Independent Evaluation Office Comments on Management/Staff Responses to the Evaluation of Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility

Executive Board Meeting
July 21, 2004

The comprehensive nature of the management/staff responses is welcome. They provide a basis for a substantive debate on the major issues raised in the evaluation. The staff has noted a number of areas where it broadly agrees with the messages and recommendations contained in the evaluation report, but also areas of disagreement. Since the evaluation and the management/staff response inevitably cover a lot of ground it might be useful to highlight a few key questions of particular interest:

- Whether and how to modify the design of the PRS approach to give more emphasis to the intermediate objective of improving domestic processes for policy formulation, implementation and monitoring, in a way and at a pace that best fits each country's circumstances.
- Whether and how to ensure that incentives faced by participating countries—especially those resulting from BWI procedural requirements, assessment procedures, and provision of assistance—are aligned with this objective and are transparent.
- How the BWIs should assess PRSPs and the nature of the instrument they should use. (In this context, we think the questions posed by the staff in para. 23 are the right ones.)
- How to clarify or adjust expectations about the extent and nature of the IMF's involvement in the PRS process, and ensure that commitments are consistent with available resources.
- How the IMF's "way of doing business," including in the context of the PRGF, needs to be modified in support of the PRS approach, both in relatively mature cases and in those "difficult" cases where the PRSP is unlikely to provide an effective operational road map for the foreseeable future.

To facilitate this discussion, our comments will focus on a few issues where we see the messages emerging from the evaluation as somewhat different than those emphasized by the staff and will respond to several concerns raised about our recommendations. Paragraph references are to the staff comments.

The staff observes (para. 8) that the IEO diagnosis of problems with implementation of the PRSP approach overlaps substantially with those of earlier internal reviews. In our view, the evaluation raises two issues that are more fundamental than those raised in previous assessments and that will not be resolved merely by allowing more time for the approach to have an impact. First, some significant design problems have emerged as the approach has been implemented. While some of the tensions that gave rise to these problems (e.g., between country ownership and BWI/donor selectivity) have been acknowledged previously, how best to deal with them has not been adequately addressed. Second, the IMF "way of doing business" in low-income countries has not adapted sufficiently to the implications of the PRS approach—an issue that goes beyond resource availability.

We agree, however, that the issue of staff resources is a critical one. What the IMF is expected to contribute to the PRS approach needs to be tailored to fit the resources that can reasonably be expected to be available. Contrary to the staff's observation (para. 34), none of our recommendations involve an expansion of the IMF's "responsibilities" beyond what was indicated in the original policy papers establishing the PRSP and the PRGF. The discussion in [the section "What Was Expected of the IMF Under the New Initiative?"] of the evaluation report illustrates how bold were the original expectations on the IMF's role. If these expectations are now judged to have been too ambitious, it would be better to clarify that role explicitly. But whether a "larger" or a "smaller" role for the IMF is expected in low-income countries in the future, it should not be a "business as usual" role; if the PRS approach is to be the key framework for IMF involvement in low-income countries, IMF activities will need to adapt accordingly.

In this context, the most effective approach to matching expectations with resources is to introduce greater scope for customization of the IMF's role to country needs, building on the twin principles of prioritization and partnership. Prioritization implies that the key deliverables from the IMF (e.g., for analytical work to strengthen the broader policy debate or assistance with capacity building) should themselves be derived—to the extent possible—from the country-driven PRS strategies. This would then feed into more transparent budgetary choices within the IMF and realistic indications of what can and cannot be delivered. The partnership element means that strong coordination with other donors is needed, built around the country-driven strategy and priorities, and that "stand alone" approaches should be resisted, even if they appear administratively easier in the short run.

The staff agrees that managing the tension between ownership and selectivity is a central one for the design of the PRS approach but disagrees with the approach proposed in the evaluation report (paras. 17–19). Clearly, different solutions to this problem are possible, but we would like to emphasize two points. First, the solution proposed in the report is based on (i) greater scope for, and openness to, country-driven choices on the road map for implementing the core principles of the PRS approach; (ii) transparency about the choices (so other stakeholders, including civil society, can contribute and indicate where they disagree) along with clear country-driven benchmarks for monitoring progress; (iii) candid assessments by the BWIs of the country-driven choices and progress made; and (iv) transparent BWI and donor decisions on financing selectivity, drawing inter alia on these assessments. We do not propose an approach based on universal minimum standards, for reasons given in the report. Second, we are not suggesting that the IMF (or World Bank) artificially force the pace of reforms of domestic processes through conditionality; on the contrary, the thrust of our recommendations is to allow greater scope for country diversity, recognizing the wide divergence in starting conditions and political structures. While we agree that our proposal could be seen as a kind of "process conditionality" (para. 18), this is inherent to the whole approach of requiring countries to produce a PRSP. Our proposal has the merit of allowing greater customization of the process to country needs and circumstances. While everyone recognizes that country ownership is critical, a candid discussion is needed of how best the design of the approach can manage operationally the tensions between ownership, BWI assessments, and selectivity in financing decisions. As illustrated in the report, such judgments are obviously made in practice, but in a manner that is less transparent than under our proposal, and that gives too much weight to meeting BWI procedural requirements rather than more fundamental improvements in domestic policy processes.

We agree that a key challenge for the IMF is how to apply PRS principles in "difficult" cases, including those where there is not yet an operationally viable PRSP. The particular steps mentioned by the staff in para. 29—opening up the policy debate on a few key priority issues, including through PSIA designed to explore various policy options, and contributing to capacity development following country-driven priorities—follow the thrust of our recommendations and would be very helpful. However, it is important that PRSP and PRGF-related activities not be seen as proceeding on separate tracks, as the staff's proposal in para. 30 seems to imply. In particular, we do not see how efforts to better integrate the two sets of activities would risk "derailing the incipient participatory process." Quite the contrary, the aim should be to seek opportunities to use the PRS principles, including through informing a broader policy debate, to ease political economy constraints that have made progress so difficult in such cases. Otherwise, there is a serious risk that delinking PRSP and PRGF activities would eliminate a key incentive—both for countries and for the Fund as an institution—to make progress on the PRSP front, while reverting to a "business as usual" mode on the PRGF side.