



# A Stocktaking of PRSPs in Fragile States

*Nora Dudwick and Adam Nelsson*

## What are fragile states?

In 1999, the World Bank and the IMF introduced Poverty Reduction Strategy Papers (PRSPs) as a condition for highly indebted countries to receive debt relief under the HIPC initiative. Since then, PRSPs have become a condition for aid to IDA countries, for which they are considered instrumental in refocusing attention on poverty, democratizing policy making, and improving donor coordination. While PRSPs may play that role in many IDA countries, their usefulness in fragile states, including those just emerging from conflict, has been questioned. Increased donor attention to the specific problems of such states was the impetus for a Poverty Reduction Group (PRMPR) stocktaking of PRSPs in fragile environments.

Even among the most aid-dependent and heavily indebted countries, fragile states constitute a subgroup of the world's poorest and most challenging countries. Defining "fragility" is not straightforward, and different organizations employ different criteria. The World Bank, for example, classifies

countries as fragile if they receive scores of 3.0 or less on the Country Policy and Institutional Assessment (CPIA), which ranks countries according to their economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. Whatever the specific criteria, there is consensus that fragile states lack the functional authority, capacity, and/or legitimacy to provide for the basic needs of their citizens and are highly vulnerable to conflict, humanitarian crises, political fragmentation, and economic collapse.

Conflict-affected states in particular tend to be subject to breakdown in rule of law, service delivery, and economic activity, due to localized or widespread military or rebel offensives that affect infrastructure, transport, agriculture, and trade. They also exhibit specific conflict-related forms of poverty, including forced labor, theft of crops and livestock, rapid spread of diseases, and the emergence of new vulnerable groups such as the war wounded and traumatized, child combatants, internally displaced persons, refugees, and orphans.

Since the 1990s, an explicit “fragile states” agenda has developed in response to the threats these countries represent not only to their own citizens, but also to neighboring countries in the form of huge economic impacts, conflict and organized crime, diseases, and refugees. This agenda calls for sustained international engagement and improved donor coordination to rebuild the state-society relationship by promoting government legitimacy and accountability and strengthening the capacity of fragile states to fulfil core functions.

### **Poverty reduction and state (re)building**

Strong institutions and a functioning, legitimate state are important for poverty reduction, although some historic evidence suggests that good governance and effective institutions may more often follow than precede growth (Khan 2004). Questioning whether institutional reforms in very weak states can accelerate growth sufficiently to reduce poverty, some analysts argue that interventions should rather attempt to build the core, or constitutive, capacities of the state. These functions, including public administration, security through a legitimate monopoly of violence, and rule of law, appear essential for creating an enabling environment for growth and delivery of basic services.

In countries just emerging from or still embroiled in conflict, however, even building state capacity may need to take a back seat to reestablishing security. Indeed, establishing physical, political, economic, and social security is often the single most important way for the state to win legitimacy after prolonged violence.

In conflict states, therefore, every intervention must be weighed for its likely effects on the consolidation of legitimate public authority, and care must be taken to avoid governance reforms that could endanger stability. After civil war, according to Paul Collier and his colleagues (see, for example, Chauvet and Collier 2004, and Collier and Hoeffler 2004), less rather than more external assistance may in fact be preferable. Hence, they recommend providing only technical assistance in the first years after conflict has ceased.

Donor behavior can also promote or interfere with state building. Governments of fragile states, especially those in conflict, can be overwhelmed by the range of external actors with their own missions, objectives, and capacity limitations. Donors have responded to this problem by pledging greater coherence among different departments within country as well as increased harmonization of programs across donor countries and alignment with country systems. In practice, domestic political pressures to make their aid more visible, the opportunity costs of coordination, the need to reach disbursement targets, or inadequate capacity and incentives to take on the demanding state-building agenda, have slowed progress on donor coordination.

### **PRSPs are not for everyone**

As PRSPs are by definition undertaken in very poor and often poorly governed countries, questioning their appropriateness for “fragile states” may appear as hairsplitting. Certainly, many of the lessons presented below apply to nonfragile states as well. Yet although there are im-

portant differences among fragile states, as a group they are likelier to combine weak commitment with low capacity for poverty reduction. It cannot be assumed that they offer even basic conditions exist for forming country partnerships, collecting poverty data, or formulating and implementing policies. Such countries may not be able to produce even a limited policy agenda that addresses the population's needs. It is also evident that without strong internal political leadership and ownership of elites and the broader society, donor efforts are unlikely to endure.

The point to be stressed is that the PRSP should not be seen as the “default option” for all poor countries. Rather, it should be undertaken only if an explicit case can be made that doing so will contribute to greater state capacity, along with or as a precondition for poverty reduction. Where the government's commitment, legitimacy, and functionality are in serious question, and when the government appears motivated mainly by access to international assistance rather than development, conflict resolution, or poverty reduction, donors should consider temporary or partial strategic disengagement in preference to being seen as rewarding illegitimate governments or reducing domestic pressures for change.

In countries engaged in or emerging from conflict, the PRSP may be contraindicated (i) where international engagement may legitimize one of several warring parties or groups of elites and “freeze” rather than facilitate resolution of conflict; (ii) where the security situation is so volatile that basic data collection and consultation are not

feasible, and where planning horizons are very short; (iii) where there is an interim government likely to be replaced by a government unwilling to accept the PRSP; and/or (iv) where it is likely that donor financing will allow a country to divert funds to maintain military conflicts with neighbors. In these cases, instruments such as the Multi-donor Needs Assessments and Transitional Results Matrices may be better suited than the PRSP for coordinating immediate assistance; they can also lay the groundwork for a PRSP.

### **Adapting the PRSP to fragile states: Some lessons from experience**

PRSPs are intended to help countries plan and prioritize, build a national consensus around poverty reduction programs and policies, improve poverty diagnostics, and establish a framework for external assistance. These tasks, however, may demand greater commitment and capacity than the government of a fragile state can provide. Even when the decision is made to go ahead, thought must be given about balancing poverty reduction with the need to (re)build the state's core competencies to as a foundation for reducing poverty. The following lessons have been derived from a review of PRSP preparation and implementation in fragile states; PRSPs suggested as exemplifying good practice are referred to in parentheses:

1. **PRSPs are likely to require many iterations before they adequately address medium-term challenges in a well-prioritized and costed manner (as in Madagascar, Rwanda, and**

**Uganda**). And even where donors take a leadership role, they should not assume there are no substantial national processes and systems around which to align. Otherwise, governments may perceive donor insistence on a perfect PRSP as interference that contradicts the principles of national ownership.

2. **Although participation is a hallmark of the ideal PRSP, recognition of risks must temper expectations of participation in volatile or fragmented environments.** The goal of showing governments the benefits of public inputs into the policy process must be balanced by recognizing the dangers of sidelining nascent political institutions such as parliaments or parties, exacerbating social tensions through the airing of unresolved grievances, or endangering participants in repressive environments where demands for change are interpreted as threats to the government. But even where extensive public debate is not feasible, donors working in difficult environments can help build the capacity of civil society to analyze policy and lobby for change.
3. **In supporting reforms, donors should aim for “good enough” governance, whereby states can fulfill basic functions such as protecting people from harm and providing the economic framework that allows them to support themselves.** Since nonessential institutional reform entails opportunity costs for weak states, governments should concentrate on reforms that are feasible, have a quick and visible payoff, and that don’t alienate key constituencies. While corruption is undoubtedly a scourge, prosperity often coexists with significant corruption. Moreover, attacking corruption directly can destabilize fragile states. Thus, donors should concentrate on targeting the kinds of corruption that hinder development, avoid overwhelming reformers with too many demands, and accept some role for local patronage networks to avoid threatening political stability in volatile environments.
4. **Macroeconomic reforms in fragile states should balance attention to macro stability with a stronger focus on increasing employment.** They also need to address the heightened vulnerability of such countries to shocks. One way of dealing with the latter is through safety net programs that can be rapidly expanded in response to natural disasters or shocks.
5. **Public financial management (PFM) reforms should be prioritized where severe deficits in accounting and financial management systems restrict a government’s capacity to allocate and use resources effectively (as in Afghanistan, Cambodia, and Liberia).** In difficult environments, the reforms should build on existing systems and concentrate on achieving budget credibility. Where PFM systems cannot meet basic standards for direct budget support, donors should concentrate on reforms to strengthen budget formulation and reporting to lay the foundation for future budget support. Where possible, reforms should support the development of the budget as a policy tool.

6. **In response to the tradeoff between restoring urgent services as quickly as possible and the longer-term need to rebuild state capacity to provide them, donors should try build up the role of the state as coordinator of services and downplay their own role.** In countries that have lost their educated population through war and migration, investing in human capital through secondary and tertiary education may be pro-poor in the longer run and potentially more effective than donor funding of technical assistance.
7. **In conflict-affected countries, preparation for the PRSP must include a careful analysis of the drivers and triggers of conflict (as in Sierra Leone).** In some cases, the PRSP may need to start by prioritizing short-term peace, security, and reconstruction needs. Using a conflict lens may alter priorities by shifting the emphasis from macroeconomic policy to social policies, for example, or from growth-enhancing policies that focus on developed regions to restoration of livelihoods in underdeveloped peripheries where conflict broke out because of economic marginalization.
8. **The security issue cannot be minimized. Failure to consider security needs in conflict-affected states can result in underfunding critical interventions in the political and security spheres.** While the World Bank does not have a comparative advantage in the security sector, the new policy framework (OP 8.0) does clarify Bank support for comprehensive and integrated multidonor

recovery programs that may include security sector interventions. Integrating defense spending into PFM reforms also allows the Bank to use its comparative advantages in this area without overstepping its mandate.

### Questions for future research

Although good case studies exist of PRSP preparation, sufficient time has elapsed to investigate the effects of PRSP implementation in fragile states in some of the following areas:

- **Capacity building:** Has implementation improved country capacity to gather and analyze poverty data and use it to formulate policy?
- **Participation:** What kind, and to what extent, is participation feasible and productive in fragile states? Did it reduce or exacerbate social and political tensions? Has it been institutionalized to any extent?
- **Effectiveness:** How effective was PRSP implementation? Are there lessons for how instruments developed explicitly for fragile and post-conflict contexts, such as the Multi-Donor Needs Assessments and Transitional Results Matrices, could be used to lay the foundation for PRSPs?
- **Outcomes:** If there were direct and/or indirect benefits associated with preparing and implementing the PRSP, were they worth the resources (in time and money) invested? Were there negative outcomes associated with the preparation and/or implementation?
- **Reforms:** Are there lessons to be derived regarding the prioritization and/or sequencing of reforms? And what can be learned about balanc-

ing short-, medium-, and long-term objectives?

- **Disengagement:** Are there lessons regarding the positive/negative effects of engaging/disengaging with the PRSP process in highly fragile environments?

## Sources

*This Note is adapted from a longer paper by Nora Dudzick and Adam Nelsson: Dudzick, Nora, and Adam Nelsson. 2008. "Poverty Reduction Strategies in Fragile States: A Stock-taking of What We Know." Draft. PRMPR. World Bank, Washington, DC.*

## See also:

Cammack, Diana, D. McLeod, A. Menocal, and K. Christiansen. 2006. "Donors and the 'Fragile States' Agenda: A Survey of Current Thinking and Practice." Technical report, Overseas Development Institute, London.

Chauvet, Lisa, and P. Collier. 2004. "Development Effectiveness in Fragile States: Spillovers and Turnarounds." Centre for the Study of African Economies, Oxford.

Collier, Paul, and A. Hoeffler. 2004. "Greed and Grievance in Civil War." *Oxford Economic Papers* 56: 563–95.

Fritz, Verena, and A. Menocal. 2007. "Understanding State-Building from a Political Economy Perspective." Overseas Development Institute, London.

Gottschalk, Ricardo. 2005. "The Macro Content of PRSPs: Assessing the Need for a More Flexible Macroeconomic Policy Framework." *Development Policy Review* 23(4): 419–42.

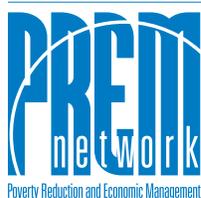
Grindle, Merilee S. 2004. "Good Enough Governance: Poverty Reduction and Reform in Developing Countries." *Governance: An International Journal of Policy, Administration, and Institutions* 17(4): 525–48.

Hilker, Lyndsay McLean, A. Evans, and A. Norton, with L. Piron and E. Coyle. 2003. "Strategic Framework for Engagement in National PRSP in Conflict-Affected Countries." Attachment to Briefing Note 6. U.K. Department for International Development (DFID).

Khan, Mushtaq. 2004. "State Failure in Developing Countries and Institutional Reform Strategies." Annual World Bank Conference on Development Economics, Europe 2003.

Putzel, James. 2004. *The Politics of Participation: Civil Society, the State and Development Assistance* (online). LSE Research Online.

World Bank Independent Evaluation Group (IEG). 2006. *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries under Stress*. IEG study series. Washington, DC: World Bank.



This note series is intended to summarize good practices and key policy findings on PREM-related topics. The views expressed in the notes are those of the authors and do not necessarily reflect those of the World Bank. PREMnotes are widely distributed to Bank staff and are also available on the PREM Web site (<http://www.worldbank.org/prem>). If you are interested in writing a PREMnote, email your idea to Madjiguene Seck at [mseck@worldbank.org](mailto:mseck@worldbank.org). For additional copies of this PREMnote please contact the PREM Advisory Service at x87736. PREMnotes are edited and laid out by Grammarians, Inc.

Prepared for World Bank staff