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The Effectiveness of the Macroeconomic Frameworks of the PRSPs for Growth and Poverty Reduction

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The Effectiveness of the Macroeconomic Frameworks of the PRSPs for Growth and Poverty Reduction

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Summary

This paper assesses to what extent the macroeconomic content of the Poverty Reduction Strategy Papers (PRSPs) supports the ultimate objectives of sustainable growth and poverty reduction – or, instead, merely reflects typical macroeconomic policies embodied in IMF based stabilisation programmes. It also contributes to our understanding of what forces shape the design and implementation of the macroeconomic policies contained in the PRSPs.

The paper first discusses the degree to which conventional IMF-stabilisation programmes and PRGF programmes are similar or not. It next analyses the macroeconomic frameworks of 44 PRSP documents from 30 countries, focusing on monetary, fiscal and exchange rate policies. It also discusses what changes these frameworks have witnessed over time. It then addresses the questions: to what extent do the PRSP macroeconomic frameworks reflect standard IMF policies, and to what extent they incorporate alternative or innovate elements? To what extent are PRSPs top-down, IMF driven, and to what extent is the design of their macroeconomic components mediated by actions from other actors thereby contributing to a more balanced design and implementation process? What are donor governments doing to ensure that the macroeconomic framework does not constrain aid spending? The paper ends by sketching what sort of macroeconomic framework one should expect embedded in a growth and poverty reduction strategy.

The paper shows that, in practice, PRGFs make a few departures from traditional IMF stabilisation programmes, including more flexibility for fiscal accommodation, prioritisation of pro-poor expenditure and emphasis on fiscal governance. These departures are nonetheless limited, especially when compared to what PRGFs promise in theory. In turn, PRSPs' macroeconomic frameworks are closely aligned with what PRGF programmes are in practice. Their fiscal framework has a pro-poor focus, but growth targets are not MDG-linked, very low inflation targets are specified, budget balance is stressed, flexibility to deal with shocks is almost absent, and pro-growth expenditure is missing. Overall, PRSPs' macroeconomic frameworks prioritise macroeconomic stability over growth or other policy objectives; their core macroeconomic policies are essentially the same as those from traditional IMF stabilisation programmes, despite the facts that many developing countries have already achieved macroeconomic stability and that PRSP's ultimate goals are sustainable growth and poverty reduction.

PRSPs' macroeconomic frameworks are not homogenous, however. It is possible to find a certain degree of variation across PRSPs from the countries under analysis. Our analysis suggests that small countries experiencing poor growth and countries emerging from conflict are those whose macroeconomic frameworks lack elaboration and are most aligned with standard macroeconomic policies. Countries that have been performing well for a number of years, have received special attention by the donor community in the form of increased aid, and presumably have stronger government capacity, tend to generate PRSP documents whose macroeconomic frameworks are more elaborate and attuned to the goals of sustainable growth and poverty reduction. These countries in particular are those that do include a few innovative elements in their

macroeconomic frameworks to address growth directly and macroeconomic volatility caused by shocks, even though these innovative elements are mostly confined to their fiscal frameworks. Disappointingly, our analysis shows that it is hard to spot any significant change between early and recent PRSPs, as the latter, second generation PRSPs are still overly committed to macroeconomic stability narrowly defined, with emphasis on very low inflation targets and stringent fiscal targets, with little room left for other policy objectives such as growth or poverty reduction. Moreover, it is possible to notice that their fiscal frameworks have become less pro-poor and less pro-growth over time, from a starting point where whilst reasonably pro-poor, they were already very little pro-growth.

Finally, the paper indicates that, although the IMF has a strong hold on macroeconomic policy design, other actors such as country governments, donors and civil society do have power to influence macroeconomic policy, and that it is when they get organised to strive for change that more pro-growth and pro-poor outcomes emerge.

The above therefore shows that the main shortcoming of PRSPs' macroeconomic frameworks is that these are not designed to support faster growth directly, which in our view is the most effective way to tackle large-scale poverty. Whilst it is true that budgetary allocation is pro-poor, the fact is that, pro-poor budget that does not grow fast enough due to lack of rapid economic growth – the basis for increased revenue collection – and is constrained by stringent fiscal rules, is likely to have only a limited impact on poverty reduction.

In our view, what is needed is to break with the unvarying character of macroeconomic policy framework, through the provision of a wider range of macroeconomic policy options that are more flexible and thereby more pro-growth, pro-development and tailored to specific country needs and circumstances. Donors and country governments have a critical role to play in this respect through generating their own capabilities in macroeconomic policy assessment and design so as to support a growth-based development path.

1. Introduction

This paper discusses the macroeconomic framework contained in the Poverty Reduction Strategy Papers (PRSPs) from a group of developing countries that have prepared the document as part of their poverty reduction strategies.

The objectives of the paper are twofold: first, to assess to what extent the macroeconomic content of the PRSPs supports the ultimate objective of the strategy papers – sustained economic growth and poverty reduction – or, instead, merely reflects typical macroeconomic policies embodied in IMF based stabilisation programmes. Second, the paper aims to contribute to our understanding of what forces shape the design and implementation of the macroeconomic policies of the PRSPs. What role or weight does the IMF, donors, country authorities and civil society have each in macroeconomic policy design and implementation, and why? Are their roles changing or shifting over time? In addressing these objectives, the paper brings elements that show whether and to what extent the macroeconomic contents of the PRSPs have what is needed for effective poverty reduction.

The paper has been prepared as part of the UNRISD project on poverty reduction and policy regimes. In accordance with the project, its ultimate aim is to shed light on how institutions, policies and politics interact with each other and how, through this process, each contributes to the shaping of poverty outcomes across developing countries.

For the analysis of countries' PRSPs, the paper draws on 44 PRSP documents from 30 countries. The 30 countries are selected out of a total of 64 countries which, at the time of selection – November 2007 – had either a complete or at least an interim PRSP posted on the IMF website. [2]

The paper is organised in seven sections. Following this introduction, Section 2 discusses the degree to which conventional IMF-stabilisation programmes and Poverty Reduction and Growth Facility (PRGF) programmes are similar or not. This is done given the widespread view that PRGF programmes underpin the macroeconomic frameworks of PRSPs. Section 3 analyses the macroeconomic frameworks of 44 PRSP documents from 30 countries, focusing on monetary, fiscal and exchange rate policies. The section also discusses whether and how these frameworks have changed over time. Section 4 compares the PRSP macroeconomic frameworks with standard IMF policies. It is guided by the questions: to what extent they reflect such policies, and to what extent they incorporate alternative or innovative elements? Section 5 addresses the