INTERNATIONAL MONETARY FUND

Review of the Key Features of the Poverty Reduction and Growth Facility—Staff Analyses

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I. Introduction[1]

1. **The early Poverty Reduction and Growth Facility (PRGF) arrangements and economic programs they support have gone a considerable distance toward meeting the expectations for program design set out at the time that the PRGF was created.** These goals are set out in the paper underpinning the Board's decision defining the facility: *Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, 12/13/1999). Through experience with the first requests for arrangements and program reviews in the first half of 2000, it became clear that there was a variety of views as to what PRGF-supported programs should look like. In that context, staff distilled the guidance in the policy papers into a set of more well-defined policy objectives—the *Key Features of PRGF-Supported Programs* (SM/00/193, 08/17/2000).[2] The extent to which PRGF-supported programs have implemented the individual key features is assessed in this paper, broadly following the structure of the key features paper.

II. Key Features of the PRGF

2. **The PRGF is the instrument for the Fund to support low-income countries in implementing their poverty reduction strategies.** As such, targets and policies embodied in PRGF-supported programs should emerge from the country's own poverty reduction strategy, as laid out in its Poverty Reduction Strategy Paper (PRSP) or Interim-PRSP (I-PRSP). Key social and sectoral programs and structural reforms aimed at poverty reduction are identified, prioritized and costed in the country's I-PRSP/PRSP, which are produced in a transparent process involving broad participation from the government, Nongovernmental Organizations (NGOs), civil society and donors. The Fund is expected to focus on its core areas of expertise while working with the authorities in the framework of the PRGF-supported program to ensure that these targets can be achieved within a stable macroeconomic environment.

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[1] Sections I–IV and VII were drafted by PDR while V–VI and VIII–IX were drafted by FAD. Both departments contributed to Section X. Within PDR the paper was drafted by Mark Plant, Tom Dorsey, Nita Thacker, and Shamsuddin Tareq with contributions from Pierre Beynet, Sonia Brunschwig, Andrew Gilmour, Hans Peter Lankes, Lucas Moers, Luzmaria Monasi, Lynge Nielsen, and Laure Redifer. In FAD, Sanjeev Gupta and Benedict Clements were the principal authors with inputs from Emanuele Baldacci, Shamit Chakravarti, Hamid Davoodi, Stefano Fassina, Kevin Fletcher, Hong-Sang Jung, Gabriela Inchauste, Eva Jenkner, Ali Mansoor, and Erwin Tiongson.

[2] However, as noted in *Key Features*, the defining policy documents for the facility are *Poverty Reduction and Growth Facility—Operational Issues* and the associated summing up: *Concluding Remarks by the Acting Chairman—Poverty Reduction Strategy Papers—Operational Issues and Poverty Reduction and Growth Facility—Operational Issues* (BUFF/99/154, December 27, 1999).

Box 1. Key Features of PRGF-Supported Programs

1. Broad participation and greater ownership.
2. Embedding the PRGF in the overall strategy for growth and poverty reduction.
3. Budgets that are more pro-poor and pro-growth.
4. Ensuring appropriate flexibility in fiscal targets.
5. More selective structural conditionality.
6. Emphasis on measures to improve public resources management/accountability.
7. Social impact analysis of major macroeconomic adjustments and structural reforms.

Source: *Key Features of PRGF-Supported Programs* (SM/00/193, 08/17/2000). See Attachment I for more detail on the sub-elements of the key features.

PRGF-supported programs share some common features (Box 1):

- PRGF-supported programs should be drawn from the country's I-PRSP/PRSP. As such, the overall macro framework for PRGF-supported programs must also derive from and reflect the overall growth and poverty reduction strategy. PRGF-supported programs should also indicate how the specific measures supported under the program are embedded within the country's overall poverty reduction strategy. Staff reports for PRGF-supported programs should also highlight aspects of the strategy that promote growth through private sector development.

- Conditionality should be selective and focus on the Fund's core areas of expertise. These will normally cover fiscal, monetary and external sectors and structural reforms in related areas such as exchange rate and tax policy and issues related to fiscal transparency, budget execution, and tax and customs administration. Conditionality in other areas may be included to the extent that it is critical to achieve the macroeconomic objectives of the program.

- Budgets should be pro-poor and pro-growth. As such, government spending should be oriented toward poverty-reducing activities and outlays that foster the development of human and physical capital. In order to better monitor this shift in the composition of public spending, it will be necessary to improve public expenditure management (PEM) systems (see below). Efforts should be made to improve the efficiency and targeting of spending, and tax reforms should aim at improving both efficiency and equity.

- Fiscal targets should be flexible and allow increases in public expenditures to accommodate the government's poverty reduction strategy within a stable macroeconomic framework. Programs could also be presented in ways that could signal financing needs; thus normative macro-projections in PRSPs could be presented as possible alternatives.

- PRGF-supported programs also place strong emphasis on measures to improve public resource management and accountability by incorporating steps to improve PEM systems and implementation of fiscal governance measures.

- Finally, PRGF-supported programs are expected to report on the social impact of measures in the program that could have an adverse effect on the poor. Countervailing measures are also expected to be included in the program based on such analysis. However, it is expected that the Bank would take the lead on the analysis.

III. Sample Design

3. **In reviewing the implementation of the key features, the analyses focus on the extent to which *program design* in PRGF-supported programs has been consistent with these goals**. Because of the early stage of the transformation from the Enhanced Structural Adjustment Facility (ESAF), it is not yet possible to consider questions about how the PRGF has impacted poverty and growth. The process of transformation from the ESAF to the PRGF is ongoing and is in many respects still at an early stage—a large majority of PRGF-supported programs in place are either new PRGF-supported arrangements that have not yet reached their first review or ESAF-supported arrangements that have been transformed into PRGF-supported arrangements in midstream.[3] Nevertheless, an attempt has been made to evaluate outcomes relative to objectives wherever data were available (mostly in the fiscal area).

4. **There are some differences in specific approach across the seven key features in light of data availability and other concerns.** The assessment of whether the key elements of the program are derived from the I-PRSPs/PRSPs, and whether the PRGF conditionality and projections are embedded in the growth and poverty reduction strategy of the authorities (Section IV), is based upon a comparison of Letters of Intent and/or Memoranda of Economic and Financial Policies (LOIs/MEFPs) and the associated I-PRSPs/PRSPs. The assessments of pro-poor and pro-growth budgeting, fiscal flexibility, selectivity of structural conditionality, improved public resource management and accountability, and poverty and social impact analysis (Sections V–IX) are based in large measure on comparison of targets for the PRGF-supported programs with the corresponding outturn in the year preceding the PRGF-supported programs in the same countries. A comparison is also made in these sectors with program design under the preceding Fund-supported program.

5. **To focus on programs that had adequate opportunity to reflect the new features expected under the PRGF, this analysis is based on programs approved or reviewed by the Executive Board between July 1, 2000 and September 30, 2001.[4]** The sample includes

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[3] These are referred to in this document as transformed PRGF-supported arrangements/programs.

[4] These comprise new PRGF-supported arrangements approved by the IMF Executive Board between July 1, 2000 and September 30, 2001; arrangements approved earlier that have concluded two or more reviews during the same

(continued…)

PRGF-supported arrangements and PRSP processes at a variety of stages.[5] Nineteen countries in the sample had new, three-year PRGF-supported arrangements approved, while an additional sixteen countries had transformed PRGF-supported arrangements through conclusion of two or more reviews during this fifteen-month period or a review supported by a full PRSP (Table 1). Similarly, the stages of the PRSP process vary across countries and reviews; most requests and reviews have either come to the Board with the I-PRSP or between the I-PRSP and PRSP. However, a few preceded the I-PRSP, came to the Board with the full PRSP, or were concluded subsequent to Board consideration of a full PRSP. Further complicating the assessment, the stage of the PRGF-supported arrangement and the PRSP process are generally out of synchronization. In contrast to the steady state envisaged in *Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, 12/13/99) in which new PRSPs would be accompanied by new PRGF-supported programs, none of the six countries with full PRSPs covered in this sample is associated with a new PRGF-supported arrangement, because they already had such an arrangement in place at the time. The distribution of arrangement requests and reviews across PRGF and PRSP stages is summarized in Table 1. The countries included and the reviews and requests are listed in Attachment II.

Table 1. Stage of PRGF-Supported Arrangement and Stage of PRSPs

	Stage of PRGF-Supported Arrangement			
Stage of PRSP Process	Request for New Arrangement	Review of Ongoing Arrangement	Final Review of Arrangement	Total
Pre-I-PRSP or PRSP	0	4	0	4
Interim PRSP	17	10	2	29
Between I-PRSP and PRSP	2	18	1	21
PRSP	0	4	0	4
Post-PRSP	0	4	1	5
Total	19	40	4	63

Sources: IMF country documents; National authorities, Country Policy Intentions Documents.

IV. Key Features 1 and 2: Broad Ownership and Participation and Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction

fifteen-month period; and arrangements supported by both a full PRSP and review under the arrangement during the same period. Earlier documents are excluded to avoid assessing programs that largely predated the PRGF against these later standards. The cutoff date of September 30, 2001 was selected to allow adequate time to assess the documents. See Attachment II for more details on the sample.

[5] This staff report does not assess PRSPs or I-PRSPs; these are assessed in the parallel joint Bank-Fund *Review of the PRSP Approach*.

These inter-related key features set out several aspects of the expected relationship between the PRGF-supported program and the PRSP. Specifically, PRGF-supported programs should be consistent with, and drawn from, the PRSP in a manner that takes into account national priorities. Further, PRGF-supported programs should concentrate on those parts of the poverty reduction strategy that are within the Fund's areas of expertise while remaining cognizant of and consistent with those parts of the strategy that are outside the Fund's areas of expertise.

6. **PRGF-supported programs have achieved a high degree of consistency with the supporting I-PRSPs/PRSPs on broad macroeconomic goals, targets, and projections, and as well as on structural measures.** The first two of the seven key features of the PRGF have five sub-elements relevant to this review: (i) PRGF-supported programs draw their main elements from country's PRSPs; (ii) where relevant, Joint Staff Assessments (JSAs) and staff reports should highlight flexibility in accepting country choices; (iii) PRGF-supported programs demonstrate how macroeconomic and other policies have been influenced by growth and poverty objectives; (iv) highlight aspects of the PRGF-supported program that promote private sector development; and (v) PRGF contribution to the poverty reduction strategy should be focused on areas within the Fund's areas of expertise and responsibility. Because (i) and (iii) cover the core of both key features but also cover much the same ground they are treated together at the outset; (ii), (iv), and (v) are treated individually in the following subsections.[6]

A. Draw Main Elements of the PRGF-Supported Program from Country's PRSP and Demonstrate How Macroeconomic and Other Policies Have Been Influenced by Growth and Poverty Objectives

7. **PRGF-supported programs show a high degree of consistency with the underlying I-PRSPs/PRSPs in three main aspects—the broad objectives of the programs, the macroeconomic projections and targets, and the structural measures.** The broad objectives of the PRGF-supported programs as set out in the LOIs/MEFPs were compared with the goals of the underlying I-PRSPs/PRSPs.[7] While the goals of the I-PRSP/PRSP typically cover areas beyond those of the PRGF-supported program (e.g., poverty diagnostics), it is generally possible to identify the broad objectives set out in the

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[6] The third and fourth sub-elements of the broad ownership key feature: (iii) PRSPs should be produced in a transparent process with broad participation, and (iv) PRSPs are to be produced by country authorities are covered in the staff papers for the parallel *Review of the PRSP Approach*.

[7] Examples of structural but macroeconomic-relevant objectives include governance and corruption-reducing structural reforms affecting revenues and expenditures, and the financial sector (Georgia); reform of the cocoa sector to allow greater private participation and increased efficiency (Ghana); and reallocation of budgetary resources to activities having a direct bearing on the poor (Lesotho). In other cases, the objectives overlap with the macroeconomic targets and assumptions (e.g., maintaining price stability, increasing growth, etc.).

LOIs/MEFPs in the I-PRSPs/PRSPs. Macroeconomic projections and targets from the staff reports/LOIs/MEFPs have been compared to both those of the I-PRSPs/PRSPs (where quantitative projections are available in the latter documents) and to the macroeconomic projections and targets of the most recent preceding annual arrangement under the ESAF. These show a very high degree of consistency between the PRGF-supported program documents and the I-PRSPs/PRSPs and a broad continuity with similar projections in previous ESAF-supported annual arrangements. Finally, the links between the specific structural measures in the PRGF-supported program documents (LOIs/MEFPs and staff reports) and the I-PRSPs/ PRSPs were examined; while it was generally possible to find measures in the I-PRSPs/PRSPs that were at least consistent with, and often essentially the same as in the PRGF-supported program documents, cross references to specific measures are uncommon and readers are left to determine the consistency by their own comparison of the documents.

Broad macroeconomic and macro-relevant objectives

8. **The broad macroeconomic goals of PRGF-supported programs show a very high degree of consistency with the I-PRSPs/PRSPs underpinning these programs.** The broad macroeconomic and macro-relevant goals set out in PRSPs have been compared to the goals of PRGF-supported programs as stated in the LOIs/MEFPs for 59 PRGF-supported program requests and reviews.[8] For 44 of these, the goals of the PRGF-supported program were judged to be essentially the same as those set out in the countries' I-PRSPs/PRSPs. For another 13 requests or reviews, the broad goals were partially consistent with those set out in the countries' poverty reduction strategies. Only two LOIs/MEFPs have broad macroeconomic goals that cannot be seen as having been drawn from the poverty reduction strategy. The two exceptions relate to the request for PRGF-supported program by Ethiopia and the first review under this arrangement. In this case, the I-PRSP is almost entirely silent on macroeconomic and macro-relevant goals. This is indirectly acknowledged in the JSA for the I-PRSP, which cites only goals derived from the PRGF-supported program and notes that these goals were discussed with the World Bank and the authorities and were regarded as part of the interim poverty reduction strategy even though these were not part of the I-PRSP itself.

9. **The degree of consistency in macroeconomic goals is greatest for PRGF-supported programs underpinned by full PRSPs, only slightly less for PRGF-supported programs presented to the Board together with I-PRSPs, and still substantial for PRGF-supported programs presented to the Board subsequent to the endorsement of the I-PRSPs, but before the presentation of the full PRSP (Table 2).** For program reviews underpinned by full PRSPs (either completed by the Board together with the endorsement of the full PRSP or subsequent to it), the objectives of the PRGF-supported program could be drawn fully from the PRSP in eight of nine cases and partially in the ninth. Requests or reviews approved by the Board at the same time that the I-PRSPs were presented for

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[8] Four reviews predate both the I-PRSP and the PRSP and are excluded from this sample.

endorsement also displayed a very high degree of consistency in macroeconomic and macro-relevant goals between the I-PRSPs and LOIs/MEFPs with goals in 23 of 29 LOIs/MEFPs that are fully consistent with the I-PRSPs, five where PRGF-supported program goals were partially consistent with those in the I-PRSPs, and only one where the goals of the program were not consistent with goals set out in the I-PRSP. Finally, a majority of LOIs/MEFPs coming to the Board after the I-PRSP, but before the PRSP, were judged to be fully consistent and all but one of the remainder were judged partially consistent with the preceding I-PRSP. In the latter case, changes in economic conditions or the emergence of new issues in the intervening period explained the discrepancy.

Table 2. Are the Broad Macroeconomic and Macro-Relevant Goals of PRGF-Supported Programs Drawn from I-PRSPs/PRSPs?

Stage of PRSP Process	Yes	Partially	No	Total
Pre-I-PRSP or PRSP	0	0	4	4
Interim PRSP	23	5	1	29
Between I-PRSP and PRSP	13	7	1	21
PRSP	3	1	0	4
Post-PRSP	5	0	0	5
Total	44	13	6	63

Sources: IMF country documents; National authorities, Country Policy Intentions Documents.

10. **The cases in which the goals could only be partially derived from the I-PRSPs/ PRSPs are mostly attributable to very general or partial specification of macroeconomic goals in these documents rather than any inconsistency or conflict between the two.** For example, Armenia stands out as having a relatively substantial specification of macroeconomic goals in the I-PRSP. In this case, however, the need to raise tax revenue is no more than implicit, while the PRGF-supported program documents and the JSA present raising tax revenue as a central goal of the PRSP strategy and the PRGF-supported program. The closest case among these where an actual conflict may be evident between the I-PRSP (issued 06/01/2000) and the PRGF-supported program is the case of Senegal. In this case, the JSA notes differences in macroeconomic projections between the two and the omission of major structural issues in the I-PRSP. However, even here, the differences in outlook are modest and disagreements are confined largely to a looseness of the relationship between the I-PRSP and the PRGF-supported program rather than any inconsistency between the two.

Macroeconomic targets and projections

11. **The macroeconomic targets and projections underpinning PRGF-supported programs are very similar, though not identical, to those of the contemporaneous I-PRSPs/PRSPs in almost all cases.** Projections for the current and three projected years were collected from both I-PRSPs/PRSPs and PRGF-supported program staff reports on inflation, growth, the current account balance, official transfers and several balance of payments financing items as another indication of consistency in broad macroeconomic

projections.[9] Projections were identical in 18 of the 33 cases where a PRGF-supported program request or review was presented to the Board together with a I-PRSP/PRSP, and differed by only very small amounts in seven additional cases. The one case in which there are significant differences in projections that appear to be intentional is that of Cambodia, where the JSA notes that the projections in the I-PRSP are those discussed with Fund staff, but economic disruption due to severe floods subsequent to the finalization of the I-PRSP projections had resulted in revisions to the PRGF-supported program projections. In the remaining seven cases, all from 2000, no table of macroeconomic projections was included in the I-PRSPs/PRSPs and the text contained too little detail for a meaningful comparison to be made. While these results indicate that consistency of the PRGF-supported program with the I-PRSPs/PRSPs is taken seriously, they do not rule out the possibility (reported in several instances by some donors, NGOs, and authorities) that the PRGF-supported programs influence the I-PRSPs/PRSPs rather than the other way around. The close correspondence in form and content between several I-PRSP/PRSP projection tables and the standard Selected Economic Indicators tables for the same country in Fund staff reports is also suggestive in this regard.

12. **Growth, inflation, and current account objectives in PRGF-supported programs show a high degree of continuity with the preceding ESAF-supported programs** (Table 3). Average real GDP growth rates are very similar in both cases. The median growth

Table 3. Median Economic Assumptions in PRGF- and ESAF-Supported Programs

	ESAF-Supported Programs	PRGF-Supported Programs
Real GDP growth[1]	5.5	5.9
Change in GDP growth[2]	0.5	1.5
Inflation[1, 3]	4.6	3.5
Change in inflation[1, 2]	-1.9	-1.5
Current account balance[4]	-6.0	-6.4
Change in current account balance[2, 4]	1.1	1.6
Official transfers[5]	3.8	4.4
Change in official transfers[2, 5]	-1.0	-0.6

Source: Fund staff estimates.

[1] In percent.
[2] Third projected year less current year.
[3] GDP deflator where available, CPI otherwise.
[4] In percent of GDP, excluding transfers.
[5] In percent of GDP.

rate is projected at slightly higher levels in PRGF-supported arrangements with 17 countries showing a higher average growth under the PRGF-supported program projections and

[9] A selected number of these indicators are reported in Table 3. Fiscal projections are considered separately in Section VI below.

17 showing a higher average growth under the ESAF-supported programs. PRGF-supported programs also target larger increases in growth (1.5 percent against 0.5 percent for programs under the ESAF).[10] Median inflation rates for the PRGF-supported programs are projected to be roughly one percentage point lower than for ESAF-supported programs. Eighteen countries in the sample show a somewhat higher average inflation rate under the PRGF-supported program, while 15 show a somewhat higher average inflation rate under the ESAF-supported program. Reductions in inflation were slightly smaller under PRGF-supported programs. The median current account balance-to-GDP ratio for programs supported by arrangements under the PRGF is slightly worse than under the ESAF-supported programs, while the median improvement in the current account balance over the three-year projection period is 0.6 percent of GDP for both the ESAF and PRGF sub-samples. Nineteen countries had a better current account balance (smaller deficit or higher surplus) under the ESAF-supported program relative to the PRGF-supported program, while 11 had the reverse pattern (comparable data are unavailable for the remaining five). The differences between these comparisons may owe as much to the context of the global economic environment and countries' histories; the lower level of inflation under PRGF-supported programs (mostly 2001 projections) may be partly attributable to the global slowdown in growth, and partly attributable to some success in reining in inflation under the previous ESAF-supported programs (predominately projections from 1998-99). In any case, they do not seem to show a substantial departure from targets and projections for ESAF-supported programs in the sample.

13. **Official transfers are discernibly higher in PRGF-supported program projections (4.4 percent of GDP) than in those for ESAF-supported programs (3.8 percent of GDP).** The higher levels of projected grants under PRGF-supported programs are not purely a consequence of assistance under the HIPC[11] initiatives. Nine HIPCs had higher average official transfers under PRGF-supported projections against eight HIPCs which had higher official transfers in the projections for their last ESAF-supported annual arrangement; for other (non-HIPC) countries, six had higher levels of official transfers in PRGF-supported program projections against only three with higher official transfers in the ESAF-supported program projections. Results for nine countries are not available or are not comparable. The

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[10] The comparison of projections and assumptions in PRGF-supported programs described in this section compare the *medians* of the average growth, inflation, current account balance or level of official transfers over the first three years of the projection period (fewer if three years of projections are not available) against the first three years of the projections in the preceding ESAF-supported program. Comparisons of trends within program projections compare the change between the first projected year with the third for programs under both ESAF and PRGFs. Medians are used rather than averages for comparisons across countries to avoid giving undue weight to outliers. Where multiple PRGF requests or reviews are included in the sample, the most recent staff report is used. Moldova is excluded from these comparisons because it had no preceding ESAF-supported program; a few other countries are excluded from some calculations where data are not available.

[11] Heavily Indebted Poor Country.

median level of official transfers under PRGF-supported programs declines by 0.6 percent of GDP between the current year and the third projection year—a somewhat smaller decline than under ESAF-supported programs, with declines over the projection period in a large majority of individual cases.

Structural measures

14. **Structural policies of PRGF-supported programs are generally consistent with the overall poverty reduction strategy.** About 60 percent of all structural conditions could be derived directly from or were at least consistent with the I-PRSPs/PRSPs, of which 24 percent were explicitly derived from these documents. Moreover, consistency with the I-PRSPs/PRSPs has been significantly better in programs supported by new arrangements under the PRGF approved since July 2000. About 80 percent of structural conditionality in these programs was consistent with the I-PRSPs/PRSPs, as against 45 percent in transformed PRGF-supported programs. In the cases of Chad, Georgia, Guinea-Bissau, Kenya, Lesotho, Macedonia, and Rwanda, for example, the link was particularly strong and explicit. This suggests that consistency between the I-PRSPs/PRSPs and PRGF-supported program documents will improve over time as transformed PRGF-supported arrangements are replaced by new PRGF-supported arrangements.

15. **Nevertheless, there is considerable scope for improving the consistency between the PRGF-supported program and the authorities' poverty reduction strategy.** About one-third of the structural conditionality measures included in PRGF-supported programs still seem to have little relation to the I-PRSP/PRSP. To some extent, this seems attributable to program negotiations taking place some months after the I-PRSP/PRSP is finalized and may perhaps be attributable to new developments. If so, it would be useful to report in program documents on discussions with the authorities regarding their views on the continuation of structural reforms and how these views will be reflected in the I-PRSP/PRSP or subsequent progress reports.[12] However, staff reports and LOIs/MEFPs generally failed to cross reference or note the consistency with the I-PRSPs/PRSPs, even in circumstances where there is a high degree of consistency. The same conclusion was noted in the submission from the United Kingdom for the PRGF review.[13]

B. Where Relevant, JSAs and Staff Reports are to Highlight Flexibility in Accepting Country Choices

[12] The need for explicit notation of such developments in the PRGF program documents is set out in *Poverty Reduction and Growth Facility – Operational Issues* (SM/99/293, 12/13/99), paragraph 22, but has been implemented unevenly.

[13] IMF PRGF Review: Submission from the HM Treasury/DFID, U.K.

16. **Relatively few staff reports for PRGF-supported program requests or reviews explicitly indicate areas in which alternative policy options were considered or where the final choices were different from those initially considered by the authorities or by Fund staff.** About one fifth of reports (12 of 63) identified such circumstances covering both macroeconomic and structural issues. The staff report for Lesotho (March 2001) provide a good example. The document describes the process of moving from the broad policy objectives in the I-PRSP to the specific fiscal commitments in the program noting how a compromise was reached between the staff's and authorities' positions that was compatible with the authorities' macroeconomic goals. The staff report also highlights continuing differences between the staff and the authorities on the promotion of specific economic activities and on import liberalization. The staff report for the third review of the PRGF-supported program for Ghana (June 2001) provides another example of staff flexibility; it cites an accommodation of the authorities' preferences with respect to the pace of interest rate adjustments and foreign exchange liberalization, where the staff had in both cases advised faster actions.

17. **Most staff reports do not explicitly cite such evidence of flexibility even though there is frequently considerable change in the design of the program during the extended process of program negotiations.** Part of the explanation for this silence may relate to the drafting approach taken in many staff reports. While difficult to quantify, it is clear that many staff reports are drafted in an impersonal style that avoids attribution of views to staff, authorities, or anyone else (e.g., through use of passive voice). Other reports describe the economic program and cite only Fund staff views in support of the program's content. While understandable as a reflection of staff's desire to remain consistently supportive of the authorities' program being presented to the Board, these drafting styles likely contribute to the view held by some outside commentators that Fund-supported programs are developed through the unwavering imposition of a single, made-in-Washington model of economic policy. These drafting styles also stand in sharp contrast to that expected for Article IV staff reports where an explicit presentation of both sides of the policy dialog is required. In this context, it may not be entirely coincidental that both the examples of Ghana and Lesotho cited above are taken from reports that were also Article IV staff reports while the staff reports for stand-alone PRGF-supported program reviews for Ghana and Lesotho in the sample do not exhibit such differences of view.

18. **The increased transparency of the Fund has expanded the audience for Fund documents and increased the importance of clearly setting out staff's and authorities' views.** In the past, the implicit or indirect approach to explaining or hinting at difference of views between the staff and the authorities was less prone to yield misunderstanding because the readership was limited to a comparatively small set of Executive Board staff and national authorities familiar with the Fund and skilled at reading between the lines. Notwithstanding the now wider audience, many staff reports continue to avoid explicit discussion of such differences. Greater frankness about disagreements on policies and more direct discussion of the policy dialog is needed to make such views clearer in staff reports. However, the need for

a more explicit discussion of the policy dialog needs to be implemented in a manner that is consistent with the staff's support for the program as a means of achieving its goals and does not compromise the potential for frank and confidential program discussions.

C. PRGF Contribution to the Strategy Should be Focused on Areas Within the Fund's Area of Expertise and Responsibility

19. **Structural conditionality in PRGF-supported programs has concentrated on areas of Fund expertise consistent with the objectives set out for the facility.** Streamlining structural conditionality is itself one of the key features of PRGF-supported programs, and the Fund staff's efforts to focus the PRGF contribution to the overall strategy in terms of structural conditionality is covered in Section VII below. Outside the context of streamlining structural conditionality, there is little treatment of the role of other institutions or implementation of other parts of the poverty reduction strategy in Fund documents.

20. **Two specific aspects of the authorities' overall poverty reduction strategies are singled out in the various Board papers for special emphasis: measures to promote private-sector led growth and measures directly targeting, monitoring and alleviating poverty.** Consistent with the objective of the PRGF, measures to promote private sector development are discussed prominently in PRGF-supported program documents. At the same time, conditionality on these measures has been selective as they often fall in the policy domain of the World Bank. The total number of conditions included in programs to promote private sector growth drops by more than half (from 3.7 to 1.45) between the ESAF and PRGF parts of the sample, with four-fifths of these measures in both ESAF- and PRGF-supported programs covering privatization and public enterprise reform. Only about one fifth of the ESAF (18 percent) and PRGF (22 percent) requests and reviews surveyed had prior actions, performance criteria, structural benchmarks, or review topics directly focused on reducing poverty; these mostly related to expenditure allocations.

21. **There remains substantial room for improvement in the presentation of the role of the World Bank and other institutions in supporting poverty reduction strategies in Fund staff reports.** Few staff reports routinely describe the activities of the Bank (or other institutions) in promoting poverty alleviation or place the PRGF-supported program into a broader context. The boxes on streamlining structural conditionality have been somewhat helpful in this regard; but these would only tend to pick up the role of other institutions to the extent that they are active in areas that have been subject to conditionality in recent Fund-supported programs. Measures to promote poverty reduction have not generally been a part of conditionality of previous Fund-supported arrangements and are therefore less likely to be picked up in the descriptions of World Bank activity in structural conditionality boxes (or elsewhere in Fund documents), including in the standard appendix on World Bank Relations.

V. Key Feature 3: Budgets that are More Pro-Poor and Pro-Growth

This key feature sets out the expectations that PRGF-supported programs increase poverty-reducing expenditures, improve the efficiency and targeting of these and other expenditures, and include tax reforms that simultaneously improve equity and efficiency.

A. Reorienting Government Spending Toward Activities that Benefit the Poor

22. **The evidence available thus far suggests that the composition of budgeted and actual public spending is shifting towards poverty-reducing activities under PRGF-supported programs, as sought under the PRSP approach.** Countries are allocating more to education and health care, both as a percent of GDP and as a share of total government spending (Figures 1 and 2). These changes represent "broad-brush" shifts in expenditure composition toward poverty-reducing activities (although imperfectly, as not all public education and health spending is poverty reducing). While not available for all countries, data on budget outturns suggest such increases are being realized. Programs were initiated in 25 countries in the sample in 2000; for the 13 countries with available data for that year, spending on education and health care rose by an average of 0.4 and 0.2 percentage points of GDP, respectively. The emphasis in PRGF-supported programs on increasing these outlays is in concert with the view that government has a critical role to play in the provision of social services to support economic growth and poverty reduction. However, to improve social outcomes, this spending will need to be targeted to the poor (see below).

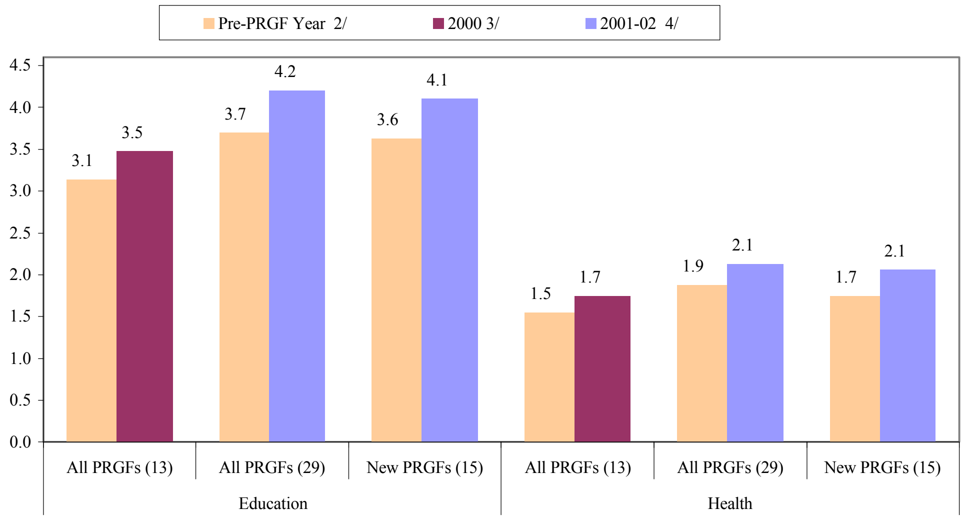
23. **Real public spending on education and health care (including on HIV/AIDS) is expected to rise sharply on a per capita basis** (Figure 3). These spending increases build further on the gains realized during ESAF-supported programs, where real per capita public outlays on education and health care each rose by an average of over 3 percent per annum between 1985 and 1999.[14]

24. **Projected increases in education and health care spending vary across countries.** In the transition economies,[15] for example, smaller-than-average increases are envisaged. This reflects the slightly higher levels of initial spending and the substantial scope for further rationalizing education and health care systems inherited from the pre-transition era. This contrasts with nontransition PRGF-supported program countries, where the need for

[14] Based on a sample of 32 countries. Figures refer to the average annual increase in real per-capita spending between the year that preceded the first ESAF-supported program and 1999.

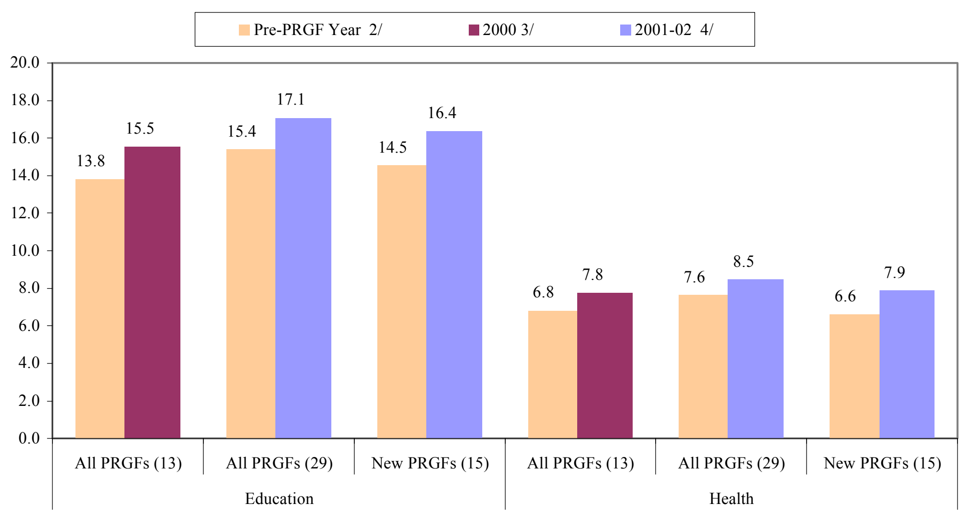
[15] The transition economies included in the sample are Albania, Armenia, Azerbaijan, Cambodia, Georgia, Lao PDR, Macedonia, Moldova, Mongolia, Tajikistan, and Vietnam.

Figure 1. Education and Health Spending in PRGF-Supported Programs: 1999 - 2001/2002 1/
(In percent of GDP; number of countries in parentheses)



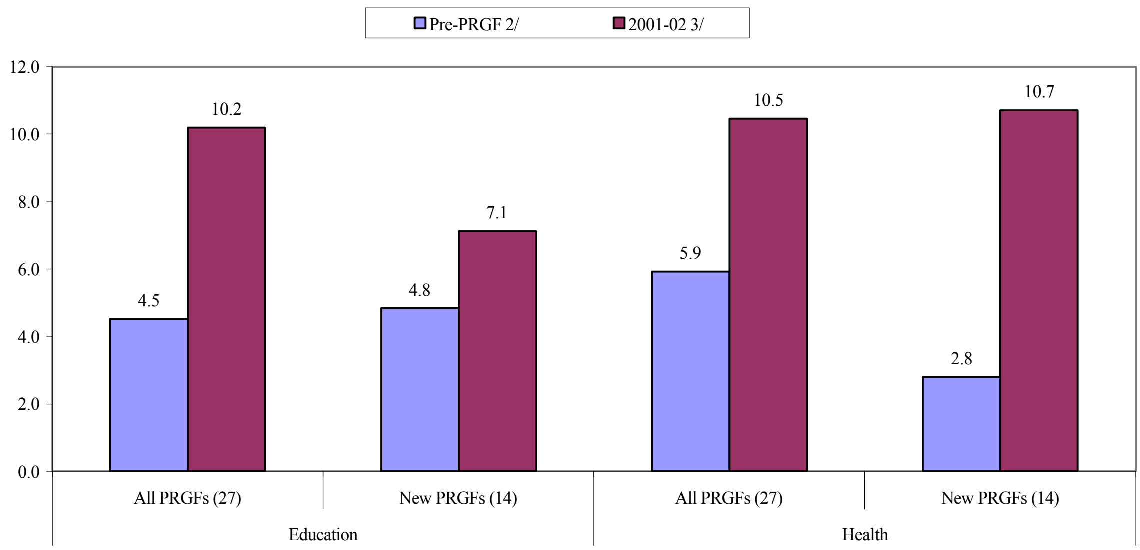
Sources: National authorities; and IMF staff estimates.
1/ The figures in parenthesis indicate the number of countries for which data are available.
2/ 1999 in most cases.
3/ 2000 refers to actual expenditure level for that year.
4/ 2001-02 refers to the average projected spending level for 2001-02.

Figure 2. Education and Health Spending in PRGF-Supported Programs: 1999 - 2001/2002 1/
(In percent of total government spending; number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.
1/ The figures in parenthesis indicate the number of countries for which data are available.
2/ 1999 in most cases.
3/ 2000 refers to actual expenditure level for that year.
4/ 2001-02 refers to the average projected spending level for 2001-02.

Figure 3. Annual Change in Real Per Capita Education and Health Spending in PRGF-Supported Programs 1/
(Number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.
1/ Excludes Guinea-Bissau; extreme changes in spending distort the mean. Including Guinea-Bissau, the average annual increase in real per capita spending in education and health are 11.7 and 11.8 percent per year, respectively, over the period 1999-2001. The figures in parenthesis indicate the number of countries for which data are available.
2/ Refers to the annual change in real per capita spending between 1996 and 1999. For 1999 alone, the average increase in all PRGF-supported programs for education and health are 8.9 percent and 11.0 percent respectively.
3/ Refers to the annual change in real per capita spending over the program period up to 2001 or 2002.

expanding public education and health—as well as improving the efficiency of such spending—is great. Higher spending increases are also envisaged in nontransition PRGF-supported program countries on account of debt relief under the Enhanced HIPC initiative.

25. **Substantial increases in spending identified as poverty-reducing in PRSPs are also envisaged** (Figure 4). PRSPs have defined a range of programs as poverty-reducing, including primary education and primary or basic health, spending on roads, rural development, agriculture, judicial systems, and anti-corruption.[16] Over time, as PRSPs are updated and revised in light of the impact of policies on social outcomes, the definition of poverty-reducing activities is expected to be refined. Based on budgetary data in 19 countries that most closely approximate the PRSP definition of poverty-reducing spending, these outlays will rise, on average, by about 2 percent of GDP compared with the pre-PRGF year; for new PRGF-supported programs, the increase is slightly lower. The share of total government spending absorbed by these outlays will rise slightly more in new PRGF-supported programs than the sample as a whole.

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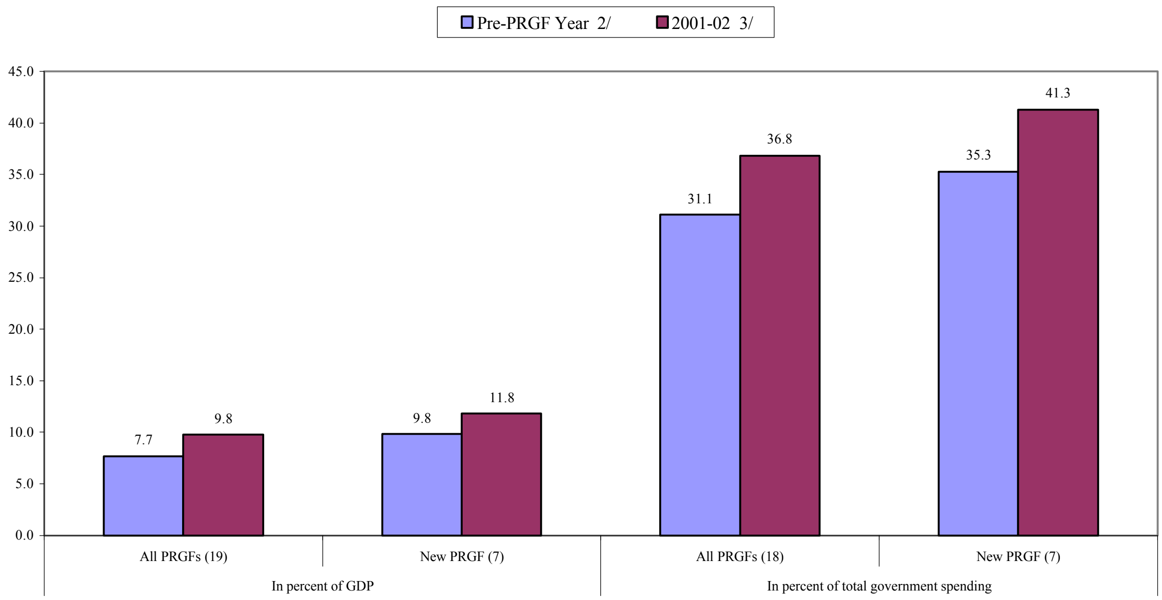
[16] Poverty-reduction has also been fostered by gender-focused budgets (Tanzania).

Figure 4. Poverty-Reducing Spending in PRGF-Supported Programs, 1999 - 2001/2002 1/
(In units as indicated; number of countries in parentheses)



Source: National authorities; and IMF staff estimates.
1/ The figures in parenthesis indicate the number of countries for which data are available.
2/ 1999 in most cases.
3/ 2001-02 refers to the average projected spending level for 2001-02.

26. **For most countries, existing budget classification systems do not allow for a precise matching of expenditure allocations and the programs identified as poverty-reducing in the PRSPs.** Only eight of the 19 countries (Azerbaijan, Bolivia, Guinea-Bissau, Madagascar, Mozambique, Niger, Tanzania, and Uganda) compile spending data on the specific poverty-reducing activities identified in PRSPs. There are also significant lags in the dissemination of data on poverty-reducing spending, including under the approximate definition described above; for 2000, figures are available for only 5 countries.[17] As countries move forward in their efforts to improve public expenditure management (PEM) systems and track poverty-reducing spending (see Section VIII)—including with respect to budget classification—it is expected that more countries will be able to provide data consistent with the PRSP definition of poverty-reducing outlays.[18] Further progress could also be expected as

[17] Spending increases of 1½ percentage points of GDP were realized in these countries between 1999 and 2000.

[18] For an assessment of PEM systems in 24 HIPCs, and the actions they envisage to help strengthen the tracking of poverty-reducing spending, see the Bank/Fund Board paper *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPCs)* (SM/02/30).

countries move from interim to full PRSPs and Board documents more systematically report on these data.[19]

27. **The ultimate objective of reorienting public spending in favor of poverty-reducing programs is to achieve better social outcomes.** Data on indicators that gauge social progress, however, are only available with a substantial lag, and may not be available for every year—making it difficult to isolate the effect of recent changes in policies. For instance, the only social indicator for which recent data are available for a large number of countries is access to clean water, for which 20 countries report data for 2000. For 5 countries (Burkina Faso, Lao PDR, Mozambique, Tanzania, and Uganda), data on an additional 2–9 indicators are available for the first year in which a PRGF-supported program was in place (2000).[20] With due caution in light of the small sample size, preliminary evidence indicates that progress on these indicators since the pre-program year was somewhat better than before the start of the PRGF-supported program.

28. **Higher government spending on education and health, and the shift in the composition of public spending from current to capital outlays, will help facilitate poverty reduction and higher economic growth.** In developing countries, public expenditure is a powerful tool for shaping equity or reducing poverty.[21] In particular, well-targeted and efficient public programs in education and health are essential to ensure that the poor have the skills needed to contribute to—and benefit from—economic development. Higher outlays for education and health in PRGF-supported programs, in combination with efforts to improve the efficiency and targeting of this spending (see below), can help facilitate higher economic growth. In a similar vein, programs also envisage higher outlays for capital expenditures, which include the provision of critical infrastructure. These outlays will rise, on average, by three-fourths percentage point of GDP in PRGF-supported programs, and will also climb as a share of total government outlays (Appendix Table 6). Combined with the containment of current expenditures (see Section VI), the improved composition of public expenditure envisaged in PRGF-supported programs constitute an important ingredient in countries' poverty-reduction strategies. At the same time, it is important to ensure that public

[19] Of the 35 countries in the sample, only 6 had full PRSPs as of end-September 2001.

[20] Additional indicators include primary school enrollment rate, infant mortality, under-five mortality, and the poverty headcount ratio. Data are also available for Bolivia for 2000, whose PRGF-supported program started in 2001.

[21] See, for example, V. Tanzi and K. Chu, eds., *Income Distribution and High-Quality Growth* (Cambridge: MIT Press, 1998); and V. Tanzi, K. Chu, and S. Gupta, eds., *Economic Policy and Equity* (Washington: International Monetary Fund, 1999).

investment is productive, which may require complementary efforts to strengthen governance.[22]

29. **In sum, while the available evidence indicates a good beginning in reorienting spending toward pro-poor activities, weaknesses in budgetary classification and reporting suggest due caution in this assessment.** Given existing weaknesses in the data on poverty-reducing spending, a more precise assessment of how the composition of spending has been altered under PRGF-supported programs will have to await the strengthening of PEM systems. While these improvements will only be fully realized over the medium term, there are several steps that could be taken in the short term to shore up the reporting of poverty-reducing spending (see Section VIII).

B. Improving the Efficiency and Targeting of Spending in Key Sectors Relevant for Growth and Poverty Reduction

30. **Higher spending on poverty-reducing activities must be accompanied by improvements in efficiency and targeting to significantly improve social outcomes.** Programs are seeking sizable increases in poverty-reducing spending. But this is not sufficient for reducing poverty, as the efficiency and targeting of these outlays must also be improved. The agenda of reform in this area is large, given that the poor reap a disproportionately small share of the benefits from education and health outlays in low-income countries, and a majority of studies show a weak relationship between government social spending and social outcomes.[23] [24] The limited scope for reallocating a large portion of public spending to poverty-reducing activities in the short run further underscores the need to realize improvements in this area.

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[22] See V. Tanzi and H. Davoodi, “Corruption, Public Investment, and Growth,” in H. Shibata and T. Ihori, eds., *The Welfare State, Public Investment, and Growth* (Tokyo: Springer, 1998).

[23] For an assessment of the evidence on the benefit incidence of government spending, see Chu, Ke-young, Hamid Davoodi, and Sanjeev Gupta, “Income Distribution and Tax, and Government Social Spending Policies in Developing Countries,” The United Nations University, World Institute for Development Economics Research (WIDER), WP No. 214, December 2000.

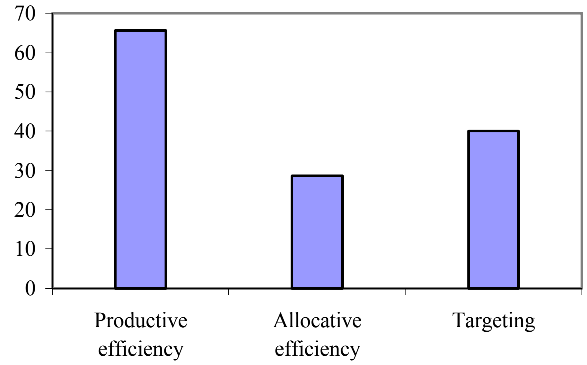
[24] See, for example, Filmer, Deon, and Lant Pritchett, “Child Mortality and Public Spending on Health: How Much Does Money Matter?,” Policy Research Working Paper No. 1864, 1997, World Bank; Flug, Karnit, Antonio Spilimbergo, and Erik Wachtenheim, “Investment in Education: Do Economic Volatility and Credit Constraints Matter?” *Journal of Development Economics*, Vol. 55 (April 1998), pp. 465–81; Gupta, Sanjeev, Marijn Verhoeven, and Erwin Tiongson, “Does Higher Government Spending Buy Better Results in Education and Health Care?,” *European Journal of Political Economy*, forthcoming. For a recent study with a more optimistic assessment of the impact of public spending on health outcomes for the poor, see Gupta, Sanjeev, Marijn Verhoeven, and Erwin Tiongson, 2001, "Public Spending on Health Care and the Poor," IMF Working Paper WP/01/127.

31. **Enhancing the efficiency and equity of spending in key sectors, such as education and health care, is a critical component of countries' poverty-reduction strategies.** Over three quarters of all PRGF-supported programs incorporate such measures (Figure 5). In many cases, these policy actions are drawn from the PRSPs and advice from the World Bank.

32. **PRGF-supported programs are placing more emphasis on improving the efficiency and equity of spending than under ESAF-supported programs.** Only one-third of ESAF-supported programs focused on this facet of expenditure policy. Moreover, PRGF-supported programs deal with these issues with more breadth and depth.

33. There are two complementary but distinct aspects of efficiency that have been addressed in PRGF-supported programs:

Figure 5. Measures for Improving the Efficiency and Targeting of Public Spending in PRGF-supported Programs
(percent of countries)



Source: IMF staff estimates.

- **The productive efficiency of spending** can be improved by using a more productive mix of spending inputs—for example, shifting spending to critically needed nonwage inputs in health and education, such as medicines and textbooks; or efficiency improvements that allow the government to provide the same level of public services with lower spending, for example, by reducing waste.

- **The allocative efficiency of spending** can be strengthened by reallocating public spending within sectors to programs that are most useful for meeting the government's policy goals. For example, a reallocation of spending from tertiary to primary education and to rural areas can potentially enhance the efficiency of spending if the principal goal of education policy is to increase primary enrollment and completion rates.

34. **The measures to improve productive efficiency vary, depending on country circumstances.** A number of countries are improving the input mix by restraining the growth of the wage bill, thus providing room for increased or higher quality social services (The Gambia, Kenya, Lao PDR, Niger, Senegal, and Zambia).[25] On the other hand, some countries

[25] In these countries education and health spending is rising, with the exception of Kenya. This indicates that the share of spending being allocated to nonwage inputs (including capital outlays) is climbing. A similar picture

(continued…)

(Azerbaijan, Cameroon, Mali, and Uganda) are granting targeted wage increases or decompressing the wage scale, so as to maintain or attract skilled workers, including in the social sectors. In some circumstances, further streamlining of public employment is also envisaged, and a rehabilitation of infrastructure to enhance the returns from public investment. In Uganda, the efficiency of spending in a number of ministries is also expected to improve with the use of output-based budgeting.

35. **To improve allocative efficiency, the share of spending in primary education and health will rise.** A reallocation of spending towards primary education and health is envisaged in a number of countries (Benin, Ghana, Guinea-Bissau, Kenya, Rwanda, and Uganda). Spending in these areas is seen as important in meeting targets for immunization and/or lowering infant mortality; providing health care to pregnant women and/or the elderly; and improving access to kindergarten and/or primary school. Outside the social sectors, some countries also target a shift of spending from urban transportation projects to rural roads.

36. **Policy measures are also envisaged to better target spending toward the poor.** In transition economies, a common aim is to make social assistance a more effective instrument of poverty alleviation by targeting this spending to the poor. In a similar vein, some countries plan to replace subsidies that are enjoyed by all consumers—poor and nonpoor alike—with those that only benefit low-income groups. In other countries, the objective is to increase equity by improving the access of the poor to health care and education, facilitated by the elimination of primary school fees (e.g., Tanzania, Uganda). In general, measures to improve targeting are not very specific, and programs only provide general statements of principle.

37. **There is substantial scope to improve the quality and specificity of expenditure advice in PRGF-supported programs.** As more countries move to full PRSPs, there will be further opportunity to fully articulate specific measures, and for PRGF-supported program documents to cross reference these measures and assess progress on earlier initiatives. Full PRSPs will also provide occasion to more fully integrate the policy advice available from development partners, including that found in the World Bank's Public Expenditure Reviews (PERs).

C. Tax Policies that Simultaneously Improve Efficiency and Equity

38. **Programs attempt to foster more efficient tax systems—which can facilitate growth—and improve the administration of taxes.** To facilitate the higher growth necessary for poverty reduction, tax systems should be efficient, that is, they should minimize distortions to the best use of resources across the economy. Efficient taxation also requires that the tax system be impartially but effectively administered based on the rule of law.

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emerges for the PRGF sample as a whole, where the wage bill is constant as a share of GDP, while education and health care spending is increasing (see Figure 1 and Appendix Table 6).

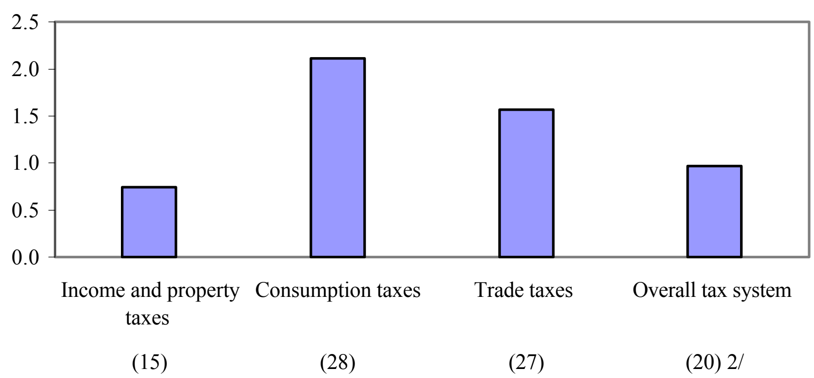
Building on the substantial progress to reform tax systems in the past, about two-thirds of tax-related measures under the PRGF-supported programs focus on improving the administration of the tax system, rather than the design of the tax system per se. The average number of new tax measures per program request or review is eight, compared with ten per under the last annual ESAF-supported program.

39. **Tax policies in IMF programs have also sought more equitable taxation.** Policy measures have included those that promote greater "horizontal equity"—that is, taxpayers with similar incomes are treated equally. There has been less emphasis on "vertical equity"—that is, making sure that high-income taxpayers pay higher taxes. This is because there is limited scope to implement progressive income taxes in low-income countries, given administrative constraints and the high share of agriculture and the informal sector in economic activity.

40. **Tax revenues are expected, on average, to rise by about one percentage point of GDP over the three-year program period under the PRGF, based on higher receipts from indirect taxes** (Appendix Table 6). The likely effect of rising indirect taxes on the distribution of income is difficult to ascertain. While some studies indicate that the poor pay a higher share of their income for indirect taxes than other income groups (i.e., these taxes are regressive), other studies suggest that indirect taxation is progressive.[26]

41. **Most measures to change the tax system focus on consumption and trade taxes, rather than income and property taxation** (Figure 6). In some countries, this includes efforts to introduce a modern and broad-based value added tax (Ethiopia, Lao PDR, Lesotho, and Rwanda). Reform of trade taxes mainly encompasses measures

Figure 6. Tax Policy Measures in PRGF-supported Programs by Type of Tax
(number of measures per country) 1/



Source: IMF staff estimates.
1/ Number of countries implementing measures in each category indicated in parentheses.
2/ Measures that cover more than one category or the tax system as a whole.

[26]For a review of tax incidence studies, see Chu, Davoodi, and Gupta, "Income Distribution and Tax, and Government Social Spending Policies in Developing Countries."

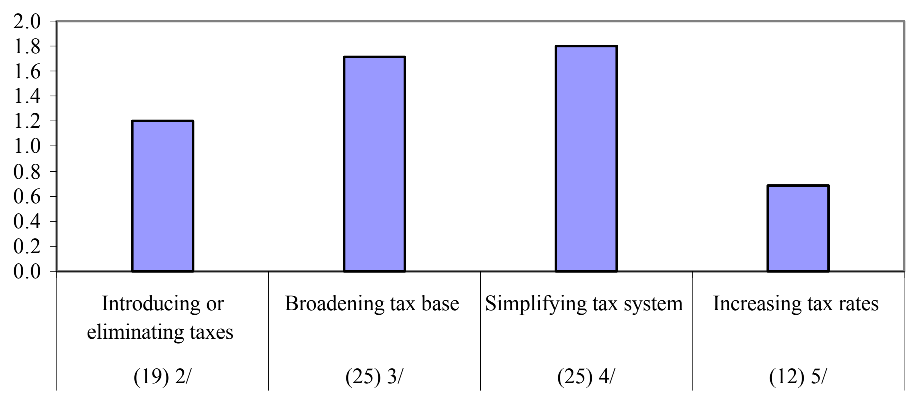
to simplify import taxation and reduce distortions to resource allocation caused by high tariff rates (see below), at times in the context of regional integration movements.

42. **Distributive considerations are important in some programs**. In Mauritania, for example, a lower VAT rate was allowed for basic goods consumed by the poor even though it increased the burden of administering the tax (see Section IX). In Georgia, greater progressivity in the income tax was envisaged to improve income equality, and in Kenya, further adjustment of tax brackets and the personal tax allowance were undertaken to offset the effects on low-income groups of increases in indirect taxes.

43. **Programs are also supporting a more equitable and efficient tax system by reducing exemptions and broadening the tax base**. Almost three-fourths of programs incorporate measures to broaden the tax base by removing exemptions (Cambodia, The Gambia, Guinea, Kenya, Lao PDR, Macedonia, Mauritania, Mozambique, Rwanda, Tajikistan, Tanzania, and Uganda), abolishing tax holidays, or paring special tax regimes that benefit foreign investors (Cambodia, Georgia, Lao PDR, Mauritania, Mozambique, and Rwanda).

44. **Efficiency gains are also anticipated from the simplification of the tax system or reductions in high marginal tax rates.** About three-fourths of all PRGF-supported programs seek to simplify the tax system and reduce distortions (Figure 7). This is to be accomplished, for example, by lowering tariff rates or reducing the number of import tariff rates (Albania, The Gambia, Ghana, Malawi, Mauritania, Mongolia, Niger,

Figure 7. Tax Policy Measures in PRGF-supported Programs by Type of Reform (number of measures per country) 1/

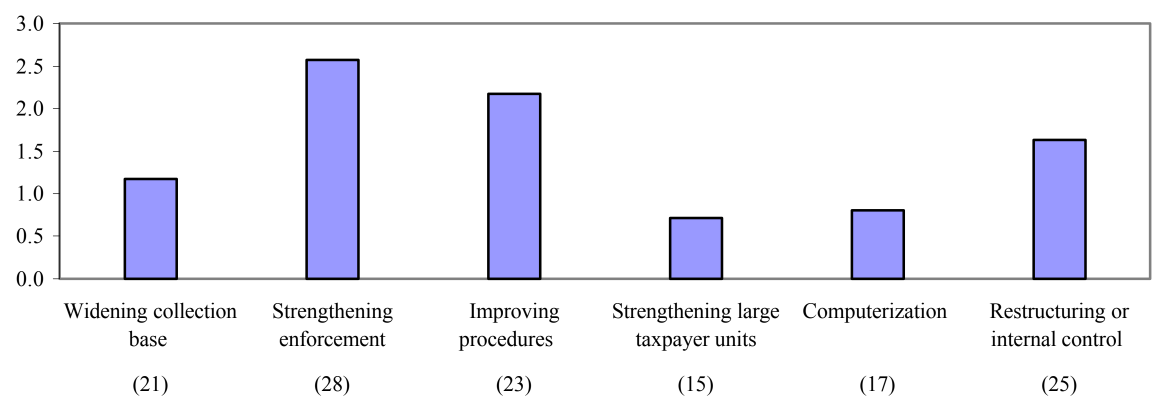


Source: IMF staff estimates.
1/ Number of countries implementing each measure indicates in parentheses.
2/ Includes measures to introduce VAT, eliminate surtaxes, and general reforms of the tax system.
3/ Includes removing tax exemptions and abolishing tax holidays.
4/ Includes reductions in number of different tax rates and the lowering of marginal tax rates.
5/ Includes temporary duties.

Sierra Leone, Tanzania, Vietnam, and Zambia); tightening tariff exemptions; reducing excessive excise tax rates; and simplifying the rate structure of the personal income tax.[27]

45. **A wide array of measures is expected to strengthen tax administration.** About half of these measures are devoted to improving taxpayer compliance by widening the revenue collection base and strengthening enforcement (Figure 8). These efforts include the introduction of taxpayer identification numbers (Cameroon, Chad, Mali, Senegal, and Tajikistan) and strengthened tax audits or inspections (Albania, Armenia, Benin, Cambodia, Georgia, Ghana, Macedonia, Mauritania, Moldova, Mozambique, Rwanda, and Uganda). Other measures seek to improve the technical capacity and organization of the revenue authorities through computerization and improved operating procedures, including for large taxpayer units (Bolivia). The majority of tax administration measures focus on the domestic tax system, while a larger share of customs measures are subject to conditionality (that is, the measures are prior actions, performance criteria, or structural benchmarks under the program).

Figure 8. Tax Administration Measures in PRGF-supported Programs
(number of measures per country) 1/



Source: IMF staff estimates.
1/ Number of countries implementing each measure indicated in parentheses.

46. **PRGF-supported programs place slightly less conditionality on tax measures than under the ESAF-supported programs.** PRGF-supported programs average between 2 and 3 tax measures subject to conditionality per annual program request or review; about half of this takes the form of structural benchmarks. This compares with about 3 such measures per country under the last ESAF-supported program. Furthermore, the percentage

[27] In some countries, rates are increasing in light of revenue needs, especially in cases where these rates are low by international or regional standards (e.g., Moldova and Guinea-Bissau).

of all tax measures subject to conditionality has declined. These developments reflect efforts to streamline conditionality (see Section VII).

47. **Distributive aspects of taxation are not always discussed in PRGF-supported program documents.** As poverty and social impact analysis (PSIA) are strengthened (see Section IX), the implications of taxation on income distribution and poverty reduction can be expected to be treated more systematically and in greater depth.

48. **A vigorous program of technical assistance will be required to achieve continued progress in modernizing tax administration.** Despite the impressive strides made in this area, there is a long road ahead to building modern and efficient tax administrations in PRGF-supported countries. A well-coordinated effort among development partners is needed to help accelerate the pace of improvements in domestic capacity.

VI. Key Feature 4: Ensuring Appropriate Flexibility in Fiscal Targets

This key feature sets out the expectation that fiscal targets in PRGF-supported programs should be designed in a manner that allows greater flexibility in accommodating higher public expenditures and accommodating unexpected changes in revenue or financing.

49. **The flexibility of fiscal targets under PRGF-supported programs can be analyzed from a number of angles.** One perspective is to assess whether the fiscal framework in these programs is permitting an increase in public expenditures to accommodate the government's poverty reduction strategy; to maintain macroeconomic stability, this should be consistent with the program's targets for external balances, inflation, and credit growth. Another aspect of flexibility in program design is how targets for the budget deficit are adjusted when foreign aid or revenues are different than anticipated; for example, are budget deficits allowed to increase when more foreign financing is available? The first section below assesses the design of fiscal targets, while the second addresses the adjusters for these targets built into PRGF-supported programs.

A. Fiscal Targets Under PRGF-Supported Programs

50. **PRGF-supported programs incorporate higher public expenditures.** On a commitment basis, primary expenditures (i.e., public expenditures net of interest payments) are targeted to rise by ¾ percentage points of GDP to 22½ percent of GDP—almost two percentage points higher than envisaged in the last ESAF-supported program (Table 4). On average, almost all of the targeted increase in public outlays relative to the pre-PRGF year will be absorbed by higher capital expenditures, while current outlays in PRGF-supported

Table 4. Fiscal Targets in PRGF- and ESAF-Supported Programs[1]
(Unweighted averages; in percent of GDP unless otherwise indicated)

	Under the PRGF[2]			Under the ESAF[3]		
Data	Pre-Program Year [4]	3-Year Program Average [5]	3-Year Program Average Minus Pre-Program	Pre-Program Year [6]	3-Year Program Average [7]	3-Year Program Average Minus Pre-Program
Total revenue and grants	20.3	21.4	1.1	19.4	20.3	0.9
Revenue	17.1	17.9	0.8	16.3	17.3	1.0
Grants	3.2	3.5	0.3	3.1	3.0	-0.1
Total expenditure and net lending	23.6	24.4	0.8	22.8	23.2	0.3
Primary expenditure [8]	21.6	22.5	0.9	20.0	20.6	0.6
Overall balance (commitment basis)	-3.3	-3.0	0.3	-3.5	-2.9	0.5
Arrears	-0.1	-0.5	-0.4	-0.3	-0.4	-0.1
Overall balance (cash basis)	-3.5	-3.6	-0.1	-3.8	-3.4	0.4
Overall balance (cash basis) excluding grants	-6.7	-7.0	-0.4	-6.6	-6.2	0.4
Deficit financing	3.5	3.6	0.1	3.8	3.4	-0.5
Domestic	0.9	-0.2	-1.1	1.0	-0.2	-1.3
Bank	0.1	-0.6	-0.8	0.3	-0.7	-1.0
Non-Bank	0.2	-0.1	-0.4	0.3	-0.1	-0.3
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External [9]	2.6	3.7	1.1	2.8	3.6	0.8

Sources: National authorities; and IMF staff estimates.

[1]Excludes Moldova, which did not have an ESAF program; and Guinea Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standarddeviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.

[2]Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.

[3]Refers to targets set out in the last annual ESAF arrangement.

[4] In most cases, the pre-PRGF year is 1999.

[5] For the sample as a whole, data refer to averages for two years for 6 countries, and for one year for 5 countries.

[6] Refers to the year before the last annual ESAF arrangement. In most cases, it refers to 1997.

[7] For the sample as whole, data refer to averages for two years for 3 countries, and for one year for 4 countries.

[8] Total expenditure and net lending minus interest payments.

[9] Includes financing not identified at the time documents were submitted to the Board.

programs—including for wages—will remain roughly constant as a share of GDP (Appendix Table 6). This pattern of adjustment augurs well for these countries' growth prospects.[28]

51. **PRGF-supported programs have deficit targets that are similar to those under the preceding ESAF-supported programs.** PRGF-supported programs target similar deficits on both a commitment and cash basis, as lower interest burdens and rising revenues and grants have facilitated higher primary outlays. On a cash basis, changes in the deficit (relative to the pre-program year) are higher under PRGF-supported programs, reflecting greater repayment of arrears.

52. **As during ESAF-supported programs, governments are expected to reduce their debt to the banking system on a net basis.** PRGF-supported programs, therefore, are designed to be consistent with a further strengthening of public finances and the maintenance of macroeconomic stability—as evidenced by the similarity in macroeconomic targets under PRGF- and ESAF-supported programs (Section IV).

53. **The fiscal framework in PRGF-supported programs varies across countries.** Not all countries, for example, are able to accommodate higher public spending (even if foreign-financed), as this may not be compatible with macroeconomic stability or a sustainable level of public debt.[29] Post-stabilization countries[30] incorporate larger increases in expenditure, and the overall fiscal deficit, than other countries with PRGF-supported programs (Appendix Table 7). Deficits in the post-stabilization countries are targeted to increase by about ½ percentage point of GDP, while in other PRGF-supported program countries, the fiscal balance will remain roughly unchanged and larger than average.[31] Revenue increases targeted under PRGF-supported programs are also less ambitious in the post-stabilization countries, although this could reflect their healthier revenue generation prior to the start of the PRGF-supported

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[28] See, for example, G. Mackenzie, D. Orsmond, and P. Gerson, 1997, "The Composition of Fiscal Adjustment and Growth: Lessons from Fiscal Reform in Eight Economies," IMF Occasional Paper No. 149; and A. Alesina, R. Perotti, and J. Tavares, 1998, "The Political Economy of Fiscal Adjustments," *Brookings Papers on Economic Activity,* No. 1.

[29] Substantial foreign inflows (even when highly concessional) can exert pressure on both the real exchange rate and domestic prices. Many countries are currently grappling with the problems stemming from large foreign inflows (Malawi, Mozambique, Uganda).

[30] Post-stabilization countries are defined as those that (1) achieved a cash deficit of less than 2 percent of GDP (after grants) in 1999; (2) had inflation of less than 10 percent in 1999, and projected inflation below 10 percent in 2000–02; and had positive economic growth in 1999. This group comprises Azerbaijan, Benin, Cambodia, Cameroon, Macedonia, Mauritania, Mozambique, Senegal, Tanzania, and Uganda.

[31] Flexibility in this respect is largely similar to that under the last ESAF-supported program when the higher foreign financing for post-stabilization countries under their PRGF-supported programs is taken into account.

program. These considerations suggest a sizable degree of flexibility in program design, as there is no "one size fits all" approach to fiscal adjustment.

54. **While revenues will rise under PRGF-supported programs, the projected increase is smaller than under ESAF-supported programs.** Non-HIPCs anticipate more progress in raising revenues than the HIPCs (Appendix Table 8); furthermore, HIPCs expect smaller increases in their revenues than under their last ESAF-supported program. This may reflect a myriad of factors, including more realism in revenue projections, and a less pressing need to generate additional fiscal resources in the face of sizable debt relief. Nevertheless, these less ambitious targets suggest the need for continued vigilance on the revenue effort in HIPCs, which will be necessary to secure the resources for higher poverty-reducing spending over the medium term.

B. Flexibility in Accommodating Changes in Financing or Revenues

55. **One critical aspect of flexibility is how program targets for the government budget accommodate deviations in expected foreign financing, revenues, or privatization proceeds.** Of particular interest in this context is (i) whether fiscal targets are sufficiently flexible so as to allow governments to increase the budget deficit when foreign financing is higher than expected; (ii) whether PRGF-supported programs identify contingent expenditures to be expanded or protected in the case that revenues or financing is significantly different than expected; and (iii) how program targets are adjusted in response to shortfalls in foreign financing, revenues, or privatization receipts.

56. **PRGF-supported programs show greater flexibility than ESAF-supported programs in accommodating higher spending when unanticipated foreign financing (including in the form of grants) is available.** This is especially true of new PRGF-supported programs, where over one-third of programs contain such adjusters; under the ESAF-supported programs, by contrast, these adjusters were present in fewer than 10 percent of countries. Transformed PRGF-supported programs utilize these adjusters with less frequency than new programs. This may owe to fact that the start of a program provides a more ripe opportunity for addressing technical issues of program design, including adjusters.

57. **PRGF program targets accommodate shortfalls in foreign financing, although slightly less than under ESAF programs.** About two-thirds of PRGF-supported programs allow for an upward adjustment in targets for domestic financing of the deficit when foreign financing is lower than expected. In most cases, the accommodation is only partial. Adjusters for shortfalls in privatization proceeds, or accommodation for other shocks, are also present in about a quarter of the programs.

58. **One area where relatively little progress has been made is in the identification of contingent expenditures, especially in transformed PRGF-supported programs.** This is due, in part, to the fact that PRSPs have not been identifying the specific expenditures that

would be increased/decreased in case of excess/shortfall in foreign financing compared to programmed levels. Only four countries (Cameroon, Guinea-Bissau, Niger, and Rwanda) identify the spending that would be increased if foreign financing were higher than anticipated. In most cases, this spending includes that in the social sectors. If a broader definition of contingency spending is used—one that includes spending that is to be protected in case of financing shortfalls—then about a third of all programs have identified these outlays.

59. **Another way to assess flexibility is to judge whether alternative fiscal adjustment paths were discussed with country authorities, and whether the authorities were able to choose from among several different alternatives.** Information on this dialogue, however, is not systematically available in PRGF-supported program documents (see below).

VII. Key Feature 5: More Selective Structural Conditionality

This key feature sets out the expectation that conditionality in PRGF-supported programs should focus on the Fund's core areas of expertise and limit these to key measures for the program.

A. Limit Conditionality to Key Measures Central to the Success of the Strategy

60. **Considerable progress has been made in streamlining structural conditionality on the Fund's core areas of expertise.** The mandate in this area is that measures specified in the PRGF-supported programs should cover only those areas where the Fund has primary responsibility (and in these areas conditionality should be used parsimoniously). The only exception to this rule would be where a structural measure has such a direct, critical macroeconomic impact that the PRGF-supported program would be derailed unless the measure was implemented.[32] Substantial progress has been made in this regard.

61. **Overall, PRGF-supported programs have shown a strong shift toward more streamlined conditionality**.[33] The average number of structural conditions (performance criteria and prior actions) has declined from over eight in the most recent ESAF-supported annual programs approved prior to December 1999 to six for programs approved since July 2000 (including new PRGF-supported programs and continuation of programs approved before 2000). Broadening the scope of measures to include structural benchmarks, the average number of structural measures has declined from 16.9 in the last ESAF-supported annual programs approved prior to December 1999 to 11.8 for programs approved since July

[32] *Poverty Reduction and Growth Facility (PRGF)—Operational Issues* (SM/99/293), December 13, 1999. These guidelines are also spelled out in *Key Features of IMF PRGF-Supported Programs—Operational Issues*, August 16, 2000.

[33] This confirms the results of an earlier study done on a smaller sample in the summer of 2001 (SM/01/219).

2000 (Table 5). Moreover, implementation of the guidelines has been increasingly consistent: the average number of structural measures has declined from 13 for programs approved in 2000 to less then 11 for those approved in 2001. However, this reduction in the number of structural measures has been uneven across programs, as indicated by a relatively large, although declining, standard deviation (falling from 8.1 for programs approved in 2000 to 5.2 for those approved in 2001).

Table 5. Streamlining Structural Conditionality

	ESAF Arrangements	PRGF Arrangements
Total conditions and benchmarks	16.9	11.8
Average core conditions and benchmarks	7.0	6.9
Share of measures in core	41.0	58.0
Average shared conditions and benchmarks	3.7	2.3
Share of measures in shared areas	22.0	20.0
Average non-core conditions and benchmarks	6.2	2.5
Share of measures in non-core areas	34.6	21.9

Source: IMF country documents.

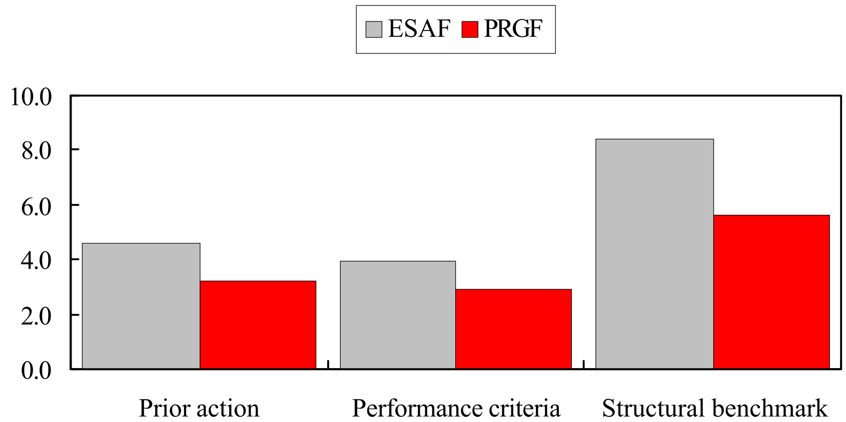
62. **Streamlining is evident across forms of conditionality and other program measures** (Figure 9)**.** The reduction in conditionality was particularly significant for prior actions and benchmarks, whose number on average was cut by 47 percent to three and six conditions per program, respectively. The average number of performance criteria, already moderate under ESAF-supported programs, has declined further to less than three measures per program. In some programs, streamlining benefited from efforts to limit conditions that specify multiple steps to achieve the same objective, such as the introduction of a VAT or the design and implementation of civil service reform.

B. Confine Fund Conditionality to Measures in the Fund's Domain; Exceptions Must be Justified

63. **Conditionality has been increasingly focused on the Fund's core areas of expertise (Box 2).**[34] In PRGF-supported programs approved since July 2000, 58 percent of structural measures focused on the Fund's core areas, compared with 41 percent in earlier

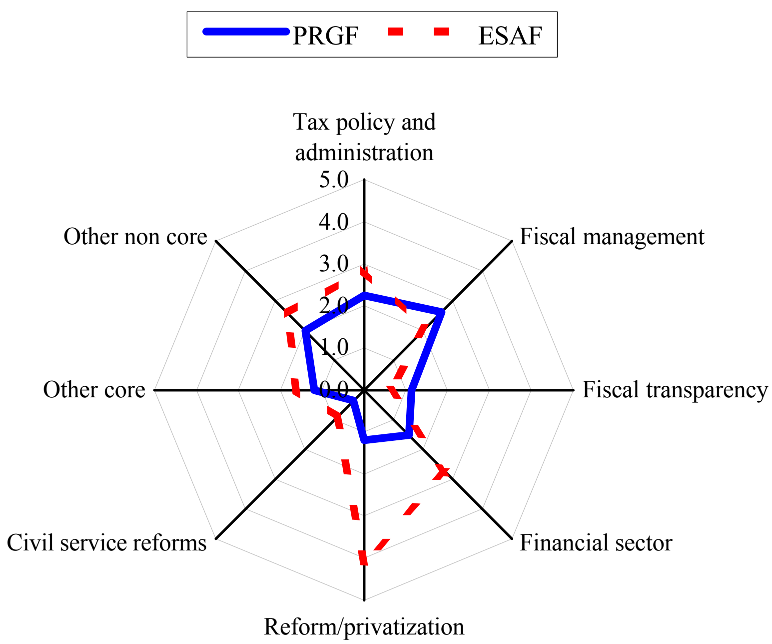
[34] In shared areas of responsibility, the lead role between the Bank and the Fund is to be decided on a case-by-case basis.

Figure 9. Streamlining Conditionality in PRGF-Supported Programs
(Average number of conditions per program)



Sources: National authorities, Country Policy Intentions Documents; and IMF staff estimates.

Figure 10. Composition of Structural Conditionality in PRGF-Supported Programs
(In averages per request or review)



Sources: National authorities, Country Policy Intentions Documents; and IMF staff estimates.

Box 2. Structural Conditionality and Areas of Fund Expertise

Core	Shared	Non-Core
tax policy	financial sector reforms	public enterprise reforms
fiscal transparency	trade policy	privatization
fiscal management	private sector promotion	marketing and pricing reforms
monetary policy		civil service restructuring
foreign exchange regime		social safety nets
exchange rate policy		monitoring poverty reduction
macroeconomic data		sectoral policies
tax and customs administration		

Source: Adapted from *Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, 12/13/1999).

programs. The proportion of measures in core areas has been even larger for new PRGF-supported programs approved since July 2000 (68 percent), as compared to transformed PRGF-supported programs (52 percent). The number of conditionality in core areas has continued largely unchanged in absolute terms, while those in areas shared with the World Bank and in areas outside the Fund's core responsibilities have fallen by roughly one-third and three-fifths, respectively (Table 5).

64. **The concentration of measures under PRGF-supported programs shows a clear shift to measures related to fiscal policy (Figure 10).** Measures in the areas of fiscal management and fiscal transparency rose from 15 percent of structural measures in the ESAF sub-sample to 31 percent in the PRGF sub-sample (see Section VIII). Tax policy and administration measures roughly maintained the same share in both the sub-samples (16–18 percent). The concentration of structural conditionality in the fiscal area is consistent with the renewed emphasis on poverty reduction in the PRGF and the related need to maintain revenue and ensure that fiscal resources are spent efficiently for appropriate purposes.

65. **For areas outside the Fund's domain, conditionality in most recent programs has generally been applied when such measures were critical to the country's fiscal and/or external targets (Box 3)**. In such cases most staff reports provided justification for their inclusion in the program. Justification was clear in 60 percent of all PRGF-supported program reports and in 73 percent of reports for new PRGF-supported programs approved since July 1, 2000. For example, the importance of ensuring a healthy banking sector, and thus containing the fiscal cost of restructuring, was particularly clearly presented in the case of Vietnam. Financial sector reforms have also taken center stage in Mozambique's PRGF-supported programs and a clear case has been made in the relevant staff report. In countries where governance is a critical issue, such as Kenya and Cameroon, programs have also

Box 3. Structural Conditionality Boxes—What Story do They Tell?

Starting in May 2001, staff reports for PRGF-supported program requests and reviews have routinely included a box on structural conditionality. These boxes follow a standard format specifying the status of topics covered by conditionality previously in Fund-supported programs, the structural conditionality in the current program, areas now covered by World Bank conditionality or that of other institutions, and areas that are no longer covered in Bank or Fund conditionality.

One clear trend seen from these boxes is the phasing out of structural conditionality related to privatization. Whereas privatization measures used to constitute a significant part of structural conditionality in many PRGF-supported arrangements, recent programs include no such conditionality, except where it had macroeconomic importance (e.g., Ghana and Tajikistan). In most cases the structural agenda for privatization has been taken over by the World Bank.

The streamlining of structural conditionality also affects other areas. In the programs with Burkina Faso and Mali, Fund conditionality in the energy and telecommunication sectors have been phased out as has conditionality relating to drafting of procurement and investment codes in the program with The Gambia. In all of these cases, conditionality has been taken over by the World Bank. The streamlining efforts have also extended to the area of the financial system (an area with shared responsibilities between the IMF and the World Bank); in most of these cases (e.g., Mali, Mongolia, and Niger) the World Bank has also taken over the conditionality from the IMF.

These efforts at streamlining structural conditionality have been pursued flexibly. In cases where measures have been deemed to be essential on macroeconomic grounds, conditionality has been retained. For example, the programs with Azerbaijan, Cameroon and Ghana include conditionality in the energy sector. In the cases of Azerbaijan and Ghana domestic arrears build–up or domestic debt build-up and inappropriate pricing policies are posing serious risks to macroeconomic stability, whereas in the case of Cameroon, the conditionality—related to the formulation of a reform strategy for the oil sector—is viewed as essential for enhancing the economy's growth prospects. Other cases where sector-specific problems have important macroeconomic repercussions are Cambodia (logging sector), Mali(cotton), and Senegal (groundnuts).

focused on fiscal transparency as well as governance-related issues not in the Fund's core area of expertise.

66. **The streamlining of structural conditionality is being complemented with a deepened collaboration with the World Bank.** With the Fund focusing its conditionality on its core areas of expertise, conditionality in non-core areas has increasingly been picked up by the World Bank. In more than two-thirds of such cases where the Fund retained conditionality in non-core areas (mainly because these were critical to reach the macroeconomic objectives of the program), this has been supplemented by the World Bank, either with its own conditionality in its lending programs, or by providing policy advice in cases where an appropriate lending program was absent; in the sub-sample of ESAF-supported programs, this was only true in about half of all cases. In contrast, in areas where the Fund and the Bank share responsibility, efforts have been directed more towards avoiding duplication. In these areas, the share of Fund conditionality that has been supplemented by World Bank conditionality/advice has remained at around 50 percent.[35] These shares may increase as more

[35] Few, if any, staff reports explicitly discuss cases where the World Bank was not involved. Therefore, in cases where staff reports did not discuss World Bank involvement, the presumption is that the particular conditionality was not supplemented by World Bank conditionality or policy advice.

countries are covered by the World Bank's Poverty Reduction Support Credit (PRSC), simplifying coordination across instruments.

67. **External comments on streamlining structural conditionality broadly concurred with the factual assessment set out above, but views were mixed as to the implications and advisability of this shift**. Some donors and NGOs expressed the view that streamlining structural conditionality is an important element in strengthening program ownership, but also thought that there was a risk of serious gaps in program monitoring between the Bank and the Fund. Other donors and NGOs (including some of the same cited immediately above) also expressed a concern that if structural conditionality is added by the Bank to the same extent that it is dropped by the Fund, there will be no net change in conditionality. Still other NGOs thought that notwithstanding streamlining to date, Fund conditionality was still too extensive.[36]

VIII. Key Feature 6: Measures to Improve Public Resource Management and Accountability

This key feature emphasizes the needs for public expenditure management measures that promote transparency and accountability in the of the use public resources.

68. **Almost all PRGF-supported programs place strong emphasis on strengthening governance through improved public expenditure management (PEM).[37]** On average, each PRGF-supported program request or review includes between four and five new measures to strengthen PEM. Depending on the weaknesses of PEM capacity, the prominence of PEM measures varies widely, ranging from no policy actions in Ethiopia to 16 measures in Azerbaijan and 20 in Rwanda in their most recent programs.

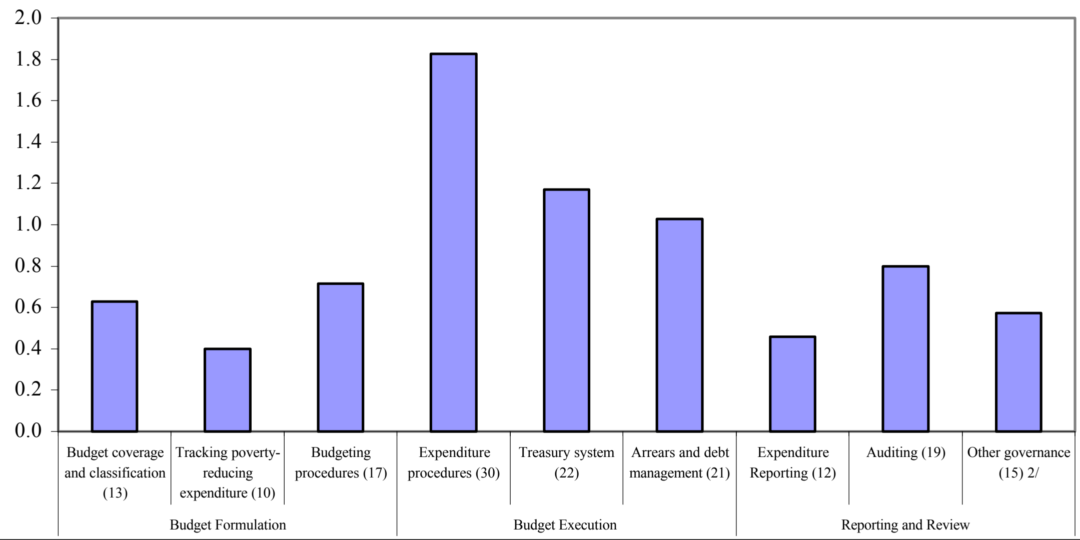
69. **The majority of these measures focus on strengthening budget execution, most notably with respect to the operations of the treasury and improving expenditure procedures** (Figure 11). This reflects, in part, a need to strengthen the monitoring of fiscal performance under the program. Examples include introducing an integrated computerized fiscal and accounting information system to manage central government revenues and expenditures (Bolivia, Mozambique); introducing commitment control systems (Georgia, Ghana, Kenya, Malawi, Mozambique, Tajikistan, and Uganda); adopting modern principles of

[36] Measures directly focused on poverty reduction generally fall within the World Bank's areas of expertise. However, 18 percent of requests for or review of programs supported under the ESAF and 22 percent of those under the PRGF had performance criteria, prior actions, benchmarks or review topics directly focused on poverty reduction. Most of these related to expenditure allocation.

[37] The issue of governance goes beyond the management of public resources. While this is recognized, other aspects of governance, such as the functioning of the legal system, the enforcement of contracts and corruption are outside the scope of this review. These other aspects of governance can affect macroeconomic performance.

fiscal responsibility and transparency (Mozambique); and reforming procurement procedures (Azerbaijan, Cameroon, Guinea-Bissau, Kenya, Madagascar, and Mauritania). As part of the effort to ensure that public resources devoted to poverty reduction are reaching their intended uses—for example, that spending allocated for primary education actually reaches schools at the local level—about a third of the countries in the study have also implemented expenditure tracking surveys.

Figure 11. PEM Measures in PRGF-supported Programs
(number of measures per country) 1/



Source: IMF staff estimates.
1/ Numbers in parentheses refer to the number of countries implementing the particular PEM measure.
2/ Comprises miscellaneous measures to improve governance (e.g. the creation of anti-corruption commissions.)

70. **With respect to budget formulation, a number of countries are strengthening budget classification, with a view to assisting efforts to identify and track poverty-reducing spending.** This has initially focused on improving the reporting of broad-brush categories of social expenditure, and preparation of quarterly reports on budget execution of social spending. Other more general improvements in budget formulation could also be expected to strengthen the ability to track poverty-reducing outlays, including improved expenditure classification and implementing a medium-term expenditure framework for priority sectors, particularly education and health.

71. **In the area of budget reporting, programs have emphasized more rigorous auditing.** This has involved establishing and staffing audit agencies (Azerbaijan, Cameroon, Cambodia, and Tajikistan), and the submission of accounts to the Auditor General. More

timely fiscal reporting has also been incorporated in a number of programs. More generally, a number of countries have also sought to incorporate anti-corruption strategies (Benin, Georgia, Ghana, Kenya, Lesotho, and Malawi).

72. **Conditionality is placed on a large percentage of PEM measures.** Over half of the PEM measures in country programs are included as prior actions (PAs), performance criteria (PC), or structural benchmarks (SBs). These measures are found in all but one country in the sample; on average, each new program request or review contains about three measures with conditionality. As with the population of PEM measures as a whole, conditionality focuses primarily on measures linked to budget execution—an area (along with reporting) where PEM systems are relatively weak.[38] Indicative of the high importance placed on strengthening PEM, about 40 percent of the conditionality in the PEM area takes the form of prior actions and performance criteria.

73. **PRGF-supported program countries have largely been successful in meeting conditionality in the PEM area.** Based on the limited sample of measures for which data are available on the status of implementation, only half of all measures were strictly observed. Within a year of the due date, however, about 90 percent of all measures were implemented. This confirms the view that PEM measures often take longer to implement than envisaged, even with strong commitment on the part of the authorities. As could be expected, PEM improvements linked to stronger forms of conditionality (prior actions and performance criteria) fared slightly better than average. There is no systematic pattern regarding which kinds of PEM reforms were associated with the greatest degree of slippage.

74. **PRGF-supported programs are placing more emphasis on strengthening PEM capacity than under the ESAF-supported programs.** On average, the number of measures, both with and without conditionality, has increased by about a third (in line with Section VII above). As with the ESAF-supported programs, the majority of measures under the PRGF-supported programs concern budget execution, while reporting takes on added importance, reflecting the greater emphasis placed on auditing and anti-corruption efforts.

75. **Despite the strides made in the PEM area, a substantial unfinished agenda of reform remains, including with respect to the comprehensiveness of budgetary data and its dissemination to the public.** The PRSP process has led to a more open debate on fiscal policies and a clearer articulation of the government's policy intentions. In this regard, the timely provision of comprehensive budgetary data can help ensure that fiscal policies and objectives are open to public debate. Many countries, however, fall short of this standard.

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[38] See the Bank/Fund Board paper, *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPCs)* (SM/02/30).

76. **Fiscal data are often not comprehensive.** In roughly a third of countries, there are still considerable differences between budget coverage and the Government Finance Statistics (GFS) definition of the general government, often due to substantial extra budgetary activities. Based on the fiscal modules for countries conducted under the Report on the Observance of Standards and Codes (ROSC), it is rare for budgets to provide information on contingent liabilities, tax expenditures, or quasi-fiscal activities.[39] Few budgets provide detailed information on the government's medium-term fiscal plans, and only about half fully capture donor funds in the budget in a timely manner. In addition, spending outcomes often differ substantially from the budget, limiting the usefulness of the budget as an indicator of the government's fiscal policy.

77. **The dissemination of fiscal information is at times incomplete and subject to considerable delays.** Most countries do not publish budget outturn data on at least a quarterly basis and within four weeks of the end of the period. Those that do often provide data that are highly aggregated and capture only part of the government's fiscal operations. Similarly, only about half of the countries publish data on public debt. Furthermore, final audited accounts are provided to legislatures with a substantial lag (more than one year) in many countries.[40] These results underscore the need for continued close attention to PEM as an integral component of PRGF-supported programs—not only to enhance fiscal discipline, but also to improve the quality of the PRSP process.

78. **A stepped-up program of technical assistance will be indispensable for strengthening PEM systems.** In light of these weaknesses in PEM capacity, a vigorous program of technical assistance remains necessary. In this regard, PRGF-supported programs in HIPCs can draw on the country action plans recently prepared in collaboration with Bank and Fund staff, which, among other things, delineate the areas in which technical assistance could be utilized.

IX. Key Feature 7: Social Impact Analysis of Major Macroeconomic Adjustments and Structural Reforms

This key feature emphasizes that the distributional impacts of major macroeconomic or structural reforms should be considered and reported on in PRGF documents together with any countervailing measures to offset the impact of these reforms on the poor.

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[39] Fiscal modules for the ROSC have been completed for 12 of the 35 countries in the PRGF sample. Assessments of the capacity of public expenditure management systems to track poverty-reducing spending have also been conducted for 20 of the HIPCs in the sample during 2001 by Bank and Fund staff.

[40] This result partly reflects the fact that in Francophone countries, public accounts are checked in detail for several successive years, so as to verify consistency between Treasury balances (stocks) and annual budget outcomes (flows). Therefore, these countries do not present final audited accounts within one year.

79. **More than half of all PRGF-supported programs refer to some form of poverty and social impact analysis (PSIA)**. PSIA consists of the analysis—ex-ante, during implementation, and ex-post—of the positive and negative impact of country policies on the well-being of the poor and other groups. When defined broadly as instances where program documents describe the potential effects of one or more economic policies on the poor, about 60 percent of such programs include some form of PSIA. When PSIA is defined strictly to include instances where a study was undertaken to assess the effects of specific policies—"formal" PSIA—only a third of PRGF-supported programs included such analysis. Furthermore, the majority of policies in PRGF-supported programs with important social impacts are not covered by formal or informal PSIA (Figure 12).

80. **PSIA, broadly defined, is conducted on a much wider scale than under the ESAF.** This has occurred despite the fact that ESAF-supported programs contained a larger number of measures with potentially adverse effects on the poor in both the macroeconomic and structural area.[41] About half of ESAF-supported programs incorporated some type of social safety net to address the adverse effects of reforms, however, suggesting that a good deal of the PSIA underpinning the design of these social safety nets may have been unreported in Board documents. Nevertheless, PRGF-supported programs report both more PSIA, and a larger share of countervailing measures, for almost all types of reforms.

81. **The coverage of PSIA by type of reform varies.** Coverage of contractionary expenditure, trade and exchange rate reform, and domestic pricing reform is widest (Figure 12). In many important categories of reform, however, (e.g., revenue measures, civil service reform and privatization), the coverage of PSIA is modest. A number of PRGF-supported program documents recognize that the use of PSIA has been limited in the past (Ethiopia, The Gambia, Mongolia, Mozambique, and Senegal), and note that assistance from the World Bank and other development partners will be instrumental for further progress in this regard.

82. **PSIA is influencing programs in both the design of economic policies and the formulation of countervailing (compensatory) measures.** In some cases, this has led to a modification in policies, due to concern over the possible adverse effects on the poor. For

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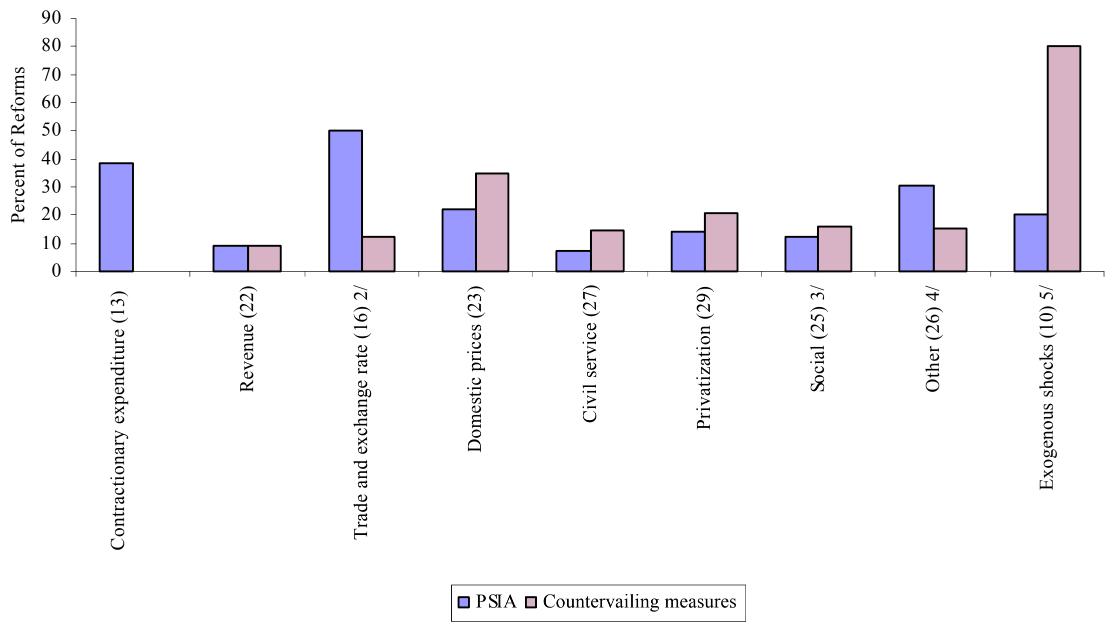
[41] For a review of social policies under Fund-supported programs, including ESAF-supported programs, see S. Gupta and others, *Social Issues in IMF-Supported Programs*, Occasional Paper No. 191, 2000.

Figure 12. Poverty and Social Impact Analysis (PSIA) in PRGF-supported Programs and Countervailing Measures 1/
(Percent of reforms covered by PSIA and countervailing measures)



Source: IMF staff estimates.
1/ Numbers in parentheses refer to the number of countries implementing the particular reform measure.
2/ Includes reforms in international trade policy and exchange rate adjustments.
3/ Includes health, education and pension reforms.
4/ Includes agricultural, financial and legal reforms, changes in user fees, and decentralization measures.
5/ Includes terms of trade shocks, natural disasters and security/refugee crises.

example, PSIA undertaken in Uganda led to a change in plans to liberalize the sugar industry. In Senegal, rather than completely eliminating the subsidy for diesel and kerosene, a 15 to 20 percent subsidy was maintained, due to concerns regarding the impact of higher prices on the poor; and in Cambodia, large-scale retrenchment of civil servants was delayed until adequate safety nets for retrenched government employees could be put in place.

83. **About two-thirds of PRGF-supported programs include countervailing measures.** These countervailing measures aim to offset the potentially adverse short-run effects of exogenous shocks or macroeconomic or structural reforms on the poor. These actions tackle the adverse effects of reforms that are not addressed by changes in policy design. Countervailing measures are most often found in response to changes in domestic prices, privatization, and exogenous shocks (such as those to the terms of trade and natural disasters). Examples include a lowering of the withholding tax on cola nuts in Burkina Faso, and VAT exemptions provided for basic products (Mauritania); severance payments for employees affected by privatization (Mongolia and Vietnam), and retrenched civil servants (Kenya); higher spending on targeted social benefits to offset higher electricity tariffs and provision of limited quantities of free electricity for the poor (Georgia); and cross-subsidies

and targeted tax relief to soften the blow on the poor from increases in petroleum and utility prices (Ghana).

84. **Countervailing measures in PRGF-supported programs are not always accompanied by PSIA.** In some cases, programs incorporate policy actions to address the adverse effects of reform measures, even though program documents do not refer to any PSIA indicating the need for such. As can be observed in Figure12, documents are more likely to discuss countervailing measures than PSIA for increases in domestic prices, civil service reform, privatization, and changes in user fees. The number of measures accompanied by formal PSIA is even smaller.[42] As experience in implementing PSIA deepens, it is expected that a higher share of countervailing measures will be designed with the benefit of formal analytical studies.

85. **PSIA has been widely absent in the six full PRSPs in the sample, with the exception of Mauritania and Uganda.**[43] Data limitations, weak national capacity, and a lack of donor coordination are important obstacles to more widespread and systematic PSIA.[44] Furthermore, it has been difficult to readily adapt the World Bank's work on poverty, such as that contained in Poverty Assessments and Public Expenditure Reviews, to provide insights into the impact of specific policy choices.

86. **PSIA is likely to receive further impetus from a number of recent initiatives.** While national authorities are expected to take the lead in this area, and incorporate this analysis into their PRSPs, the World Bank is helping build national capacity and deepen its analytical work in this area. A toolkit of different analytical techniques for conducting PSIA will be completed in 2002, and the Bank will seek to further disseminate information on best practices. In addition, the United Kingdom's Department for International Development (DFID) will be undertaking a pilot project on PSIA in six countries (Armenia, Honduras, Mozambique, Rwanda, Uganda, and Vietnam), which can henceforth be used by countries as a resource in program design. In April 2001, guidelines for JSAs of PRSPs were issued, which indicate, among other criteria, that staff should assess PRSPs on the basis of how well they describe the impact on the poor of sectoral and structural policies. A concept note on PSIA prepared jointly with the Bank was issued to staff in May 2001, and several internal seminars

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[42] It could be argued that the very existence of these countervailing measures—which are motivated by the desire to offset the adverse effects of reforms—may be indicative of the fact that some qualitative, informal PSIA took place, but was not reported in PRGF documents.

[43] For an assessment of three full and three interim PRSPs, including their treatment of the linkages between policies and poverty, see C. Robb and A. Scott, "Reviewing Some Early Poverty Reduction Strategy Papers," IMF PDP 01/05, November 2001.

[44] For further details on the results of a stocktaking exercise of PSIA in 12 PRGF countries, see "Poverty Reduction Strategy Papers—Progress in Implementation," SM/01/268, August 22, 2001.

have been held for PRGF mission chiefs. PRGF documents are expected to include a description of PSIA being carried out in the country, a summary of discussions with the authorities on the social impact of key reforms, and how this affected the design of policies and countervailing measures.

X. Conclusion

87. **While a good start has been made in incorporating the key features of the PRGF into program design, there is scope for deeper implementation. The broad goals and quantitative macroeconomic frameworks of PRGF-supported programs are generally consistent with those of the supporting PRSPs.** However, the following applies:

- In cases where I-PRSPs/PRSPs have been formulated only in very general terms, the PRGF-supported program, while consistent with the I-PRSP/PRSP, is necessarily linked to these documents only at that general level. To the extent that this is a transitional phenomenon reflecting the early stage of the PRSP process, tighter links between PRGF-supported programs and PRSPs can be expected to emerge as more countries gain experience with the PRSP process.

- In cases where the looseness of linkages between the I-PRSP/PRSP and the PRGF-supported program relates to slow changes in work practices or to capacity constraints (both have been suggested by some NGOs, donors, and authorities), there may be a role for greater technical assistance by the Fund and more proactive outreach efforts by mission teams, resident representatives, and country authorities.

88. **Streamlining of structural conditionality has proceeded very much in line with the intentions set out for the PRGF.** Both in terms of concentrating conditionality in the Fund's core areas of expertise and reducing the total number of conditions, the initiative seems to have been implemented successfully thus far. On the other hand, some NGOs and donors have raised concerns that streamlining may have gone too far and that structural conditionality outside the Fund's core areas is no longer sufficiently covered. Therefore, the staff also need to ensure that measures that are critical to the achievement of a program's macroeconomic objectives are included as conditionality. At the same time, there remains room for improvement in justifying non-core measures as critical to the program and in explaining the role of measures supported by the World Bank or other institutions' policy advice.

89. **The composition of public spending is shifting toward pro-poor activities under PRGF-supported programs and higher public spending is accommodated under these programs.** The amount by which public spending has been targeted to increase has been determined in the context of the program's macroeconomic targets, which themselves are also important for growth and poverty reduction. Due to more generous grants, a lower interest burden, and higher revenues, countries have been able to afford larger levels of poverty-reducing spending than under the ESAF-supported programs. Supported by the PRSP

process, PRGF-supported programs are addressing in more detail the specific reforms needed to improve the efficiency and targeting of public expenditure, and how to protect the poor from the adverse effects of reforms in the short-run.

90. **The results of this review also suggest that progress has been uneven in other areas relevant to fiscal policy.** In particular, improved reporting of poverty-reducing spending (in conjunction with a strengthening of PEM systems), greater emphasis on the efficiency and targeting of public spending, more widespread identification of contingent expenditures, systematic poverty and social impact analysis, and (where appropriate) continued emphasis on bolstering the revenue efforts in HIPCs would strengthen PRGF-supported programs. Several NGOs also indicated that systematic reporting of the dialogue between country authorities and Fund staff on fiscal policy choices would help to increase the transparency and ownership of the PRGF-supported program. Lastly, additional work is required on monitoring outcomes and changes in social indicators.

Appendix Table 6. Revenues and Expenditures Under PRGF-Supported Programs[1]

(Unweighted averages; in percent of GDP)

	New PRGF				Extended PRGF				All			
Data	Sample Size	Pre-Program [2]	3-Year Program Average [3]	3-Year Program Average Minus Pre-Program	Sample Size	Pre-Program [2]	3-Year Program Average [4]	3-Year Program Average Minus Pre-Program	Sample Size	Pre-Program [2]	3-Year Program Average [5]	3-Year Program Average Minus Pre-Program
Total revenue and grants	15	20.6	22.0	1.5	16	20.0	20.7	0.7	31	20.3	21.4	1.1
Total revenue	15	18.5	19.5	1.0	16	15.7	16.3	0.6	31	17.1	17.9	0.8
Tax revenue	14	15.6	16.6	1.0	16	13.2	13.9	0.7	30	14.3	15.2	0.9
Taxes on income and profits	10	4.6	4.7	0.1	12	3.3	3.3	0.0	22	3.9	3.9	0.1
Social security contributions	3	6.0	5.6	-0.4	2	2.3	2.6	0.3	5	4.5	4.4	-0.1
Indirect taxes	10	9.2	10.2	1.0	12	9.1	10.1	1.0	22	9.2	10.1	1.0
Other taxes	2	1.3	1.3	0.1	8	0.4	0.4	0.0	10	0.6	0.6	0.0
Non-tax revenue	14	2.6	2.5	-0.1	16	2.1	2.0	-0.1	30	2.3	2.2	-0.1
Other	3	2.8	3.1	0.3	4	0.5	0.5	-0.1	7	1.5	1.6	0.1
Grants	15	2.1	2.5	0.5	16	4.3	4.4	0.1	31	3.2	3.5	0.3
Total Expenditure and net lending	15	24.0	24.3	0.4	16	23.3	24.3	1.0	31	23.6	24.3	0.7
Current expenditure	15	17.6	17.3	-0.3	16	14.5	14.8	0.3	31	16.0	16.0	0.0
Goods and services	14	8.9	8.8	-0.1	16	7.8	7.8	0.0	30	8.3	8.3	-0.1
Wages and salaries	14	5.2	5.0	-0.2	16	5.2	5.3	0.1	30	5.2	5.1	0.0
Other goods and services	10	5.3	5.4	0.1	10	4.2	4.0	-0.2	20	4.7	4.7	0.0
Interest	15	2.0	1.8	-0.1	16	2.1	2.0	-0.1	31	2.1	1.9	-0.1
Transfers and subsidies	11	4.7	4.8	0.1	12	2.4	2.7	0.2	23	3.5	3.7	0.2
Other current spending	10	5.2	4.5	-0.7	9	5.0	5.3	0.4	19	5.1	4.9	-0.2
Capital expenditure and net lending	15	6.4	6.9	0.6	16	8.4	9.2	0.8	31	7.4	8.1	0.7
Other	3	0.3	0.6	0.3	6	1.0	1.2	0.2	9	0.7	0.8	0.1

Sources: National authorities; and IMF staff estimates.

[1] Excludes Moldova, which did not have an ESAF program; and Guinea Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes.

[2] In most cases, the pre-PRGF year is 1999.

[3] For 3 countries, program averages are for one year and for 1 country, data are for two years.

[4] For 2 countries, program averages are for one year, and for 5 countries, data are for two years.

[5] For the sample as a whole, data refer to averages of two years for 6 countries, and of one year for 5 countries.

Appendix Table 7. Fiscal Targets in Post-Stabilization and Other Countries [1]
(Unweighted averages, in percent of GDP)

	Under the PRGF [2]			Under the ESAF [3]		
	Pre-PRGF Year [4]	3-Year Program Average [5]	3-Year Program Average Minus Pre-PRGF	Pre-Program Year [6]	3-Year Program Average [7]	3-Year Program Average Minus Pre-Program
All						
Total revenue and grants	20.3	21.4	1.1	19.4	20.3	0.9
Revenue	17.1	17.9	0.8	16.3	17.3	1.0
Grants	3.2	3.5	0.3	3.1	3.0	-0.1
Total expenditure and net lending	23.6	24.4	0.8	22.8	23.2	0.3
Primary expenditure [8]	21.6	22.5	0.9	20.0	20.6	0.6
Overall balance (commitment basis)	-3.3	-3.0	0.3	-3.5	-2.9	0.5
Arrears	-0.1	-0.5	-0.4	-0.3	-0.4	-0.1
Overall balance (cash basis)	-3.5	-3.6	-0.1	-3.8	-3.4	0.4
Overall balance (cash basis) excluding grants	-6.7	-7.0	-0.4	-6.6	-6.2	0.4
Deficit financing	3.5	3.6	0.1	3.8	3.4	-0.5
Domestic	0.9	-0.2	-1.1	1.0	-0.2	-1.3
Bank	0.1	-0.6	-0.8	0.3	-0.7	-1.0
Non-Bank	0.2	-0.1	-0.4	0.3	-0.1	-0.3
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External [10]	2.6	3.7	1.1	2.8	3.7	0.8
Post-stabilization [9]						
Total revenue and grants	21.6	22.3	0.7	24.7	24.5	-0.2
Revenue	18.3	18.8	0.5	21.9	21.8	-0.1
Grants	3.3	3.5	0.2	2.8	2.7	-0.1
Total expenditure and net lending	22.0	23.0	1.0	24.3	24.1	-0.2
Primary expenditure [8]	20.4	21.6	1.2	22.4	22.3	-0.1
Overall balance (commitment basis)	-0.4	-0.7	-0.3	0.3	0.2	-0.1
Arrears	-0.4	-0.3	0.1	-0.1	-0.3	-0.2
Overall balance (cash basis)	-0.7	-1.0	-0.4	0.1	-0.2	-0.3
Overall balance (cash basis) excluding grants	-4.0	-4.5	-0.5	-2.7	-2.9	-0.2
Deficit financing	0.7	1.1	0.4	-0.1	0.0	0.2
Domestic	-1.5	-1.6	-0.1	-1.4	-1.6	-0.2
Bank	-1.6	-1.3	0.2	-1.6	-1.5	0.1
Non-Bank	-0.2	-0.4	-0.3	-0.6	-0.4	0.2
Privatization	0.4	0.6	0.1	0.3	0.1	-0.2
External [10]	2.2	2.7	0.5	1.3	1.6	0.4
Other countries						
Total revenue and grants	19.6	20.9	1.3	18.4	19.5	1.2
Revenue	16.5	17.4	0.9	15.3	16.5	1.2
Grants	3.2	3.5	0.3	3.1	3.1	0.0
Total expenditure and net lending	24.4	25.1	0.7	22.6	23.0	0.4
Primary expenditure [8]	22.1	22.9	0.8	19.4	20.2	0.8
Overall balance (commitment basis)	-4.8	-4.2	0.6	-4.2	-3.5	0.7
Arrears	0.0	-0.5	-0.6	-0.4	-0.4	-0.1
Overall balance (cash basis)	-4.8	-4.7	0.0	-4.6	-4.0	0.6
Overall balance (cash basis) excluding grants	-7.9	-8.3	-0.3	-7.5	-6.9	0.5
Deficit financing	4.8	4.7	-0.1	4.6	4.0	-0.6
Domestic	2.0	0.5	-1.5	1.5	0.0	-1.5
Bank	1.2	-0.2	-1.4	0.6	-0.5	-1.2
Non-Bank	0.5	0.1	-0.4	0.4	0.0	-0.4
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External [10]	2.8	4.2	1.4	3.1	4.1	0.9

Sources: National authorities; and IMF staff estimates.

[1] Excludes Moldova, which did not have an ESAF program; and Guinea Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.

[2] Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.

[3] Refers to targets set out in the last annual ESAF arrangement.

[4] In most cases, the pre-PRGF year is 1999.

[5] For the sample as a whole, data refer to averages for two years for 6 countries, and for one year for 5 countries.

[6] Refers to the year before the last annual ESAF arrangement. On average, it refers to 1997.

[7] For the sample as whole, data refer to averages for two years for 3 countries, and for one year for 4 countries.

[8] Total expenditure and net lending minus interest payments.

[9] Countries divided into post-stabilization countries and other countries based on initial deficit, inflation, and economic growth. Under the PRGF, post stabilization countries have initial deficit less than 2%, inflation less than 10% in 1999 and 2000-02, and positive economic growth. There are 10 post-stabilization countries and 21 other countries. Under the ESAF, post stabilization countries have initial deficit less than 2%, inflation less than 10% in the pre-program period and over the 3-year program, and positive economic growth. There are 5 post-stabilization countries and 26 other countries.

[10] Includes financing not identified at the time documents were submitted to the Board.

Appendix Table 8. Fiscal Targets: Decision Point HIPCs and Other Countries Under PRGF- and ESAF-Supported Programs [1]
(Unweighted averages; in percent of GDP)

	Under the PRGF [2]			Under the ESAF [3]		
	Pre-PRGF Year [4]	3-Year Program Average [5]	3-Year Program Average Minus Pre-PRGF	Pre-Program Year [6]	3-Year Program Average [7]	3-Year Program Average Minus Pre-Program
Decision Point HIPCs						
Total revenue and grants	19.6	20.4	0.8	18.6	19.4	0.8
Revenue	15.0	15.7	0.7	14.5	15.5	1.0
Grants	4.5	4.7	0.1	4.1	3.9	-0.2
Total expenditure and net lending	22.0	23.1	1.1	20.8	21.6	0.8
Primary expenditure [8]	20.1	21.4	1.3	18.3	19.4	1.1
Overall balance (commitment basis)	-2.4	-2.7	-0.3	-2.3	-2.3	0.0
Arrears	-0.3	-0.6	-0.3	-0.6	-0.7	0.0
Overall balance (cash basis)	-2.8	-3.4	-0.6	-3.0	-3.0	0.0
Overall balance (cash basis) excluding grants	-7.3	-8.1	-0.7	-7.0	-6.9	0.1
Deficit financing	2.9	3.4	0.5	3.0	3.0	0.0
Domestic	0.3	-0.8	-1.0	0.2	-0.8	-1.0
Bank	-0.1	-0.6	-0.5	0.0	-0.9	-1.0
Non-Bank	0.1	-0.4	-0.5	0.1	-0.1	-0.2
Privatization	0.4	0.4	0.0	0.2	0.2	0.0
External [9]	2.6	4.2	1.6	2.7	3.7	1.0
Other PRGFs						
Total revenue and grants	21.3	22.7	1.4	20.5	21.6	1.1
Revenue	19.9	20.8	1.0	19.1	20.1	1.0
Grants	1.4	1.9	0.5	1.4	1.5	0.1
Total expenditure and net lending	25.9	26.2	0.4	25.6	25.3	-0.3
Primary expenditure [8]	23.6	24.1	0.5	22.9	22.7	-0.2
Overall balance (commitment basis)	-4.6	-3.5	1.1	-5.1	-3.8	1.3
Arrears	0.2	-0.3	-0.4	0.1	-0.1	-0.2
Overall balance (cash basis)	-4.4	-3.8	0.6	-5.0	-4.0	1.0
Overall balance (cash basis) excluding grants	-5.8	-5.6	0.1	-6.0	-5.1	0.8
Deficit financing	4.4	3.8	-0.6	5.0	3.9	-1.1
Domestic	1.8	0.7	-1.1	2.2	0.6	-1.6
Bank	0.6	-0.6	-1.2	0.9	-0.1	-1.0
Non-Bank	0.4	0.3	-0.2	0.7	0.1	-0.6
Privatization	0.4	0.7	0.3	0.2	0.4	0.2
External [9]	2.6	3.1	0.5	2.8	3.4	0.6

Sources: National authorities; and IMF staff estimates.

[1] Excludes Moldova, which did not have an ESAF program; and Guinea Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.

[2] Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.

[3] Refers to targets set out in the last annual ESAF arrangement.

[4] In most cases, the pre-PRGF year is 1999.

[5] For the sample as a whole, data refer to averages for two years for 6 countries, and for one year for 5 countries.

[6] Refers to the year before the last annual ESAF arrangement. On average, it refers to 1997.

[7] For the sample as whole, data refer to averages for two years for 3 countries, and for one year for 4 countries.

[8] Total expenditure and net lending minus interest payments.

[9] Includes financing not identified at the time documents were submitted to the Board.

Summary of Key Features of PRGF-Supported Programs

1. Broad participation and greater ownership

- Draw main elements of PRGF from country's PRSP
- PRSPs to be produced in transparent process with broad participation
- PRSPs to be produced by country authorities
- Where relevant, JSAs/staff reports to highlight flexibility in accepting country choices

2. Embedding the PRGF in the overall strategy for growth and poverty reduction

- Demonstrate how macroeconomic and other policies have been influenced by growth and poverty objectives
- Highlight aspects of the PRGF program that promote private sector development
- PRGF contribution to the strategy should be focused on areas within the Fund's area of expertise and responsibility

3. Budgets that are more pro-poor and pro-growth

- Reorient government spending towards activities that benefit the poor
- Improve efficiency and targeting of spending in key sectors relevant to growth and poverty reduction
- Stress tax reforms that simultaneously improve efficiency and equity
- Improve data and monitoring to track expenditures

4. Ensuring appropriate flexibility in fiscal targets

- Present more normative macro-projections to signal financing needs
- Where warranted, seek commitments of higher aid flows and build in to the program

- Use PRSP to identify contingent expenditures that could be added if more aid were forthcoming
- Indicate how fiscal targets would be modified in the event of key shocks

5. More selective structural conditionality

- Limit conditionality to key measures, central to the success of the strategy
- Confine Fund conditionality to measures in the Fund's domain; exceptions must be justified (see note)

6. Emphasis on measures to improve public resource management/accountability

- Fiscal policies and objectives should be open to public debate
- Develop transparent monitoring systems to improve efficient delivery of public services
- For HIPCs, include specific mechanisms for monitoring use of debt relief
- Consider selective conditionality on fiscal governance measures

7. Social impact analysis of major macroeconomic adjustments and structural reforms

- Demonstrate that distributional effects of substantial macro-adjustments or structural reforms have been considered
- Highlight countervailing measures to offset temporary adverse effects on the poor
- Bank should lead if technical impact analysis is needed, but PRGF documents should indicate what work was done and how it influenced policies.

PRGF and ESAF Staff Reports and Other Documents for the Review

The staff analyses draw upon staff reports, letters of intent/memoranda of economic and financial policies (LOIs/MEFPs), (Interim) Poverty Reduction Strategy Papers (PRSPs/I-PRSPs), and Joint Staff Assessments (JSAs) of PRSPs/I-PRSPs for new PRGF arrangements approved between July 1, 2000 and September 30, 2001 as well as older PRGF arrangements which have had Board discussion of a review supported by a full PRSP or at least two reviews or new annual arrangements during the same period.

This sample includes arrangements and PRSP processes at a variety of stages. Nineteen countries in the sample had new, three-year PRGF arrangements approved, while an additional sixteen countries had existing arrangements ESAF arrangements that had been transformed into a PRGF under which at least two reviews had been concluded during this fifteen-month period or a review supported by a full PRSP. A shift to an earlier date would pick up essentially pre-PRGF requests and reviews but have little effect on the sample size. Only three new PRGF arrangements were approved in the first half of 2000; two of these are incorporated in the sample on the basis of subsequent reviews. Only one new PRGF-supported program, Sao Tome and Principe, for which discussions were completed on mission in November 1999 but which was approved by the Board only in April 2000, could be added by a shift to an earlier date.

Similarly, the stages of the PRSP process vary across countries and reviews. Four reviews (all from 2000) precede the finalization of the I-PRSP, an additional 29 requests or reviews were presented to the Board together with the I-PRSP, 20 requests or reviews were concluded after the endorsement of the I-PRSP but before the endorsement of the PRSP, four reviews were presented to the Board together with the full PRSP, and five additional reviews were concluded by the Board after the full PRSP had been endorsed. Further complicating the assessment of these programs and their relationship with the PRSP, the stage of the PRGF arrangement and the PRSP process are often out of synchronization. In contrast to the steady state envisaged in *Poverty Reduction and Growth Facility – Operational Issues* (SM/00/293, 12/13/99) in which new PRSPs would ideally be accompanied by new PRGF-supported programs, none of the six full PRSPs covered in this sample is associated with a new arrangement approved since July 1, 2000.

Sample of PRGF arrangements approved or reviewed 7/01/2000—09/30/2001[45]

New PRGF Arrangements July 1, 2000 -- September 30, 2001

	Country	**Date Approved**
1.	Armenia	05/23/01
2.	Azerbaijan	07/05/01
3.	Benin	07/17/00
4.	Cameroon	12/21/00
5.	Ethiopia	03/22/01
6.	Georgia	01/12/01
7.	Guinea	05/02/01
8.	Guinea-Bissau	12/15/00
9.	Kenya	08/04/00
10.	Lao PDR	04/25/00
11.	Lesotho	03/09/01
12.	Macedonia, FYR	11/29/00
13.	Madagascar	03/01/00
14.	Malawi	12/21/00
15.	Moldova	12/15/00
16.	Mongolia	09/28/01
17.	Niger	12/14/00
18.	Sierra Leone	09/20/01
19.	Vietnam	04/13/01

PRGF Arrangements Approved Prior to July 1, 2000[46]

1.	Albania
2.	**Bolivia**
3.	**Burkina Faso**
4.	Cambodia
5.	Chad
6.	Gambia, The
7.	Ghana
8.	Mali
9.	**Mauritania**
10.	**Mozambique**
11.	Rwanda
12.	Senegal
13.	Tajikistan
14.	**Tanzania**
15.	**Uganda**
16.	Zambia

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[45] Countries with arrangements supporting programs based on full PRSPs show in bold type.

[46] Includes PRGF arrangements approved prior to July 1, 2000 with a review supported by a full PRSP or two or more program reviews concluded or new annual arrangements approved July 1, 2000-September 30, 2001.

Base Sample					
Country	Staff Report Doc. No.	I-PRSP		PRSP	
		I-PRSP Doc. No.	JSA Doc. No.	PRSP Doc. No.	JSA Doc. No.
Armenia	EBS/98/213				
	EBS/01/61	EBS/01/44	EBS/01/43		
Azerbaijan	EBS/99/1				
	EBS/01/91	EBS/01/54	EBS/01/55		
Benin	EBS/98/230				
	EBS/00/130	EBS/00/50	EBS/00/51		
	EBS/00/288				
Cameroon	EBS/99/153				
	EBS/00/193	EBS/00/76	EBS/00/77		
	EBS/00/255				
	EBS/01/105				
Ethiopia	EBS/98/169				
	EBS/01/13	EBS/01/10	EBS/01/11		
	EBS/01/108				
Georgia	EBS/98/118				
	EBS/00/258	EBS/00/111	EBS/00/112		
Guinea	EBS/99/221				
	EBS/00/257	EBS/00/104	EBS/00/103		
	EBS/01/57				
Guinea-Bissau	EBS/97/129				
	EBS/00/246	EBS/00/101	EBS/00/102		
Kenya	EBS/96/62				
	EBS/00/138	EBS/00/60	EBS/00/59		
	EBS/00/200				
Lao PDR	EBS/96/63				
	EBS/01/53	EBS/01/37	EBS/01/38		
Lesotho	EBS/93/115				
	EBS/01/18	EBS/01/14	EBS/01/13		
	EBS/01/15				
Macedonia	EBS/98/91				
	EBS/00/231	EBS/00/96	EBS/00/95		
Madagascar	EBS/99/116				
	EBS/01/20	EBS/00/105	EBS/00/106		
Malawi	EBS/98/209				
	EBS/00/263	EBD/00/116	EBS/00/117		
Moldova	EBS/00/249	EBS/00/109	EBS/00/110		
Mongolia	EBS/99/88				
	EBS/01/166	EBS/01/78	EBS/01/79		
Niger	EBS/98/146				
	EBS/00/244	EBS/00/108	EBS/00/107		
	EBS/00/235				
	EBS/01/123				
Sierra Leone	EBS/97/68				
	EBS/01/118	EBS/01/59	EBS/01/61		
Vietnam	EBS/96/17				
	EBS/01/43	EBS/01/32	EBS/01/33		

Extended Sample					
Country	Staff Report Doc. No.	I-PRSP		PRSP	
		I-PRSP Doc. No.	JSA Doc. No.	PRSP Doc. No.	JSA Doc. No.
Albania	EBS/99/84				
	EBS/00/92				
	EBS/01/4	EBD/00/41	EBD/00/41		
	EBS/01/106				
Bolivia	EBS/98/153				
	EBS/01/80			EBD/01/48	EBD/01/49
Burkina Faso	EBS/99/162				
	EBS/00/84				
	EBS/00/285			EBD/00/48	EBD/00/47
	EBS/01/84				
Cambodia	EBS/99/188				
	EBS/00/186				
	EBS/01/2	EBD/00/123	EBD/00/124		
	EBS/01/109				
Chad	EBS/98/74				
	EBS/00/133	EBD/00/55	EBD/00/55		
	EBS/01/64				
Gambia, The	EBS/99/201				
	EBS/00/129				
	EBS/00/241	EBD/00/99	EBD/00/100		
	EBS/01/104				
Ghana	EBS/99/57				
	EBS/00/160	EBD/00/66	EBD/00/65		
	EBS/01/88				
Mali	EBS/99/129	EBD/00/67	EBD/00/68		
	EBS/00/162				
	EBS/01/113				
Mauritania	EBS/99/120				
	EBS/00/287				
	EBS/01/59			EBD/01/6	EBD/01/7
Mozambique	EBS/99/96				
	EBS/00/250	EBD/00/25	EBD/00/26		
	EBS/01/155			EBD/01/74	EBD/01/73
Rwanda	EBS/99/199				
	EBS/00/143				
	EBS/00/264	EBD/00/115	EBD/00/114		
Senegal	EBS/99/114				
	EBS/01/9	EBD/00/44	EBD/00/45		
	EBS/01/151				
Tajikistan	EBS/99/105				
	EBS/00/206	EBD/00/86	EBD/00/85		
	EBS/01/46				
	EBS/01/98				
Tanzania	EBS/99/5				
	EBS/00/147	EBD/00/18	EBD/00/21		EBD/00/94
	EBS/01/26				
	EBS/01/153				
Uganda	EBS/99/212				
	EBS/00/176	EBD/00/27	EBD/00/28		
	EBS/01/33			EBD/01/29	
Zambia	EBS/99/35				