



**POVERTY REDUCTION
STRATEGY PAPERS:
REVIEW OF PRIVATE SECTOR
PARTICIPATION**

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Executive Summary

Review of the Private Sector Role in PRSPs

This study reviews the role of the private sector in the formulation, implementation and strategy articulated in Poverty Reduction Strategy Papers (PRSPs) endorsed by the World Bank and IMF. The purpose of the study was to determine whether PRSPs to date have taken “adequate account of the role of the for-profit private sector in reducing poverty.”

The study reviews the first 27 PRSPs approved by the Boards of the IBRD and IMF. It is based entirely on a review of those documents and other written material relevant to the investigation, examining them for content with regard to the participation of the private sector in development and implementation of the strategy, as well as the intended role of the private sector in achieving poverty reduction.

Ten metrics were used to test the extent to which the treatment of the private sector was consistent with best practice, as articulated in World Bank documents and other recent literature on development strategy. Four main conclusions emerge:

1. In general, PRSPs do appropriately take the private sector into account in their development, implementation and strategic conception. In the majority of countries studied, the private sector participated in the PRSP process. In most countries, the PRSP treated the private sector as a key factor in achieving poverty reduction over the long term.
2. In countries with deficient treatment of the private sector, two types of problems emerged. First, some PRSPs saw the private sector as an adjunct of government policy, with governmental directives guiding the development of the private sector. Second, some PRSPs saw subsidization of the private sector, or particular industries within it, as a key tool for poverty reduction. In either case, the resulting strategy is not consistent with either the historical record on the contribution of the private sector to poverty reduction or World Bank advice.
3. The most serious weakness in most PRSPs was the lack of concrete benchmarks or progress indicators for commitments with respect to the private sector. Only five PRSPs met modest standards in this area. At the same time, the World Bank’s new dataset on business conditions is an important new tool for remedying this problem. Data from this new tool is not included in any of the PRSPs, but it has great potential to be used, along with other measures, to provide clearer progress indicators.
4. A few Joint Staff Assessments gave inadequate attention to weaknesses of PRSPs with respect to the private sector. The main cases in this regard were Burkina Faso, Malawi, Niger, and Senegal.

Review of the Private Sector Role in PRSPs

This study reviews the role of the private sector in the formulation, implementation and strategy articulated in Poverty Reduction Strategy Papers (PRSPs) endorsed by the World Bank and IMF. The purpose of the study is articulated in the terms of reference:

A common criticism of the PRSPs has been that they do not take adequate account of the role of the for-profit private sector in reducing poverty. This criticism has been voiced despite the facts that: (1) there seems to be a general consensus within the international community that economic growth must be private-sector-led in order to be sustainable; and (2) one of the core principles underlying the development and implementation of PRSPs is that they be country-driven – involving broad-based participation by civil society and *the private sector* in all operational steps” (emphasis added). USAID would like to know if this criticism is justified and, if so, to then be in a position to suggest ways of improving PRSPs to better account for the contributions of the private sector in reducing poverty.

This study reviews the first 27 PRSPs approved by the Boards of the IBRD and IMF. It is based entirely on a review of those documents and other written material relevant to the investigation. The PRSPs were examined for content with regard to the participation of the private sector in development and implementation of the strategy, as well as the intended role of the private sector in achieving poverty reduction. The Joint Staff Assessments (JSAs) prepared by the staffs of the World Bank and International Monetary Fund for the reviews of the PRSPs by the executive boards of the two institutions were also reviewed.

The paper is organized as follows. The introduction identifies the historical background that has given rise to the inquiry. Section I addresses the extent of private sector participation in the drafting and the implementation of the PRSP, according to the documents themselves. Section II identifies ten metrics, based on the theoretical and empirical literature, to be used in assessing the role envisioned for the private sector in the individual PRSPs. Section III uses these metrics to analyze the 27 PRSPs with respect to the private sector role in the strategy, using the standards developed in the previous section. Section IV addresses weaknesses in the JSAs by the IBRD/IMF staff in reviewing the private-sector content of the PRSPs. And section V draws conclusions.

Introduction

Over the last several years the World Bank and International Monetary Fund have supported the preparation of Poverty Reduction Strategy Papers (PRSPs) by developing countries. The PRSP initially emerged as a requirement for poor countries seeking debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. As reported in World Bank (2003b), the HIPC initiative was strongly influenced by non-governmental organizations (NGOs) concerned with poverty. The original purpose of the report was to assure that such countries would allocate a substantial portion of resources made

available by debt relief to increase government spending on poverty-related activities in education and health. The World Bank developed a different, and more broad-based strategic concept, the Comprehensive Development Framework (CDF), for other countries receiving assistance from the World Bank and IDA.

Both the CDF and the PRSP were documents that were to be “country-owned,” drawing on extensive discussion among the diverse strands of opinion and interest in the developing country, bringing together government, together with the very diverse elements of civil society and the private sector throughout the country. Since the HIPC initiative focused on assuring additional resource flows for health and education, it was understandable that non-governmental organizations (NGOs) and other elements of civil society particularly interested in these sectors would be major participants in the discussions of strategies and action programs under HIPC. World Bank (2003b) concludes from its review of the HIPC initiative that this focus on social sector expenditure was excessive, and that (p. xvii) “there needs to be a greater focus on pro-poor growth to provide a better balance among development priorities relative to the current emphasis on social expenditures.”

For a variety of reasons (including the fact that it is impossible to be simultaneously comprehensive and strategic), the CDF never gained traction as an organizing principle for aid strategy. The PRSP did. It more clearly addressed issues being raised by NGOs concerned about poverty, those supportive of democracy, of governmental decentralization, of women’s issues, together with those opposed to “structural adjustment” or to market capitalism, or privatization, or any of a variety of orthodox ideas about development. In sum, the PRSP became the concept around which a wide variety of actors skeptical of the traditional macroeconomic focus of the World Bank and IMF could rally, and around which they could mobilize popular support for changes in government policies.

The groundswell of support from the poor (or at least from their spokespeople) convinced the leadership of the World Bank and IMF that the PRSP’s popularity and apparent success with the HIPC countries made it the proper tool for development policy in all countries receiving concessional funding from the World Bank and IMF. Accordingly, preparation of a PRSP became *de rigueur* for all countries receiving funding from IDA, the World Bank’s soft-loan window, or from the IMF’s Poverty Reduction and Growth Facility. Moreover, future World Bank’s country assistance strategies in each IDA-eligible country would be based on the country’s PRSP.

Thus, an admirable tool for assuring that debt relief would be used to benefit the poor, with substantial input from NGOs, has morphed into the principal development strategy paper for poor countries. Given the history of the approach, it would be surprising if PRSPs did not show some imbalance as a development strategy tool. From its history and from its title, one might expect the PRSP to be a document influenced to a great extent by people with a limited perspective on the overall development problems faced by poor countries. The problem of the poor in poor countries is an important problem, but it is not *the* development problem of the country.

I. The Participatory Process in PRSP Preparation

In the great majority of cases, the private sector was active in the discussions and consultations that led to the drafting of the PRSP. Table 1 provides a summary of what can be learned in this regard from review of the PRSPs. In 20 of the 27 cases, the private sector is specifically identified as having been consulted in the preparation of the PRSP. In 9 countries, the private sector is specifically identified as participating on planning committees or teams involved in the preparation of the PRSP. And in 12 countries, the private sector is identified as a participant in future monitoring and evaluation of progress under the PRSP. Annex 3 provides more specificity about the participation of the private sector in the preparation of each of the documents reviewed, and its planned role in monitoring and implementation.

The data in Table 1 are likely to understate the participation of the private sector, for some PRSPs simply do not include sufficient information. This is particularly true of early PRSPs, such as those from Uganda, Bolivia and Nicaragua. These early PRSPs contain considerably less documentation of the participatory process used to develop the PRSP than do later documents. In more recent PRSPs, documentation of the participatory process has become a standard section of the report. The World Bank staff also appears to have encouraged governments to include the private sector in the process, and PRSPs in general appear to have been more inclusive than Interim PRSPs.

Table 1 can give only a first, very crude, approximation of private sector involvement. For example, the term “civil society” may or may not refer to private sector participants as well as to NGOs and other types of non-governmental actors. The PRSP document cannot provide much clarity on the extent, degree and level of private sector involvement in the process. Only country-level knowledge can provide this. Moreover, it must be understood that the “private sector” is not a single entity, but a collection of very diverse interests. Some of these interests have benefited in the past from preferential government treatment. Others only hope for a “level playing field” where efficiency and productivity will win out over privilege and special interests.

There is only one case (Guyana) where the World Bank/IMF Joint Staff Assessment of the PRSP documents reluctance by private sector leaders to participate in the PRSP. In that case, the JSA notes (p. 3) that “the Private Sector Commission, the largest organization of private companies with members across ethnic and political lines, did not formally participate in the consultations, because there was a perception that the exercise was largely focused on poverty reduction, rather than economic growth.”

Nevertheless, there were a number of cases, including Cambodia, Malawi, and Vietnam, where private sector involvement appears to have been limited or peripheral. In such cases, the tone of the document suggests that it is the government, rather than the PRSP process, that is the culprit. In such cases, the document suggests a view of the private sector as subsidiary to, or responsible for following the lead of, government institutions and policymakers.

Table 1

**PRIVATE SECTOR PARTICIPATION IN PRSP
IDENTIFIED IN THE PRSP DOCUMENTS**

Country	Private sector consulted in PRSP formulation	Planning committees, teams include private sector representatives	Private sector involved in monitoring, evaluation
Albania	X		X
Azerbaijan			
Benin	X		X
Bolivia			
Burkina Faso	X		
Cambodia	X		X
Chad	X	X	X
Ethiopia	X		
Ghana	X	X	X
Guyana	X	X	X
Honduras	X		X
Kyrgyz Republic	X	X	X
Malawi	X	X	
Mali			X
Mauritania	X		
Mozambique	X	X	
Nicaragua			X
Niger	X		
Rwanda	X		
Senegal	X	X	
Sri Lanka	X	X	X
Tajikistan	X		
Tanzania	X		
Uganda			
Vietnam			
Yemen	X	X	
Zambia			X
Total	20	9	12

Note: The cases marked with an X are those where the PRSP documents the participation of the private sector. A blank may be the result of either lack of private-sector involvement or failure to specifically document it in the PRSP. Early PRSPs gave less detail about the participatory process than later ones. Appendix 3 provides specific detail about each country PRSP process.

II. How Should the Private Sector Be Treated in PRSPs?

How Much Do We Know?

What can be said with certainty about the appropriate role for the private sector in poverty strategies in developing countries? Despite the massive literature on economic development and poverty reduction, there is no easy answer to this question. Economic theory has much to offer, but few prescriptions provide easy rules for economic policymakers to follow, as Fox (1997) has shown.

Two reasons might be given for this. First, human motivations, circumstances and institutions are extremely varied. People can be motivated to ignore their own economic interests in pursuit of other goals, whether nationalistic, religious or altruistic. Dostoevsky's *Notes from the Underground* is a novelistic proof of the contention that modeling of human behavior is impossible in principle.

Second, at the current level of economic knowledge and capacity for measurement, economic models are unable to provide sure guides to economic policy. The tools and measurements are simply too primitive. Two cases might be mentioned.

First, consider the recent debate between Dani Rodrik on one side, and Jeff Sachs and most economists on the other, about the value of open trading systems for economic growth. There is an enormous literature, spanning several decades, that links trade liberalization with faster and more sustainable economic growth. Rodrik has been able to show that most of the empirical studies showing a strong link between trade and openness have methodological weaknesses that render their findings suspect. Among other issues, Rodrik shows that the direction of causality between economic growth and free trade is ambiguous. Rodrik does not claim that raising obstacles to free trade might be a superior strategy, but only that the case for free trade is not proven. (An even more recent attack on conventional wisdom has been made by Easterly (2003), who raises fundamental doubts about whether foreign aid can be shown to increase economic growth in developing countries.)

A second case is Glewwe's (2002) review of the extensive literature on schooling and skills in developing countries. He convincingly argues that almost all of this vast literature is of no value because of technical problems, such as selection bias. He concludes that almost nothing about education in developing countries is known with certainty: e.g., whether smaller classes lead to more learning, whether textbooks improve outcomes, whether more teacher training increases learning, or whether additional aids like blackboards add value. An education policymaker wishing to have certainty before deciding how to allocate government spending would be helpless. Nevertheless, any practical educator knows with considerable confidence how to allocate resources, and can feel quite sure that education makes a valuable contribution to economic and social development. (This is not a certain guide, as it was obvious to any thinking observer for millennia that the sun revolved around the earth. It was only the arrival of new theories,

based on esoteric knowledge derived from new technology, which proved the “obvious” to be erroneous.)

The above observations should make clear that humility is in order in identification of the proper role of the private sector in poverty reduction. In the current state of knowledge, there can be no claim of certainty. Rather, one can only claim to represent “best practice,” or the consensus of expert opinion at present. The old joke about economics continues to be true: the questions remain the same, but the answers keep changing.

This analysis of the link between the private sector and poverty draws most heavily on six sources, which might be claimed to represent the mainstream of current expert thinking within the development community:

- the World Bank’s on-line *Poverty Reduction Strategy Paper Sourcebook* (<http://www.worldbank.org/poverty/strategies/sourcons.htm>), particularly the chapters on macroeconomic policy, trade policy, and private sector.
- The World Bank’s *Private Sector Development Strategy*, 2002.
- the book, *The Private Sector in Development: Entrepreneurship, and Competitive Disciplines*, by Michael Klein and Bitá Hadjimichael, also published by the World Bank, 2003.
- The Boston Institute for Developing Economies (BIDE) studies on pro-poor economic growth research for USAID, 2002. (cited below as BIDE)
- “Halving Global Poverty” by Timothy Besley and Robin Burgess, in the *Journal of Economic Perspectives*, Summer 2003.
- The book, *Doing Business in 2004*, published by the World Bank

How Should PRSPs treat the Private Sector?

With the above limits in mind, this section identifies ten criteria by which PRSPs might be judged with regard to their private-sector content. For each criterion, the consensus in the economic literature, based mainly on the studies cited above, is discussed.

1. Economic Growth is critical to poverty reduction

The five sources are unanimous on the proposition that economic growth is critical to poverty reduction. (Indeed, this is inherent in the measurement system. If poverty is measured in terms of money income, it is only increases in money income that will lower the number of people living with incomes below any threshold.)

In principle, the literature recognizes that income redistribution is an alternative vehicle for poverty reduction. For a given level of per capita income, a country with a more equal income distribution will have lower poverty. Besley and Burgess (2003) conclude from cross-sectional analysis of developing countries that a one standard deviation reduction in the inequality of a country’s income distribution is associated with

a reduction in absolute poverty (i.e., the percent with incomes below \$1/day) by about two-thirds. As discussed below, they also find that strengthening of property rights has a major positive impact on poverty. This clearly creates a conundrum.

At the empirical level, Fields' (2001) survey of the experience of developing countries finds that income distribution is remarkably stable in most countries over time, despite large differences in policies with regard to redistribution. Significant changes in income distribution appear to occur only slowly over decades. A number of explanations for this phenomenon can be offered. Economists tend to focus on productivity as the determinant. Political scientists tend to argue that redistributionist politics tends to fail because, while articulation of such intentions are politically valuable, they are seldom implemented because the governing elites do not find it in their interest.

In general, developed countries have more equal income distributions than developing countries. The greater equality of access to education is often cited as an explanation. If so, the development community's efforts to promote universal education may pay dividends in the future. Nevertheless, such processes are slow. Education, particularly at the primary level, has a long gestation period, meaning that there is a long lag between the input and the benefit derived from it. Typically, ten to fifteen years elapse between the beginning of education and the higher productivity in the workplace that it makes possible.

2. Market forces, not government subsidies, are needed for the private sector to play its poverty-alleviating role.

The literature is unambiguous that the key feature of the private sector's developmental role arises from the free play of market forces. Economists see market forces as superior to government planning in identifying future directions for a country's economy. The literature suggests that government should play a subsidiary role, providing a favorable climate for private investment, but not attempting to direct such investment into particular sectors or activities.

At the same time, governments are often characterized as "pro-business" or "anti-business" on the basis of their willingness to offer monopoly power to the major existing business interests. The last several decades of development experience have shown that the Schumpeterian view of the world – that progress results from innovation – is the correct one. And only in business environments where there is easy entry into business, and the capacity of new firms to compete with established interests, will there be progress.

3. Private-sector dynamism is essential for sustainable poverty reduction.

The importance of the private sector for economic growth and poverty reduction – though not provable in the terms discussed above – is obvious to any student of economic progress over the last century. Numerous experiments have been tried with control by

government, or by various forms of collective or cooperative ownership, of the means of production. All have failed to deliver in a sustained way as well as a market economy with a large and vibrant private sector. All countries with low levels of poverty in today's world fit that description. Consequently, government support for an environment where economic growth is rapid and where the private sector is free to invest and innovate without heavy government control is most promising.

4. Open trade policies promote growth and reduce poverty.

As discussed above, economic science cannot prove that an open trade regime is the best policy for economic growth and for poverty reduction. Nevertheless, as Dollar and Kraay (2001) have shown, it is the way to bet. Most countries with closed trade regimes during the last two decades have fared poorly in regard to economic growth and poverty reduction. Countries that have liberalized trade have done better in both regards.

The World Bank's *PRSP Sourcebook* makes a strong and careful case for trade liberalization as a tool for poverty reduction. The other main sources support trade liberalization in a more cursory fashion. The *Sourcebook* also makes a strong case against regional trade agreements among poor countries, strongly suggesting that they are likely to be welfare-reducing. Fox (2003) provides additional support for this view by noting that regional free trade arrangements among poor countries have typically been transitory, with individual members able to ignore commitments with impunity, and with political instability in the region leading to eventual failure of the arrangement.

While the *Sourcebook* is unambiguous on this issue, the economic literature, and particularly the political economy considerations offer some conflicting perspectives. Harrison, et al. (2003), in particular provides an alternative perspective that suggests greater benefits from regional trade arrangements among developing countries.

The *Sourcebook*, along with BIDE, also supports use of export processing zones (EPZs) and duty drawbacks for exports as useful tools for trade promotion. For the former, the manner in which EPZs are promoted is seen as important, with private-sector leadership in selecting and managing zones critical to their success.

5. A good legal, regulatory and judicial system is key to the private sector's capacity to reduce poverty.

The literature is strongly supportive of an important role for the legal, regulatory and judicial (LRJ) environment. The central proposition is that neither domestic nor foreign firms will be willing to invest without a reasonable expectation that the investment will not become valueless because of capricious action by government or powerful vested interests.

Besley and Burgess (2003) offer a particularly interesting analysis of the international evidence on the protection of property. They conclude that an improvement in a country's LRJ environment by half of one standard deviation would reduce poverty

by half. They also report that the cross-section evidence suggests that a one standard deviation improvement in a country's income distribution would also reduce poverty by two-thirds. In other words, protection of property rights is 33 percent more powerful as a tool for poverty reduction as attenuation of property rights by income redistribution.

One of the lessons of the transition from communism in the Soviet bloc is that LRJ institutions matter enormously. Without rules and procedures that level opportunity, cronyism between government and favored individuals and groups will interfere with the development of a market economy and with poverty reduction.

6. Concrete Benchmarks and Time-Bound Progress Indicators Are Needed to Demonstrate Serious Governmental Commitment

This is an issue well beyond economics. Intuitively, it seems clear that commitments that are concrete are more likely to be achieved than vague ones. Similarly, commitments that are time-bound are more promising than indefinite ones.

7. Private sector provision of infrastructure offers important efficiency opportunities, and should be considered

The literature suggests that private provision of infrastructure services is generally more promising than provision by government. The terms under which privatization occurs appear to be of great importance, and the specific characteristics of the technology at work in a specific sector are also important.

8. Opportunities for private-sector provision of social services also offer potential efficiency, and should be examined.

As noted in the previous section, governments provide key social services. Nevertheless, for a variety of reasons, elaborated in Wilson (1989), governments will tend to establish relatively rigid approaches, will innovate less than the private sector, and will tend to continue to carry on activities long after their usefulness has ended. The pressures of competition in the long run tend to cure such problems, but governments seldom are able to implement such tests. In view of these potential advantages, the use of private sector agents – even where government chooses the activities to be undertaken – should not be ignored as a possible vehicle for social service delivery.

Klein and Hadjimichael (2003) point out that the poorest people in some developing countries rely heavily on private providers for education and health services. Consequently, it is important that governments include the private and NGO sectors in their designs of future interventions in these areas.

BIDE (2002d) calls for government to provide a “level playing field” for public and private providers of education, arguing that competition among them is likely to increase efficiency and effectiveness (p. 4).

9. Government must avoid “crowding out” the private sector.

Governments are critical to the basic order on which all sustainable economic activity is based. Governments provide many important services to their citizens, and governmental authority is critical to the existence of basic human and property rights, and necessary for the extension of education and basic health services to the population. Nevertheless, government is a two-edged sword. Government actions on too large a scale can “crowd out” the private sector. Goods or services offered free or at subsidized prices by government will not be offered by the private sector. If government borrowing soaks up the available savings, capital will not be available to the private sector for investment. If government is large, taxation of producers of income could reduce or eliminate incentives to produce more. If the share of government in GDP rises, that of the private sector will necessarily fall.

The economic literature provides no clear guidance on this issue. Developed countries that provide a high level of economic well-being to their citizens vary widely in the size of government relative to GDP. At the same time, as concluded by World Bank (2004), developed countries with large governments also have highly-trained and generally competent governments.

10. In most developing countries, governments must step back from controls on economic activity.

Country experience varies widely, but there is a broad consensus that many developing countries have gone too far in attempting to direct future economic activity. This issue relates closely to issue 2, on the use of market forces.

World Bank (2004) is the most emphatic on this issue. It concludes, based on empirical work (discussed in Appendix 2), that developing countries regulate the private sector far more than developed countries. This higher degree of regulation is in place despite a far lower capacity to enforce regulation. As a result, avoidance of law, the informal economy, and corruption are more common. The solution proposed is to narrow the regulatory framework to core areas where enforcement is both possible and important to the protection of society.

BIDE (2002d) calls for governments to avoid rigid legislation relating to minimum wages and dismissals, in order to encourage employment, and for governments to avoid “highly subsidized” interest rates, and any subsidies for capital goods.

III. How the PRSPs Addressed the Private Sector

Table 2 below characterizes each of the 27 PRSPs by each of these ten criteria, and adds an eleventh column that addresses the adequacy of the Joint Staff Assessment by the World Bank and IMF of the PRSP with respect to its private-sector orientation.

The data in Table 2 should be treated as highly judgmental, in reducing documents that often exceed 200 pages in length to a few yes/no characterizations. In each individual case, one might debate at length whether a country's PRSP deserves a yes or no by an individual criterion. Rather, one should treat the individual country judgments in Table 2 as suggestive, and to focus primarily on the summary statistics at the bottom. For example, column two shows that all 27 countries identified economic growth as fundamental. A question mark for a particular criterion indicates that the information in the PRSP did not permit a clear yes/no decision.

Table 2
Summary of Private Sector Orientation of Approved PRSPs

Country	Economic Growth Fundamental?	Use of Market Forces Central?	Key Role for Private Sector?	Address LRJ regime?	Liberalize Trade?	Private Sector Role in Infrastructure?	Private Sector Role in Social Services?	Concrete Benchmarks for Private Sector?	Share of Government in GDP Cut?	Role of Government Reduced?	JSA Addresses Weaknesses in Private Sector?
Albania	yes	?	yes	yes	yes	yes	yes	no	?	?	yes
Azerbaijan	yes	yes	yes	yes	yes	yes	no	no	no	yes	yes
Benin	yes	yes	yes	yes	no	yes	yes	no	no	no	yes
Bolivia	yes	yes	yes	yes	yes	yes	no	no	?	?	yes
Burkina Faso	yes	yes	yes	yes	no	no	no	no	yes	yes	no
Cambodia	yes	no	no	yes	yes	no	no	no	?	no	yes
Chad	yes	no	yes	yes	no	yes	no	yes	no	no	n.a.
Ethiopia	yes	no	no	no	yes	yes	no	no	no	no	yes
Ghana	yes	yes	yes	yes	yes	no	no	no	no	no	yes
Guyana	yes	no	yes	yes	yes	yes	no	no	no	no	yes
Honduras	yes	yes	yes	yes	yes	yes	yes	no	yes	?	yes
Kyrgyz Republic	yes	no	yes	yes	no	yes	no	yes	yes	yes	yes
Malawi	yes	no	yes	yes	no	yes	no	no	?	no	no
Mali	yes	no	yes	yes	no	yes	no	no	no	yes	yes
Mauritania	yes	yes	yes	yes	yes	yes	yes	yes	no	yes	yes
Mozambique	yes	yes	yes	yes	yes	yes	no	yes	no	yes	yes
Nicaragua	yes	yes	yes	yes	yes	yes	no	yes	yes	yes	yes
Niger	yes	yes	yes	yes	no	no	no	no	no	no	no
Rwanda	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Senegal	yes	yes	yes	yes	yes	yes	no	no	no	no	no
Sri Lanka	yes	yes	yes	yes	yes	yes	?	yes	yes	yes	yes
Tajikistan	yes	yes	yes	yes	yes	no	no	no	no	yes	yes
Tanzania	yes	yes	yes	yes	no	?	no	no	no	yes	yes
Uganda	yes	yes	yes	yes	no	no	no	no	no	yes	yes
Vietnam	yes	no	yes	yes	yes	no	no	no	yes	yes	yes
Yemen	yes	no	yes	yes	yes	yes	no	no	yes	yes	yes
Zambia	yes	yes	yes	yes	yes	yes	?	no	yes	yes	yes
Summary											
Yes	27	17	25	26	18	19	5	7	9	15	22
No	0	9	2	1	9	7	20	20	14	9	4
?	0	1	0	0	0	1	2	0	4	3	1

The treatment of the private sector in Table 2 does not appear to correlate in any systematic way with the extent of private sector participation shown in Table 1. The private sector was sometimes underemphasized in the strategy where it had participated in the strategy formulation, and emphasized where no participation was noted.

The 27 PRSPs were also reviewed for variations in treatment of the private sector that might emerge from changes over time in the content or orientation of the PRSP and

for variations by geographical region. Table 3 shows the same material as in Table 2, but organized in chronological order, from earliest to latest.

As perusal of Table 3 suggests, there seems to be no discernable chronological pattern of the characteristics of the PRSPs. A comparison of the last six PRSPs submitted with the first six shows a virtually identical mixture of yes and no responses to the issues posed in this review. A central role for market forces and a reduction in the role of government are more common in the early ones, and a private sector role in infrastructure is more common in more recent PRSPs, but these seem more likely to be random variations than any systematic pattern. There is little basis for concluding that recent PRSPs differ in their treatment of the private sector than the earliest ones.

Table 3
Chronological Summary of Private Sector Orientation of Approved PRSPs

Country	Economic Growth Fundamental?	Use of Market Forces Central?	Key Role for Private Sector?	Address LRJ regime?	Liberalize Trade?	Private Sector Role in Infrastructure?	Private Sector Role in Social Services?	Concrete Benchmarks for Private Sector?	Share of Government in GDP Cut?	Role of Government Reduced?	JSA Addresses Weaknesses in Private Sector?
Uganda	yes	yes	yes	yes	no	no	no	no	no	yes	yes
Burkina Faso	yes	yes	yes	yes	no	no	no	no	yes	yes	no
Tanzania	yes	yes	yes	yes	no	?	no	no	no	yes	yes
Mauritania	yes	yes	yes	yes	yes	yes	yes	yes	no	yes	yes
Bolivia	yes	yes	yes	yes	yes	yes	no	no	?	?	yes
Nicaragua	yes	yes	yes	yes	yes	yes	no	yes	yes	yes	yes
Honduras	yes	yes	yes	yes	yes	yes	yes	no	yes	?	yes
Mozambique	yes	yes	yes	yes	yes	yes	no	yes	no	yes	yes
Niger	yes	yes	yes	yes	no	no	no	no	no	no	no
Albania	yes	?	yes	yes	yes	yes	yes	no	?	?	yes
Guyana	yes	no	yes	yes	yes	yes	no	no	no	no	yes
Zambia	yes	yes	yes	yes	yes	yes	?	no	yes	yes	yes
Vietnam	yes	no	yes	yes	yes	no	no	no	yes	yes	yes
Yemen	yes	no	yes	yes	yes	yes	no	no	yes	yes	yes
Rwanda	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Malawi	yes	no	yes	yes	no	yes	no	no	?	no	no
Ethiopia	yes	no	no	no	yes	yes	no	no	no	no	yes
Tajikistan	yes	yes	yes	yes	yes	no	no	no	no	yes	yes
Senegal	yes	yes	yes	yes	yes	yes	no	no	no	no	no
Kyrgyz Republic	yes	no	yes	yes	no	yes	no	yes	yes	yes	yes
Cambodia	yes	no	no	yes	yes	no	no	no	?	no	yes
Sri Lanka	yes	yes	yes	yes	yes	yes	?	yes	yes	yes	yes
Mali	yes	no	yes	yes	no	yes	no	no	no	yes	yes
Benin	yes	yes	yes	yes	no	yes	yes	no	no	no	yes
Ghana	yes	yes	yes	yes	yes	no	no	no	no	no	yes
Azerbaijan	yes	yes	yes	yes	yes	yes	no	no	no	yes	yes
Chad	yes	no	yes	yes	no	yes	no	yes	no	no	n.a.
Summary											
Yes	27	17	25	26	18	19	5	7	9	15	22
No	0	9	2	1	9	7	20	20	14	9	4
?	0	1	0	0	0	1	2	0	4	3	1

1. Economic Growth is critical to poverty reduction

All 27 PRSPs reviewed clearly endorsed economic growth as essential for poverty reduction. Some of the reports characterized economic growth as necessary but not sufficient, but none of the reports was skeptical of economic growth, *per se*. Many PRSPs were optimistic about future rates of economic growth, with projected GDP growth rates typically in the 5-7% range. In many cases, the projected growth was significantly higher than recent experience.

Virtually all of the PRSPs identify a sound macroeconomic framework as critical to the poverty-reduction strategy, often in very similar words. The Mali PRSP is typical:

No overall strategy can succeed without a favorable macro-economic framework that promotes growth. This is a necessary (but not sufficient) prerequisite for success in achieving the PRSP objectives...It is from this perspective that the macro-economic framework represents a prerequisite strategic pillar for any poverty reduction strategy in Mali. (p. 36)

Some of the PRSPs also articulate more specifically the means by which economic growth is expected to reduce poverty. The Bolivia PRSP, for example, states:

Greater economic activity will make it possible to expand employment levels of both skilled and unskilled labor, will create opportunities to increase income from work in sectors that have productivity gains and will make it possible to obtain greater resources through tax collections so that these can be earmarked for investment and social spending, with effects on the redistribution of income that will benefit the poor. (p. 197)

Although all PRSPs identify economic growth as critical, many also see it as insufficient, and that attention to equity is also critical. The Bukina Faso PRSP provides a common articulation of this view:

Although economic growth is certainly a necessary condition to raise the level of income and improve the well being of the population, growth alone is not enough to combat poverty and inequity. For an economic policy to be sound and effective for the majority of the population, it must place equity at the forefront of its objectives. (p. 2)

The Vietnam PRSP takes this view, and also reverses the causality, arguing that economic growth is dependent on poverty reduction.

2. Market forces, not government subsidies, are needed for the private sector to play its poverty-alleviating role.

As suggested by Table 2, one-third of the PRSPs placed little faith in market forces as a tool for poverty reduction. The countries where market forces were not considered to be central typically saw government as playing a leadership role, directing the private sector's activities in the most socially-useful directions. In such cases, PRSPs indicated subsidies, directed credit, and preferential treatment for some enterprises or some sectors would be used or applied.

Benin, Cambodia, Ethiopia and Guyana are cases in point. All seek to promote the private sector by directing its development through government programs. In the case of Benin, the government states an intention to take such actions as developing industrial estates and increasing the use of local building materials, and more broadly to carry out a Private Sector Support Development Program, which includes (p. 35):

- Improvements to the business environment; this involves support to reform and privatization programmes, supervision of privatized enterprises, and strengthening of the Center for Business Support and its local branches;
- Strengthening of competitiveness and the diversification of exports (support for the creation of an Export Development Association, implementation of strategies and actions for developing industries with strong export potential, creation of a Trade Information Center, creation and management of a shared Expense Support Fund);

- Facilitating access to credit (support for microfinance institutions);
- Implementing the Entrepreneurs Training Project, to create capacities for promoting business;
- Arrangement of trailer parking and storage facilities;
- Implementing a Private Sector Environment Ombudsman;
- Setting in place an Insurance Body;
- Supporting business creation, rehabilitation and strengthening;
- Strengthening the management framework of the Private Sector Revitalization

The Benin JSA identifies this problem by noting that the private-sector strategy “needs to be further developed and made more coherent,” adding that it is incomplete because the report lacks a program “to further streamline business regulations to reduce red tape and transactions costs.”

3. Private-sector dynamism is essential for sustainable poverty reduction.

Nearly all of the countries gave a key role to the private sector in poverty alleviation, usually in conjunction with sound macroeconomic policies. The Ghana PRSP makes this point most succinctly:

Failure to acknowledge the pre-eminent role of the private sector in promoting growth has severely limited economic opportunities. Failure of the public sector to manage the macro economy has contributed to the deplorable failure of past development policies. (p. 34)

As noted in the previous section, there is a need to distinguish between support for the private sector and support for market forces. In reviewing PRSPs, it is the latter that is the more important. “Support for the private sector” is a phrase capable of covering over many development sins. It is probably more important to concentrate attention on a PRSP’s commitment to the use of market forces than on its commitment to the private sector.

4. Open trade policies promote growth and reduce poverty.

Most PRSPs endorsed trade liberalization. A minority endorsed export promotion while ignoring the key role of imports in improving welfare. The most troublesome aspect of this issue in the PRSPs was the strong interest expressed in a large number of African PRSPs in regional free trade among poor countries. The trade section of the *PRSP Sourcebook* is unambiguous in its claim that such regional free trade agreements are likely to be welfare-reducing, and especially so for poorer countries in the free-trade area.

The Burkina Faso PRSP takes an optimistic view of the value of increased regional integration (in its only statement on trade liberalization and specialization in the global economy) as follows:

Burkina Faso would like to benefit from the regional integration process under way in the West African Economic and Monetary Union (WAEMU) in order to transform its

landlocked status – currently a handicap – into an asset and position itself at the crossroads of the economies of the sub-region. Swift implementation of an ambitious program of complementary structural reforms to eliminate the four key obstacles outlined above would soon enable Burkina Faso to achieve growth rates permitting a significant alleviation in the incidence of poverty. Given the current low level of competitiveness of the national economy, the West African economic integration process will undoubtedly entail some economic and social costs. Even so, the Government is confident that it can work with other members of the Union both to minimize the costs and to take full advantage of the opportunities that a much broader regional market will offer.

The Joint Staff Assessment of the Cambodia PRSP also diverges from best practice by criticizing the use of EPZs to promote development, rather than the sounder basis, drawing on the *PRSP Sourcebook*, of questioning the Cambodian government's statist approach to establishment of EPZs.

There was significant regional variation in PRSPs with respect to trade liberalization. Sub-Saharan African countries' PRSPs were less likely to include trade liberalization than those of other regions. Only 7 of the 15 African countries included action in this area compared to all four Latin American countries, and all but one in each of the Asian and former Soviet regions.

5. A good legal, regulatory and judicial system is key to the private sector's capacity to reduce poverty.

As Table 2 shows, virtually all PRSPs articulated the intention of improving the LRJ environment. Usually, this included steps to reduce corruption, actions to strengthen the independence of the judiciary, and promotion of the rule of law. This is perhaps the most difficult area for judging the content of the commitments made in the PRSP. Because of the enormous power in most developing countries of the national government, much depends on the forbearance of national authorities in exercising that power.

The Albania PRSP is more sweeping than most. It sees institutional and legal reforms as being fundamental to growth and poverty reduction, and seeks to (p. 53): i) further improve checks and balances among the branches of power; ii) increase the planning capacity of government institutions; iii) increase the effectiveness of the institutions in the implementation of policies and laws; iv) increase financial efficiency; v) enhance accountability; vi) democratize, increase transparency, and reduce corruption. In sum, this PRSP seeks to do all good things. The difficulty is with implementation, and Albania is typical in its lack of specificity with respect to the means by which these ambitious goals are to be achieved.

As in the Albania case, reduction or elimination of corruption is a typical feature. The Cambodia PRSP is one of the most forthright. The PRSP states (p. 24) that "corruption has been identified as Cambodia's leading problem, ahead of ... weak governance... safety and crime" and other social ills. Nevertheless, the PRSP provides only vague indications of actions to be taken to address these problems. The Cambodia JSA chides the government for lack of action, noting a wide gap between public

pronouncements and real achievements that could undermine “the credibility of the government’s commitment.”

6. Concrete Benchmarks and Time-Bound Progress Indicators Are Needed to Demonstrate Serious Governmental Commitment

As indicated in the response to statement 2 above, there is rhetorical commitment to private sector development in most PRSPs. Such general statements are difficult to evaluate. It is only when commitments to improvements are concrete and time-bound that there is a solid basis for tracking and judging performance in turning general statements into policies. Unfortunately, few of the PRSPs reviewed provide such specificity. In our review, only five of the 27 PRSPs were deemed to have provided it, using a standard that was far from strict.

This is clearly a neglected area in the PRSP process. The PRSP *Sourcebook* gives little attention to the private sector in general, and none to monitoring and impact of the private-sector portion of the PRSP strategy. The Joint Staff Assessments generally give considerable attention to macroeconomic indicators, and to poverty-related ones – such as the geographical location of the country’s poor – but point to lack of concrete progress indicators for the private sector in only a few cases.

Given the importance of private sector dynamism for poverty reduction, more attention should be given to indicators in this area. Some important work has been done in the past in this area, most notably by the World Economic Forum’s *Global Competitiveness Report*. Of the more than 180 indicators used by the Forum to assess the climate for private sector development, about 100 might be applicable to the poverty-reducing role of the private sector. While only a few of the countries that have submitted PRSPs are surveyed by the *Global Competitiveness Report*, the measures used could be adapted by any developing country to track progress on private-sector-related dimensions.

The World Bank has just issued an important new database of indicators that relate directly to the environment for private enterprise in developing countries. The World Bank database does not provide measures over as wide a range of variables as the World Economic Forum, nor the historical trends available from that source, but it has several major advantages. First, it provides comparative data on 130 countries, making it significantly larger than the Forum’s database. (Most notably, it includes all of the PRSP countries reviewed here, while the Forum’s data includes only four of them, and concentrates instead on more advanced countries.) Second, its methodology is more directly comparable across countries, relying less on the judgments of a small sample of business leaders. Third – according to the authors of the World Bank study – the cost of regular updating of the data is very low, and the authors state an intention to provide annual updates, with planned addition of new variables. Fourth, the World Bank database is much more attuned to the conditions facing domestic as well as foreign enterprises, while the Forum’s data is most directly relevant to global investment and multinational corporations.

In sum, the new World Bank database seems an important new tool for tracking performance of governments in providing a favorable climate for the private sector's developmental role. Though none of the PRSPs reviewed here used any of the indicators from the new database, the World Bank and IMF should suggest its use in all future PRSPs.

The World Bank database covers an important, though limited, range of private sector activity. Such outcome indicators are only one of the kinds of indicators relevant to progress in PRSP implementation, and some indicators of importance will be country-specific. Ideally, PRSPs should include two types of indicator – specific commitments by government to improvements in the environment, and outcome indicators that reflect the cost of doing business. To see how these might operate, consider the case of Cambodia.

The Cambodia PRSP notes that the cost of transporting imported goods from Europe to the country's main port is less than the cost of transporting those goods from the port to Phnom Penh. Two approaches to indicators in this case are possible. The PRSP might set targets for cost reduction for future years, which could be monitored and compared with actual trends. Alternatively, the PRSP could identify some time-bound policy actions (e.g., simplification of customs regulations or de-regulation of internal transport) intended to address the problem. Ideally, the PRSP would contain both, with the policy actions being the basis for regular monitoring and consultation, and the trend in the cost of internal transport considered as an output result.

7. *Private sector provision of infrastructure offers important efficiency opportunities, and should be considered*

Most PRSPs contemplate a role for the private sector in infrastructure services. Only seven PRSPs failed to include this option as part of the poverty-reduction strategy. Even in some of these cases, the PRSP may not have captured actual intentions, as the discussion of infrastructure in the PRSPs is frequently quite general. In some of the countries where this option was not considered, government also tended to be more generally suspicious of the private sector.

There may have been some regional variation in support for a private sector role in infrastructure. All four Latin American countries intended to pursue actions in this area. In the other regions, intentions were mixed.

8. *Opportunities for private-sector provision of social services also offer potential efficiency, and should be examined.*

As indicated by Table 2, only a small minority of the PRSPs consider involving the private sector in delivery of social services. This tendency of government to fail to take account of non-governmental activities – to ignore what is not under direct control – is a common weakness in governmental programs.

The countries that do propose action in this area identify only limited actions, usually with very general statements. Albania is the most explicit, intending to privatize some health services, including medical personnel, with the state overseeing the quality of practices. Benin calls for public/private partnerships in health, but does not offer any specificity. In education, it notes an important role being played by private institutions, but the PRSP appears to propose action only for public schools. Honduras only identifies a private-sector role in worker training. Mauritania says that “development of private education will be encouraged by implementation of appropriate incentives and by fostering greater private investor involvement in this type of education” but offers no further details. Mauritania and Rwanda intend to privatize urban water supplies.

9. Government must avoid “crowding out” the private sector.

As indicated by Table 2, only a minority of the PRSPs envision a future where private economic activity grows at a more rapid rate than that of government. This is an issue that needs to be examined at the individual country level. Yet, a case can be made that most developing countries should draw back from their wide-ranging role in the economy, and concentrate on core activities. In this view, expansion of government’s control of the economy should occur only after it has demonstrated competence in the core government functions.

Ethiopia provides an example. While giving general assent to the proposition that the private sector should play a leading role, the PRSP emphasizes a dominant, and sometimes expanding, role for government. The report recognizes that Ethiopia’s agriculture suffered from excessive state control during previous decades, but does not back away from continuation, and sometimes enlargement, of its dominant role. Agricultural production is to be encouraged, but is dependent on government leases. The government is to provide information on agricultural prices to farmers, to establish a agricultural products exchange, to develop and enforce standards for products, establish farmer cooperatives, and articulate “a detailed development plan for each agro-ecological zone to exploit the growth opportunities in those areas.”

10. In most developing countries, governments must step back from controls on economic activity.

According to Table 2, most PRSPs contemplate a reduction in the role of government in controlling and directing the economy. One-third of the PRSPs, however, were judged as seeking a larger role for government in economic activity. This was characteristic of some countries in each region except the former Soviet bloc countries, which all intended to reduce the role of government.

The Vietnam PRSP sees the need for government direction and coercion to lift poor minority groups out of poverty. In a passage reminiscent of Tanzania’s *Ujamaa* villages, the report recommends

Implement well the task of fixed-cultivation and fixed-residences, restrict the free migration, stabilize production and improve the living standards of mountainous and ethnic peoples in a manner suitable to their customs and practices based on a master plan for population distribution in the direction of establishing concentrated population clusters, commune clusters and townships. Simultaneously, infrastructure conditions, such as transport facilities, water and electricity supply, communications, markets and so on, should be taken into careful consideration. (p. 92)

IV. Treatment of Private-Sector Shortcomings in Joint Staff Assessments

With the submission of a PRSP for review by the Executive Boards of the World Bank and International Monetary Fund, the staffs of the two organizations prepare an analysis of the PRSP that is submitted to the Executive Boards along with the PRSP. These Joint Staff Assessments (JSAs) thus represent an assessment by the professional staffs of these organizations on the adequacy of the PRSP in meeting its poverty-reduction objective. For this project, the JSAs were reviewed to determine the extent to which shortcomings in each PRSP with regard to the role of the private sector were identified by the JSA.

The majority of the JSAs correctly identify the weaknesses in the PRSP being reviewed, consistent with the criteria in the previous section. However, some JSAs ignored serious shortcomings in the treatment of the private sector. As discussed above, a number of JSAs ignored best practice with regard to trade liberalization in critiquing PRSPs. More broadly, four JSAs were judged in this review to give insufficient attention to weaknesses in the PRSP in addressing private-sector issues. Below, we briefly describe the problem and its treatment in the JSA for each of these four countries.

Burkina Faso. While the PRSP makes very positive general statements about the importance of the private sector, the need to privatize state owned enterprises, the need to liberalize marketing of agricultural products, the high costs of production, and the need to limit the scope and reach of government, the document is completely without specificity in this matter. On trade, the emphasis is on regional integration with WAEMU countries. No targets, timetables, or goals are offered.

The JSA endorses the private sector strategy, but ignores the lack of specific targets, timetables or goals. Its criticism is limited to a complaint that (p. 4) “the government’s larger strategy for growth and poverty reduction in the agricultural sector is not fully presented in the paper” but implies that this strategy is present in other government documents.

The JSA review of the progress report two years later does address these shortcomings. It calls (p. 2) for “the swift and determined implementation of already formulated government strategies” for privatization and reduction of high costs of production, asks (p. 2) that the government detail its trade practices and lay out plans for

further trade liberalization, and complains (p. 3) that the government lacks a broad strategy for the rural sector.

Malawi. The PRSP calls in general terms for increased private-sector dynamism, and acknowledges that government has been an obstacle in the past by trying to do too much. Nevertheless, the PRSP calls in its operational content for continued heavy involvement of government in economic activity, and implies a subsidiary role for the private sector.

Though the JSA is very laudatory of the PRSP in most ways, it does recognize that “private sector development is considered crucial for achieving the objectives of the PRSP, but the role of the private sector in specific areas is not clearly identified.” The JSA report also lauds the Malawi PRSP for its very broad participatory process of preparation, without recognizing that most of the working groups included no participants from the private sector. This may account in part for the failure to link progress to activities in the private sector.

Niger. The PRSP states a general intention to promote the private sector through privatization of commercial state enterprises; a private sector role in education, water, and sanitation; a private sector role in infrastructure; and a better legal and regulatory climate for the private sector. None of the statements goes beyond such generalities, and no specific actions, programs, infrastructure sectors, or enterprises that would be affected are identified.

The JSA agrees that the promotion of private-sector-led growth is appropriate to poverty reduction, and argues that sectoral and cross-sectoral synergies are crucial to the success of this plan. Nevertheless, the JSA fails to point out the almost complete lack of specific content or commitments in the PRSP regarding the scope and environment for private-sector activity.

Senegal. The PRSP makes general statements in support of the importance of the private sector for poverty reduction, but also lays out a framework for action that seems to relegate the private sector to a subordinate role to government. This is due in part to the “weakness” of the private sector in Senegal. No performance indicators of general statements in support of the private sector (e.g., privatization) are included. The Senegal JSA gives little attention to the subordinate role of the private sector in the PRSP.

V. Conclusions

This analysis has been based entirely on a review of the PRSP and JSA documents, and not on any consultations with governments or any other participants in the PRSP preparation process. It is possible that such consultations would alter some of the findings. The country-specific judgments about the treatment of the private sector by the various metrics, in particular, might be affected. Nevertheless, this limited review comes to four main conclusions:

1. In general, PRSPs do appropriately take the private sector into account in their development, implementation and strategic conception. In the majority of countries studied, the private sector participated in the PRSP process. In most countries, the PRSP treated the private sector as a key factor in achieving poverty reduction over the long term.
2. In countries with deficient treatment of the private sector, two types of problems emerged. First, some PRSPs saw the private sector as an adjunct of government policy, with governmental directives guiding the development of the private sector. Second, some PRSPs saw subsidization of the private sector, or particular industries within it, as a key tool for poverty reduction. In either case, the resulting strategy is not consistent with either the historical record on the contribution of the private sector to poverty reduction or World Bank advice.
3. The most serious weakness in most PRSPs was the lack of concrete benchmarks or progress indicators for commitments with respect to the private sector. Only five PRSPs met modest standards in this area. At the same time, the World Bank's new dataset on business conditions is an important new tool for remedying this problem. Data from this new tool is not included in any of the PRSPs, but it has great potential to be used, along with other measures, to provide clearer progress indicators.
4. A few Joint Staff Assessments gave inadequate attention to weaknesses of PRSPs with respect to the private sector. The main cases in this regard were Burkina Faso, Malawi, Niger, and Senegal.

Appendix 1

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Appendix 2

The World Bank's *Doing Business* Dataset

The World Bank's dataset for business environment is described in World Bank (2004). The dataset is also available on the internet. The World Bank dataset organized into five categories: starting a business; employment flexibility; contract enforcement, credit; and bankruptcy. Each category has a number of indicators, aggregating to a total of 24 altogether. Some indicators are self-explanatory, while others are arcane. Given below are the descriptions and coding system for each of the variables. Table A2-1 shows the performance of all 27 of the countries studied along these dimensions. According to the World Bank, the data was collected in early 2003.

The indicators are:

A. Starting a Business

1. *Number of steps to establish a new business.*
2. *Time required to establish a new business.*
3. *Cost of establishing a business, as a share of per capita income.*
4. *Minimum capital, if any, for a new business.*

B. Hiring and Firing Workers

5. *Flexibility of hiring index.* This index goes from zero to 100, with smaller numbers representing a more flexible environment for contract and part-time work.
6. *Conditions of Employment Index.* This index also ranges from zero to 100, with higher numbers indicating a more rigid legal environment.
7. *Flexibility of Firing Index.* This ranges from zero to 100, and measures the legal protections against dismissal, notice periods, and severance pay.
8. *Employment Laws Index.* This is a summary indicator, formed by a simple average of the three previous labor-market indices.

C. Enforcing a Contract

9. *Number of Procedures.* This is a measure of the number of steps needed to obtain payment from a purchaser, when the goods were delivered according to the contract, and payment for them was refused.
10. *Duration.* This identifies the number of days required to enforce the contract from the previous case.
11. *Cost of Enforcement.* This measures the cost, as a share of the country's per capita income, of carrying out the procedure above.
12. *Procedural Complexity Index.* This index, varying from zero to 100 with 100 being extremely complex, uses six sub-indices relating to the nature of actions, the need for professional specialists, the nature of evidence required and judicial control, to measure the difficulty of enforcing a contract through the law.

D. Getting Credit

13. *Public Credit Registry (PCR)*. This identifies whether a country has a public credit registry that provides information on credit histories and prior defaults of borrowers.
14. *PCR Coverage*. This measures the size of the PCR, per thousand population.
15. *Effectiveness of PCR*. This is an index of the usefulness of the PCR for creditors in terms of coverage, access, collections and quality. It goes from zero to 100, with lower numbers representing greater effectiveness.
16. *Existence of Private Credit Bureaus*. This identifies countries where private credit rating agencies operate.
17. *Coverage of Private Credit Bureaus*. This measures the size of such private organizations, per thousand population.
18. *Creditor Rights Index*. This is a rating of the rights of creditors where the borrower is being liquidated or reorganized. It goes from zero (weak creditor rights) to four (strong creditor rights)

E. Closing a Business

19. *Actual Time*. The normal length of time for completion of legal proceedings with a bankrupt firm, in years.
20. *Actual Cost*. This measures the cost, as a share of the net assets of the enterprise, in carrying out the legal processes.
21. *Absolute Priority Preserved*. This measures whether secured creditors will have preferential access to assets secured by their loans. A score of 100 means that their priority is preserved, and a score of zero means they are last in line, after workers, the government tax authority, and shareholders.
22. *Efficient Outcome Achieved*. This is either a one, where the outcome is efficient because of foreclosure, liquidation, or replacement of management, or zero, where a definitive outcome is not achieved.
23. *Goals of Insolvency Index*. This index synthesizes the information from the previous three, generating an index from zero to 100, with higher numbers reflecting greater success and efficiency.
24. *Court Powers Index*. This measures the extent to which the court or the creditors drive insolvency proceedings. It goes from zero to 100, with a lower value indicating greater creditor influence.

Table A2-1

Business Procedural Conditions in PRSP Countries

Country	Starting a Business				Hiring and Firing Workers			
	# of Procedures	Duration (days)	Cost (% GNI per capita)	Min. capital (% of GNI per capita)	Flexibility of Hiring Index	Conditions of Employment Index	Flexibility of Firing Index	Employment Laws Index
Albania	11	47	65	52	33	76	15	41
Azerbaijan	4	106	17	0	71	90	27	63
Benin	9	63	189	378	48	86	20	52
Bolivia	18	67	167	0	58	95	45	66
Burkina Faso	15	136	325	652	53	79	27	53
Cambodia	11	94	554	1826	33	81	49	54
Chad	19	73	395	652	78	93	27	66
Ethiopia	8	44	422	1756	58	67	29	51
Ghana	10	84	112	1	33	56	17	35
Honduras	14	80	73	165	33	87	47	56
Kyrgyz Republic	9	26	13	75	71	90	33	64
Malawi	11	45	125	0	33	68	54	52
Mali	13	61	232	598	53	86	23	54
Mauritania	11	73	110	897	62	47	66	59
Mozambique	15	153	100	30	73	85	64	74
Nicaragua	12	71	338	0	33	90	58	61
Niger	11	27	447	844	53	89	34	59
Rwanda	9	43	232	457	53	94	32	60
Senegal	9	58	124	296	48	83	30	54
Sri Lanka	8	58	18	0	33	52	40	42
Tanzania	13	35	199	0	57	77	49	61
Uganda	17	36	135	0	33	44	50	42
Vietnam	11	63	30	0	43	77	48	56
Yemen, Rep.	13	96	264	1717	33	66	28	43
Zambia	6	40	24	138	33	64	40	46
United States	5	4	1	0	33	29	5	22

Source: World Bank, *Doing Business in 2004*

Table A2-1 (continued)

Business Procedural Conditions in PRSP Countries

Country	Enforcing Contracts				Closing a Business					
	# of Procedures	Duration (days)	Cost (% GNI per capita)	Procedural Complexity Index	Actual Time (in years)	Actual Cost (% of estate)	Absolute Priority Preserved	Efficient Outcome Achieved	Goals-of-Insolvency Index	Court-Powers Index
Albania	37	220	73	76	..	..	67	1	42	67
Azerbaijan	25	115	3	54	2.7	8	67	0	49	100
Benin	44	248	31	54	3.2	18	33	0	33	100
Bolivia	44	464	5	79	2	18	100	0	53	100
Burkina Faso	24	376	173	71	4	8	0	0	29	100
Cambodia	..	..	..	..	..	..	100	0	25	67
Chad	..	..	..	..	10	38	33	0	11	100
Ethiopia	24	895	35	52	2.2	8	67	1	75	33
Ghana	21	90	24	33	..	..	67	0	17	33
Honduras	32	225	7	72	..	..	67	0	17	67
Kyrgyz Republic	44	365	255	48	4	4	100	0	61	33
Malawi	16	108	521	48	2.8	8	33	0	40	67
Mali	27	150	7	71	3.5	18	33	0	32	100
Mauritania	..	..	..	..	8	8	33	0	28	67
Mozambique	18	540	9	71	..	..	100	0	25	67
Nicaragua	17	125	18	79	2.3	8	100	0	58	67
Niger	29	365	57	63	5	18	67	0	37	100
Rwanda	..	..	..	..	..	..	33	0	8	33
Senegal	30	335	49	75	3	8	67	1	73	100
Sri Lanka	17	440	8	59	2.3	18	33	0	35	67
Tanzania	14	127	4	62	3	8	33	1	65	67
Uganda	16	99	10	40	2	38	33	1	55	67
Vietnam	28	120	9	46	..	..	33	1	33	67
Yemen, Rep.	27	240	1	60	2.4	4	33	0	47	33
Zambia	16	188	16	32	3.7	8	100	0	55	33
United States	17	365	0	46	3	4	100	1	88	33

Source: World Bank, *Doing Business in 2004*

Table A2-1 (continued)

Business Procedural Conditions in PRSP Countries

Country	Getting Credit						
	Public Credit Registry Operates?	Year of PCR Establishment	PCR Coverage (borrowers per 1000 capita)	PCR Index	Private Credit Bureau Operates?	Creditor Rights Index	Private bureau coverage (borrowers per 1000 capita)
Albania	No	..	0	0	No	3	0
Azerbaijan	No	..	0	0	No	3	0
Benin	Yes	1962	1	22	No	1	0
Bolivia	Yes	1988	55	57	Yes	2	133
Burkina Faso	Yes	1962	1	22	No	1	0
Cambodia	No	..	0	0	No	2	0
Chad	Yes	1972	..	48	No	1	0
Ethiopia	No	..	0	0	No	3	0
Ghana	No	..	0	0	Yes	1	..
Honduras	Yes	1998	45	41	No	2	0
Kyrgyz Republic	No	..	0	0	No	3	0
Malawi	No	..	0	0	No	2	0
Mali	Yes	1962	1	22	No	1	0
Mauritania	Yes	..	..	..	No	3	0
Mozambique	Yes	1997	1	51	No	2	0
Nicaragua	Yes	1994	50	45	No	4	0
Niger	Yes	1962	1	22	No	1	0
Rwanda	Yes	1990	..	57	No	1	0
Senegal	Yes	1962	2	22	No	1	0
Sri Lanka	No	..	0	0	Yes	2	8
Tanzania	No	..	0	0	No	2	0
Uganda	No	..	0	0	No	2	0
Vietnam	Yes	1999	2	66	No	0	0
Yemen, Rep.	Yes	1975	7	37	No	0	0
Zambia	No	..	0	0	No	1	0
United States	No	...	0	0	Yes	810	1

Source: World Bank, *Doing Business in 2004*

Appendix 3

Private Sector Participation in the PRSP **Detailed Notes from the PRSP Documents**

ALBANIA

- Participation of the private sector and business community is described in detail in the appendix. (156-162)
- Consultations were held with representatives from the business community: the Union of Chambers of Industry and Trade of Albania, the US Trade Chamber, the Council of Albanian Agro-Business, the Foreign Investors' Association, Italian Investors' Association, and the Albanian Bankers' Association. (156)
- A survey was conducted to assess the opinions of the business community. (159)
- Only one representative from "civil society" served on the Steering Committee. (10)
- The National Civil Society Advisory Group includes representatives of the private sector. The Group examines the PRSP, prepares comments and suggestions, which are then presented to the Working Group. (13)
- Two rounds of consultations were held with 70 members of the business community during the GPRS preparation. The report states that "the business community is conservative in its recommendations, because it has misgivings about the chances for their materialization". (15)
- The business community will be involved in M&E, although their role is not explained. (98)

AZERBAIJAN

- According to the PRSP, "listing all the organizations, institutions, and individuals actively involved in [the PRSP] would be outside the scope of this document." (106)
- An inclusive cross section of the civil society will be increasingly involved in the process. This will ensure a representative inclusion of the private sector, trade unions, women groups, and particularly vulnerable sub groups of the population. (106)
- It is not clear if there is a difference between NGOs, civil society and the private sector.
- An Advisory Board from representatives of the Government, civil society, international organizations and donor community will be established to co-ordinate efficiently the above mentioned stakeholders' efforts in the regular monitoring process of the PRSP and to keep discussion process open on financing of the proposed actions and their evaluation. No mention of private sector.

BENIN

- Three forums held at the national level that involved the active participation of civil society and the private sector, NGOs, and development partners.

- Monitoring and evaluation activities entail the effective participation of stakeholders including local and regional governments, community and nongovernmental organizations, and the private sector.
- Dissemination plan (81)

BOLIVIA

- There is no mention of private sector participation in the formulation, monitoring, or evaluation of the PRS. The paper describes “civil society” participation, but does not make clear whether this includes the private sector.

BURKINA FASO

- The report says that the PRSP was prepared “via a participatory process in consultation with representatives of the private sector, civil society, and donors, thus benefiting from the experience the country has acquired in this field over the past decade.” (i)
- Two regional workshops were held and attended by representatives of the private sector. The workshop’s aim was to inform stakeholders and elicit their advice and suggestions for improving the basic document. (4)

CAMBODIA

- The first draft of the PRSP was released at the third National Workshop of 26-27 August 2002 attended by over 200 people. The workshop had discussions from different NGOs and “this time from the private sector,” suggesting that the private sector did not participate in earlier discussions. (10)
- The private sector has a focal person liaising with GSCSD who assisted with dissemination meeting with the GSCSD, provided excellent material from their database on topics such as agro-industry. (12)
- The private sector is expected to be actively involved in the process of monitoring and evaluating the NPRS. Through such organizations as the Chamber of Commerce and Worker Federations/Trade Unions, the private sector is expected to participate actively in meetings, workshops and national poverty forums. (154)

CHAD

- In April 2000, the Government established a steering committee composed of 33 members from the public sector, private sector, civil society and the National Assembly. The Committee consisted of: 15 representatives from the public sector, 16 representatives from civil society organizations and the private sector, and 2 members of parliament. (15)
- Inaugural seminar (April 25-27, 2000) attended by 200 invitees from all parts of Chad and representing all social and occupational strata. (16)
- In December 2000 and January 2001, a countrywide participatory consultation process was conducted. These consultations involved 7,796 people including all categories of participants. (16)
- PRSP implementation will be entrusted to each ministry concerned, each within its own purview, but other partners such as NGOs and the private sector will be involved in the implementation of actions in their respective areas. (88)

- Monitoring will be conducted by activity and by strategic focus, using monitoring indicators determined in advance and accepted by all stakeholders. (89)

ETHIOPIA

- The consultation process was officially launched in the presence of representatives of all stakeholders: government institutions, private sector, the donor community, NGOs, and civil society. (29)
- After the regional consultations, a Federal PRSP Consultation was held. 450 participants drawn from among high-ranking government officials, sector regional bureaus, prominent people, journalists, religious leaders, reps from the donor community, NGOs, professional associations, and the business community attended this consultation. (29)
- NGOs and private sector institutions have also created discussion forums for their respective members, which facilitated their structured contribution both to the process and content of Ethiopia's PRSP. (31)
- The Ethiopian Chamber of Commerce represented the private sector in many of the meetings. (169)
- It is unclear whether the private sector participated in the consultations that took place outside the capital in different regions of the country.

GHANA

- The GPRS preparation process started in early 2000 with a national forum of stakeholders involved in poverty reduction activities. Representatives from government, the private sector, NGOs involved in the delivery of basic services, civil society groups involved in policy work and advocacy and some development partners participated in the forum.
- Core teams, including representatives from the private sector, were established for the five thematic areas of poverty reduction and growth.
- Regional workshops and consultations were held and attended by private sector representatives.
- Private sector is involved in M&E: no specifics are given.

GUYANA

- The Steering Committee was comprised of two representatives from Government and ten members of civil society, including representatives from the private sector. (14)
- The private sector, including sugar estates and a bauxite company, participated in target group consultations. (16)
- The private sector will have some involvement in PRS monitoring, although it is unclear what the exact role will be. (61)

HONDURAS

- Consultations were held with "civil society": The federation of Private Development Organizations and the Chambers of Commerce and Industry of Tegucigalpa and Cortes. (3)
- There is no distinction between civil society and the private sector in the formation section.

- The private sector will contribute to M&E. (114)
- Private enterprises can contribute to the follow-up of projects that they implement, as well as through their specialized technical assistance. (114)

KYRGYZ REPUBLIC

- Matrix on p. 242: Partnership and Participation
- Attainment of PRSP goals requires a constructive dialogue and partnership interaction of all branches of government, civil society and the private sector with the support of the donors' community. (147)
- Meetings and forums were held to discuss problems at the national level and plan policy measures for national development. Participants at these meetings included representatives from all branches of the government, NGOs, private sector, and international organizations. (147)
- The private sector participated in working experts' groups on preparation of the full version of the PRS at both the national and regional levels. (147)
- Some private sector entities are named, including "Shinrai", a local IBM partner. (241)
- The system of monitoring and evaluation will involve all stakeholders including businesses. (158)
- Quantitative methods of monitoring and evaluation will be complemented by qualitative studies, as well as evaluations, recommendations and proposals prepared by government agencies, NGOs and the private sector. (158)
- Non-state participants of the M&E process (civil society, private sector, research organizations) can use data collected under the NPRS M&E system to conduct independent studies and analysis, prepare reports on effectiveness of program execution. (158)

MALAWI

- 21 Thematic Working Groups (TWGs) provided many of the details of the PRSP. These groups included Government, civil society, NGOs, donors, private sector, and faith communities. They drafted sectoral contributions that were then prioritized. (2)
- The drafting team included members of the private sector. (3)
- A list of all private sector organizations involved in consultations is provided. (76)

MALI

- Regional consultations were held in each of the eight regions. During these consultations, regional and local committees were formed to direct the PRSP process. These permanent committees are made up of the technical departments, representatives of the decentralized communities, local elected representatives, civil society, the private sector, and external development partners. (8)
- Civil society and the private sector will be involved at all stages of the process of monitoring/evaluation, particularly as regards monitoring of the programmed activities. (84)

MAURITANIA

- The document mentions the private sector as being involved, but the more specific discussion fails to mention it. It mentions presentation sessions to non-governmental organizations, and national sessions that “gathered together representatives of Parliament, mayors’ offices, labor unions, development partners, and individuals recognized for their commitment to poverty reduction.” (3)

MOZAMBIQUE

- The private sector was involved in consultations in the health and agriculture and rural development sectors. (98)
- The private sector attended provincial seminars and meetings. (99, 101)
- There is no mention of private sector participation in M&E.
- A list of the names of all businesses consulted is in the annex. (xxxix)

NICARAGUA

- The National Council for Social and Economic Planning’s (CONPES) membership includes leaders of private sector associations.
- CONPES will participate in the monitoring of the PRS. (53)
- The government undertook a formal program to facilitate the contributions, broad participation and consensus building on the PRS. The program provided technical support, seminars and workshops to the private sector and other stakeholders. (62)
- Document lists names of private sector organizations that were involved. (71)

NIGER

- The private sector is included among the list of groups participating in PRSP preparation (14)
- There is no mention of private sector participation in planning or monitoring and evaluation.

RWANDA

- This PRSP does not mention private sector participation in the formation, implementation, or monitoring and evaluation areas. The only relevant mention is that “all stakeholders” were invited to a national meeting to discuss an early draft. In discussing the participatory process the IMF/IBRD Joint Staff Assessment mentions only “civil society” as having participated in the development of the PRSP.

SENEGAL

- Annex VI, p.89: Actors and their Degree of Participation
According to this matrix, the private sector had some degree of participation in national and regional consultations.

SRI LANKA

- Implementation will require a high degree of coordination between policy makers and government agencies and the active participation of the private sector. (102)

- The Steering Committees will comprise public officials and private sector individuals selected by the Ministry of Policy Development and Information (MPDI) and/or the Ministry of Economic Reform (MER). Each Committee has between 5 and 15 members, including a designated Convenor. The Convenor will in most cases be from the private sector. (102)
- Members of the Task Forces may be from either the public or private sectors, depending on the particular nature of the assignments. (103)
- The private sector, being a crucial partner in poverty reduction, will be invited to support the PRS process by monitoring poverty related economic policies. (99)

TAJIKISTAN

- To ensure broad participation in the formulation of the PRSP, nine sector working groups were established consisting of representatives of the Parliament, the Government, local authorities, institutes and universities, private sector, NGOs and other groups. (9)

TANZANIA

- Representatives from private sector organizations participated in a national workshop. The objective of the workshop was to seek further reactions to the draft PRSP. (39)

UGANDA

- Private sector was involved in general consultative workshops, whose aim was to review drafts and provide detailed comments on policy issues arising from the drafts.(6)

VIETNAM

- No mention of private sector participation in the development of the PRSP, with the only relevant reference made to “donors, government agencies and non-governmental organizations” as participating in the diagnosis process.
- Monitoring and evaluation of progress is specifically assigned to government agencies, and no mention is made of any outside participation.

YEMEN

- There is no mention of private sector participation in the formation stage of the PRSP. Numerous meetings, consultations and workshops were held but the only actors identified were civil society and NGOs. It is unclear whether “civil society” included the private sector. (5-7)
- There is no mention of private sector participation in the monitoring or evaluation of the PRSP.

ZAMBIA

- The PRSP was prepared after “extensive consultations involving the Cabinet, the legislature, government bodies, the private sector, academia, NGOs, donors, and the provinces.” (141)
- PRSP working groups had members from business and professional associations. (141)

- The only reference to private sector participation in M&E is that “it is expected that the preparation of district and provincial work plans will draw on the participation of key stakeholders, including the private sector, NGOs and civil society.” These will be critical for the monitoring of PRSP programs. (134)