

Changes in Domestic Policy Processes and Institutions: Evidence from Case Studies

Table A9.1. What Happened to Domestic Policy Formation Under the PRSP Approach? Some Examples from the Case Studies

Country and Policy Issue	Did a Broader-Based Policy Debate Take Place on the Issue?	Did the Debate Lead to a Broadened Policy Space, e.g., Considering Additional/ Alternative Options?	Outcome
Guinea			
1. State enterprise reform	No.	No.	Still no country-owned strategy that could be supported by the IFIs.
2. Governance	Yes, initially under the pressure of donor conditionality. Debate started prior to PRSP process but was substantially amplified by it.	Yes. Debate led to large range of solutions being considered, taking a very broad view of governance problems.	Comprehensive strategy defined, emphasizing decentralization and capacity building as a solution. Very limited progress in implementation. Governance problems remain pervasive, at all levels of government. Local CSOs supported BWI conditionality in this area.
Mozambique			
1. Petroleum tax increase	No broad-based debate but the IMF and the authorities agreed to await the outcome of a PSIA on the impact of the measure before its implementation.	The PSIA considered two main scenarios on updating the specific tax that had not been adjusted for five years: (i) increase the tax in line with exchange rate movements (a 100 percent increase in the tax); and (ii) increase the tax in line with domestic inflation (a 65 percent increase in the tax).	The PSIA concluded that “the aggregate short-term impact of a rise in fuel tax on poverty is modest.” The tax on petroleum products was increased by an average of 62.5 percent in May 2003.
2. Rationalization of tax incentive and exemptions	No broad-based debate; the measures were recommendations of an IMF technical assistance mission.	No.	The government initially complained to the IMF that the recommendations were “unhelpful” but was subsequently persuaded to implement some of the measures.
Nicaragua			
1. Growth strategy	Not initially, but consultation later on pushed by donor community (see Box 2.1).	Initially, the debate was not opened up, as the new government chose not to “rock the boat” (and delay progress on HIPC debt relief) even though it disagreed with the growth strategy in the PRSP. Subsequently, however, a broader debate did begin.	New growth strategy endorsed at Consultative Group meeting and work in progress to determine how to modify PRSP.
2. Tax reform	Debate took place in the context of a technical commission comprising representatives of various domestic stakeholders.	Yes, IMF showed greater flexibility to reform design, provided expected net revenue was maintained.	Tax reform approved. Passage of reform in assembly eased by IMF flexibility to design considerations.
3. Bank restructuring	No—but proposed approach was “owned” by key government officials.	No—although some debate did take place ex post on the choices made on “burden-sharing.”	Strategy for bank restructuring was determined by the authorities.

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Country and Policy Issue	Did a Broader-Based Policy Debate Take Place on the Issue?	Did the Debate Lead to a Broadened Policy Space, e.g., by Considering Additional/Alternative Options?	Outcome
Tajikistan			
1. Gas tariff reform and compensation to poor households	No broad-based debate.	No.	Provision was made in the budget for some compensation to poor households. However, the initial compensation scheme was ill-designed. It would have been better to have undertaken a proper PSIA before implementation of the tariff increase.
2. Limit on external borrowing to finance PIP	No broad-based debate.	No. Although not part of the formal conditionality in the PRGF-supported program, it is generally understood to be an important condition for completing program reviews.	The authorities went along with the limit, albeit reluctantly, because they thought it constrained their use of available concessional loans for growth-promoting public investments.
Tanzania			
1. Macroeconomic program design	Yes—but not as part of initial PRSP. Debate took place later within domestic framework (PER system).	Yes. A serious debate on fiscal and monetary policy design ensued, involving government, donors, and the IMF. Civil society largely uninvolved.	Substantial changes to program design were eventually made (see Box 4.2).
2. Trade policy	No. The bulk of trade-related reforms were undertaken before the launch of the PRGF and PRSP in 2000. Subsequently, no trade policy debate that was distinct from the broader macroeconomic issues has emerged.	Trade issues were mentioned with very little specificity in the PRSP, although the importance of ensuring that the poor shared in the benefits of globalization was stressed. In the absence of a broad domestic discussion—even the broadly participatory PER process has given it less attention than other issues—no alternative policy approaches were discussed.	Trade policy remains amenable to protectionist pressure from local producers. IMF staff have argued against such measures, but PRGF-supported programs have not included any trade-related conditionality.
3. Fiscal federalism	Although under implementation for close to a decade, local self-governance received renewed impetus under the PRS process—seen as a key point of departure for poverty eradication. Financial decentralization and the need to create local capacity for the management of public funds were natural consequences.	The IMF adopted a cautious stance on fiscal decentralization, warning that capacities at the local level were still very weak, and that expanding the process would have implications for the integrity of the central budget. The IMF did not press the government to abandon its plans, but did warn against rapid implementation and pushed for introduction at local levels of a more transparent and efficient financial management system.	Capacities at the local level have remained low, affecting the ability to monitor priority expenditures. The government has embarked on the training of local-level staff, with the assistance of local NGOs.
Vietnam			
1. State enterprise reform	The PRSP represented an “action plan” for the implementation of the five-year socioeconomic development plan that was approved at the Party Congresses in which various “mass organizations” were represented. Meaningful discussion affecting policy formulation did not take place in the context of the PRSP participatory exercise.	No, but the policy debate and resulting options were clearly country-driven.	Bank and Fund came to accept the authorities’ approach to SOE reform, albeit not until after pressing a privatization/equitization agenda at the start of the PRGF-supported program and in the context of the first PRSC.

Table A9.2. Institutional Changes: Evidence from Case Studies

Country	Macroeconomic Policymaking	PRSP Links to Budget	Monitoring and Evaluation
Guinea	Analysis and discussion of macroeconomic conditions and policies are conducted within a very narrow circle around the Minister of Finance and Governor of the central bank.	There are no systematic links between the PRSP policy matrix, sectoral strategies, expenditure plans of line ministries, and regional poverty reduction strategies. Nevertheless, budget allocations to designated priority sectors have been relatively protected from ad hoc cuts.	PRSP itself did not provide much detail on institutional arrangements for Monitoring and Evaluation. But a group was set up in October 2002 to: (i) determine set of indicators to be monitored; (ii) arrange for their production if not already available; and (iii) propose institutional arrangements for publication of indicators and for providing feedback from monitoring to updating and improving the PRSP.
Mozambique	There continues to be little public discussion of macroeconomic policy issues. Donors providing general budget support have formed a macroeconomic working group that discusses macroeconomic policy issues, but membership is limited to the donor community.	Integration of the PARPA (Mozambique's PRSP) into the government's planning, budgeting, and reporting processes is under way but at a slow pace. An annually updated MTEF is the main instrument for translating PARPA priorities into budgetary allocations. But PEM system needs strengthening to ensure that budgeted funds reach spending units and that funds are spent as budgeted.	Targets vary considerably in scope and precision. In a few areas targets are yet to be specified (e.g., anticorruption). Weak institutional capacity is adversely affecting the quality of monitoring. A Poverty Observatory has been established to review PARPA implementation annually, with a focus on drawing lessons and making recommendations for improving implementation. Role of nongovernment actors in PARPA monitoring not yet well defined.
Nicaragua	No significant movement toward opening up debate on the macroeconomic framework and alternative policy trade-offs. Recently, there seems to be some movement in the context of the new development plan.	Little linkage between the PRSP and the budget process. Poor PEM system is a major hindrance to implementation of the PRSP. Fragmentation of policymaking has generated problems for coordination and control over public finances.	The PRSP included a comprehensive set of targets and indicators for monitoring the impact of policies on the poor. Links between goals and intermediate indicators are clearly set out in the social area, but there are no intermediate indicators for the economic/production sectors. A comprehensive system for monitoring and evaluation of PRSP implementation is being set up (SECEP, SINASIP).
Tajikistan	There was some public discussion of macroeconomic policy issues during the formulation of the PRSP process. But macroeconomic policy formulation on an ongoing basis seems to revolve around discussions between IMF staff and a handful of government and central bank officials.	There is a disconnect between the PRSP, the PIP, and the government budget process. In particular, the PRSP and the PIP appear to have different priorities (the former heavily tilted to social sectors and the latter to infrastructure). Initial effort at an MTEF was based on only three sectors. Efforts are under way to broaden its coverage.	Five of nine main poverty reduction targets are linked to the MDGs. The PRSP policy matrix contains some 200 indicators, most of which refer to processes and policy measures, rather than to outcomes. Work is under way to develop a more focused set of intermediate indicators. A PRSP Implementation and Monitoring Unit has been established in the Presidency to coordinate monitoring and evaluation activities.
Tanzania	Macroeconomic policies now more frequently and openly discussed in broadly inclusive forums, but little impact of nongovernment actors on policy choices.	The PRS has provided a poverty-focused policy framework for budgeting that was lacking before. But spending within sectors is not always well targeted. Establishing a realistic mechanism for implementation at the subnational level remains a major challenge.	The PRS process has substantially enhanced national processes for poverty monitoring, although there are some inconsistencies in the follow-through of actual PRS targets. There is a major gap between PRS monitoring and feedback to policy formulation. IFMS is a major instrument for improving PEM and accountability.

Table A9.2 (concluded)

Country	Macroeconomic Policymaking	PRSP Links to Budget	Monitoring and Evaluation
Vietnam	Limited public discussion of macroeconomic policy issues.	<p>The CPRGS (Vietnam's PRSP) is linked to the socioeconomic development plans—the SEDPs (products of Vietnam's indigenous planning process). However, the CPRGS falls short of being an “action plan;” in some important areas (e.g., SOE reform) the strategy is not sufficiently operational.</p> <p>There is no fully costed and prioritized MTEF.</p>	<p>Institutionalization of CPRGS monitoring and evaluation of implementation is at an early stage. An interministerial steering committee has been established, headed by the Deputy Prime Minister. Each ministry has responsibility for monitoring a specified set of indicators and to report back to the steering committee.</p> <p>The CPRGS contains an extensive system of 136 indicators to monitor economic developments and poverty reduction at both program and aggregate levels.</p> <p>At end-2003, there was not yet in place a framework of indicators for monitoring the linkages between policy measures and outcomes. Also, for about one-third of the indicators, information was either not available or of poor quality.</p>