budgetary allocations as part of an overall effort to ensure that growth in the productive sectors was translated into opportunities for better livelihoods for the poor and to position the country to enhance its competitiveness in the face of regional and global challenges. A proactive approach with outreach to support private sector development, export promotion and competitiveness as well as trade policy and institutional reform made a lot of sense as a typically weak response from the private sector generally follows macroeconomic reforms in sub-Saharan Africa.

In Tanzania – which, like Uganda, is both a JITAP and IF country - on the other hand, notwithstanding various initiatives that were adopted during the 1990s to bring trade and investment more fully into the poverty reduction equation, these initiatives were not adequately reflected in current and medium-term expenditure management arrangements. Not surprisingly, when a full PRSP was adopted in 2000, it contained no coherent strategy for establishing the critical linkages that are required for enhancing opportunities for better livelihoods by achieving greater value added in key sectors, diversification and exports.

Zambia is another interesting case. In its detailed attention to the productive sectors, the new PRSP for Zambia is promising but is yet to be tested through implementation. Zambia, however, is not so far an IF pilot country. This implies a 'disconnect' between the poverty reduction strategy process and trade policy reform and capacity development, although there are various ongoing trade-related activities. Lesotho, an IF pilot country, on the other hand, has put in place a process for developing a full PRSP with credible linkages to the IF. In Malawi, qualification for debt relief was the main consideration underlying the PRSP that was completed earlier this year. However, as an IF pilot country, efforts are now being made to bring the IF into an updated PRSP.

Given the core objectives of PRSPs in regard to the recycling of debt relief, there is need to rethink how the PRSP could become a more adequate instrument for mainstreaming trade in the national development and poverty reduction effort. In this regard, much could be learnt from the Uganda experience.

David F. Luke
Harare, July 2002

E-mail contact: David.Luke@undp.org