

INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

**Poverty Reduction Strategy Papers—Progress in Implementation**

Prepared by the Staffs of the IMF and the World Bank

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### Acronyms

ADB	African Development Bank
AFRITACS	Africa Regional Technical Assistance Centers
CAS	Country Assistance Strategy
CSO	Civil Society Organizations
CPRGS	Comprehensive Poverty Reduction and Growth Strategy (Vietnam)
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DfID	Department for International Development
EC	European Commission
ECA	Economic Commission for Africa
ESW	Economic Sector Work
GDDS	General Data Dissemination System
GPRS	Growth and Poverty Reduction Strategy (Albania)
GTZ	Gesellschaft für Technische Zusammenarbeit
HIPC	Heavily Indebted Poor Country
ICFTU	International Confederation of Free Trade Unions
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
ILO	International Labor Organization
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organizations
NORAD	Norwegian Agency for Development Cooperation
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PEM	Public Expenditure Management
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Surveys
PPA	Participatory Poverty Assessment
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PSIA	Poverty and Social Impact Analysis
ROSC	Reports on Observance of Standards and Codes
SECO	(Swiss) State Secretariat for Economic Affairs
SPA	Strategic Partnership with Africa
SWAP	Sector Wide Approach
TA	Technical Assistance
UNDP	United Nations Development Programme

USAID      United States Agency for International Development  
WCL        World Confederation of Labor

## I. INTRODUCTION

1. In March 2002, the Boards of the World Bank and IMF endorsed the findings of the joint staff review of the Poverty Reduction Strategy Paper (PRSP) Approach (see Box 1). The Monterrey consensus subsequently underlined the centrality of nationally owned poverty reduction strategies to achieving progress toward the Millennium Development Goals (MDGs). The extent to which the MDGs can be met at the country level will, of course, depend on individual country actions—including policy and institutional change and the availability and effective use of resources—and the support of the international community. In low-income countries, PRSPs provide the crucial link between national public actions, donor support, and the development outcomes needed to meet the MDGs.

2. Since the joint Review, the number of full PRSPs has doubled, to 18, and many other countries have made substantial advances in the design and implementation of their poverty reduction strategies. This recent experience confirms that the PRSP approach remains on track. The quality and commitment that characterize several of the recent PRSPs and the momentum described in recent annual PRSP country progress reports show the dynamism and relevance of the PRSP approach at the country level.

3. But recent experience also shows that substantial challenges remain which countries and their development partners will need to address over time, including:

- **Building capacity.** The PRSP approach demands increased national capacity for policy design, including better understanding of the sources of growth and of the poverty and social impacts of key policy reforms; improved budget management; and more systematic monitoring and reporting of poverty trends. These developments will require sustained effort and resources.
- **Opening up the policy dialogue.** The policy dialogue needs to be deepened on several levels, including the design of macroeconomic frameworks underpinning PRSPs, the development of alternative scenarios and policy reform options, the extension of participatory processes to include private sector representatives, and linking to representative bodies, especially parliaments.
- **Aligning external assistance behind national strategies.** International commitments need to be translated into practice by linking donor assistance more closely to PRSP priorities, deriving policy conditionality from PRSP programs, and relating aid allocations to PRSP implementation. This applies equally to IDA assistance and Fund PRGF arrangements. The pace of progress on harmonizing and simplifying policies and practices for delivering aid also needs to accelerate.
- **Integrating national poverty reduction strategies into budgetary priorities and implementation.** Better linkage of PRSPs with core decision-making processes, in particular national budgets, will benefit the design and in particular the costing of the strategy, and will help to ensure realism of proposed programs and targets. These

linkages will also improve prospects for implementation and donor alignment. In this, improved public expenditure management has a critical role to play.

**Box 1. Main Messages from the Joint Staff Review of the PRSP Approach**

The joint Review was carried out by Bank and Fund staff over several months, drawing on a broad range of contributions from low-income countries, development partners, and Civil Society Organizations (CSOs). It was considered by the Boards in March 2002; the summary of main findings were disseminated at the Financing for Development Conference in Monterrey and have subsequently been widely distributed in several languages.

The joint Review found general agreement on four key achievements of the PRSP approach to date:

- a growing sense of ownership among most governments of their poverty reduction strategies;
- a more open dialogue within governments, and with at least some parts of civil society, than had previously existed;
- a more prominent place for poverty reduction in policy debates, extending beyond social sector interventions to focus on reducing income poverty through higher and more broadly shared growth; and
- more systematic data collection, analysis, and monitoring of outcomes.

The key challenges identified during the joint Review include:

- alignment by partners, including the Bank and Fund, to support PRSP implementation;
- shifting beyond process, to content and implementation, and greater understanding of the linkages between policies and poverty outcomes; and
- realism in the setting of goals and targets, as well as in managing expectations, both within countries and among their development partners.

4. This report begins by reviewing briefly the PRSPs, I-PRSPs and progress reports considered by the Boards since the Spring Meetings. It then focuses on key issues that countries are confronting as they begin to implement their PRSPs: participation, macro policy choices and pro-poor growth, poverty and social impact analysis, public expenditure management, monitoring and evaluation, and donor alignment and harmonization. It also indicates how the Bank and the Fund are working to help respond to these challenges. A final section covers learning, capacity building, and outreach.

5. Subsequent Bank and Fund annual reports on progress in PRSP implementation will review further progress in each of the key challenges noted above. By next year's report, the number of full PRSPs could more than double again, to over 40, with up to 14 country progress reports on implementation. Staff will continue to work with the countries and a

range of development partners to understand the challenges and opportunities facing the PRSP approach as it continues to evolve. In sum, this will provide a substantially broader knowledge base on which to report in September 2003.

## **II. PRESENT STATUS AND RECENT EXPERIENCE**

6. The past six month period has been particularly active for countries preparing national poverty reduction strategies. A further nine full PRSPs and two annual PRSP progress reports have been completed and considered by the Executive Boards of the World Bank and IMF (text Table 1, below). Six countries have made use of PRSP Preparation Status Reports to allow further time to produce better quality full PRSPs while maintaining access to concessional resources (specific country circumstances are highlighted in Section II.B) including interim debt relief. And, a further four have completed interim PRSPs (I-PRSPs). This brings the total to eighteen full PRSPs, forty-five I-PRSPs, and five annual PRSP progress reports. Although the majority of PRSP-related documents were prepared by African countries, progress has been made across all regions.

### **A. Interim PRSPs**

7. Three I-PRSPs were considered by the Executive Boards of the Bank and Fund between February and early August 2002.<sup>1</sup> Each demonstrated strong commitment and broad ownership and made use of some degree of participation.<sup>2</sup> Cape Verde used a number of earlier participatory and nationally-based poverty reduction plans as the launching pad for its PRSP process. In Côte d'Ivoire, I-PRSP consultations extended beyond official circles to include civil society and other stakeholders. Like many of the earlier I-PRSPs, all three were relatively lengthy documents and, in this respect, went beyond the scope expected. While countries have discretion to produce longer I-PRSPs, this recent experience reinforces the staffs' earlier concerns about countries' limited institutional capacity being directed toward I-PRSP document preparation at the expense of ongoing work in developing full PRSPs.<sup>3</sup> Staff have continued to encourage governments to produce relatively short and well-focused I-PRSPs, while recognizing that the length and content will vary with country circumstances.

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<sup>1</sup> Cape Verde, Côte d'Ivoire, and the Democratic Republic of Congo (DRC). Another I-PRSP, by the Federal Republic of Yugoslavia was considered by the Boards in the middle of August.

<sup>2</sup> Although broad-based participation is not expected at the I-PRSP stage, the majority of countries to date have organized some degree of participation in preparing these documents.

<sup>3</sup> For example, the DRC produced a 100 page I-PRSP.

**Table 1. PRSP-related documents Discussed by Bank and Fund Boards  
(mid-February through mid-August 2002) 1/**

Region/Country	Document	Date considered by Bank & Fund Boards 2/
<i>Africa</i>		
Cape Verde	I-PRSP	April-02
Cote d'Ivoire	I-PRSP	March-02
Democratic Republic of Congo	I-PRSP	June-02
Gambia	Full PRSP	July-02
Ghana	Preparation Status Report	February-02
Guinea	Full PRSP	July-02
Lesotho	Preparation Status Report	March-02
Malawi	Full PRSP	August-02
Mauritania	PRSP Progress Report	June-02
Rwanda	Full PRSP	July/August-02
Senegal	Preparation Status Report	April-02
Uganda	PRSP Progress Report	July/September-02
Zambia	Full PRSP	May-02
<i>Europe and Central Asia 3/</i>		
Albania	Full PRSP	June-02
Georgia	Preparation Status Report	July-02
Moldova	Preparation Status Report	June/July-02
Yugoslavia, Fed. Rep. Of	I-PRSP	August-02
<i>Latin America and Caribbean</i>		
Guyana	Full PRSP	TBD
<i>Middle East and North Africa</i>		
Yemen	Full PRSP	August/July-02
<i>East Asia and Pacific</i>		
Lao P.D.R.	Preparation Status Report	July-02
Vietnam	Full PRSP	June-02

1/ Discussed by the Executive Boards of the Fund and Bank since, or not accounted for in, the Comprehensive Review of the PRSP Approach.

2/ Where two months indicated, first is date of Bank Board meeting.

3/ Bosnia and Herzegovina has also produced an I-PRSP, but it has not been formally considered by the Boards of the Fund and Bank.

8. While the I-PRSPs were fairly comprehensive, each country faces key challenges in developing its full PRSP. In particular:

- While each drew together available data that allowed a more systematic review of the poverty situation, the I-PRSPs acknowledged data shortcomings. Their **plans for addressing data limitations** could have been better specified, however, particularly with regard to capacity building needs and the role of donors.
- The roadmaps for the planned **participatory processes** could have usefully included more detail about timetables and institutional arrangements.



- Although **descriptions of existing policy frameworks** were generally comprehensive—with the I-PRSP for Côte d’Ivoire including a particularly extensive sectoral analysis—key sectoral plans or cross-cutting issues could have been given more weight in the I-PRSPs. For example, gender (Côte d’Ivoire and the Democratic Republic of Congo (DRC)), the efficiency of service delivery and resource allocation (Côte d’Ivoire and DRC), and links with rural poverty (Cape Verde), could have received greater attention.
  - The Joint Staff Assessment (JSA) for all three I-PRSPs stressed that further efforts would be needed to **cost and prioritize public policy actions** in full PRSPs, including through strengthening public expenditure management (Cape Verde and Côte d’Ivoire), and linking sector strategies to budgets and growth projections (DRC and Cape Verde).
9. The issue of quality versus speed in PRSP preparation emerges in each of the three cases. The relatively extended timetable for developing DRC’s full PRSP is appropriate given the challenges and constraints it faces as a post-conflict country. The proposed timetable for Cape Verde and Côte d’Ivoire, however, may still prove to be overly optimistic in view of other countries’ experiences with the time needed to produce a quality strategy. As Bank and Fund staff assess upcoming I-PRSPs, it will be important to focus on the realism of countries’ timetables for completing their full PRSP.

## **B. PRSP Preparation Status Reports**

10. Six countries (Georgia, Ghana, Lao P.D.R., Lesotho, Moldova, and Senegal) have presented PRSP Preparation Status Reports to the Boards during the past six months. The reports highlight areas of progress, including improvements in institutional arrangements (Moldova), the identification of targets and indicators (Lesotho), collection of poverty data (Georgia), poverty analysis (Lao P.D.R. and Senegal), and tracking of poverty-related expenditure (Ghana).
11. PRSP preparation status reports are intended to explain circumstances in which PRSP preparation is expected to take more than one year to complete, as well as identify any technical assistance requirements. In the cases to date, these reports have typically been due to delays in the scheduled completion of countries’ full PRSPs. Delays have reflected a variety of factors, including the need for further consultation and participation (Georgia, Lao P.D.R., and Lesotho), technical and organizational difficulties (Senegal), political changes and financial difficulties (Moldova), and the complexity of and technical assistance requirements for costed and well prioritized measures (Georgia) and sectoral action plans (Lao P.D.R.). This experience is consistent with issues raised in earlier preparation status reports, and illustrates some of the key constraints that countries are facing in preparing their full PRSPs. A common theme across all preparation status reports is the difficulty of, and need for further work on, costing and prioritizing public policy actions (Georgia, Lao P.D.R., and Lesotho), and strengthening public expenditure management and tracking (Ghana and Senegal). Other areas where additional technical work is often also required are participation

and consultation (Georgia and Moldova), and monitoring and evaluation (Ghana, Lesotho, and Moldova).

12. The number of extensions of PRSP preparation timetables is consistent with the pattern of overly optimistic schedules in the early round of I-PRSPs and underscores the need for realism when countries' set their initial timelines. It also reinforces the need for clearer indications by donors about the delivery and coordination of technical assistance. The JSAs accompanying the six reports have generally assessed the revised timetables for PRSP preparation as still ambitious, with the exception of Moldova where the initial expected completion date for the full PRSP has been extended by more than one year.

### C. Full PRSPs

13. Nine full PRSPs have been completed since the joint Review: Albania, The Gambia, Guinea, Guyana, Malawi, Rwanda, Vietnam, Yemen, and Zambia. This represents a more regionally diverse group, including countries from Europe and Central Asia, East Asia, and the Middle East, and some emerging from conflict. Staff analysis suggests that the progress that characterized the first ten full PRSPs as summarized in the findings of the joint Review (see Box 1) remains valid, as do the key challenges.

#### Participation

14. All nine full PRSPs were the product of participatory processes that sought to bring the views of a wide range of stakeholders into the design of the national poverty reduction strategy, and there is evidence of more timely dissemination of information, greater use of local languages, and more participation (see Section III.A below). In Malawi and Zambia, for example, private sector and religious groups—as well as the more traditionally consulted bodies, such as non-governmental organizations (NGOs) and donors—were involved. In Malawi, comments from stakeholders were incorporated into the final document through a series of iterations. Rwanda and Vietnam produced and disseminated PRSPs in local languages.

15. **In several countries, participatory processes are building on a tradition of consultation or on previous participatory exercises.** For example, in Rwanda the PRSP evolved from the *Vision 2010* (prepared in 1998). There is also evidence that PRSP processes are influencing a shift toward broader discussions on government decisions beyond the PRSP. For example, the participatory process in The Gambia is viewed as an instrument for accountability, empowerment and joint decision-making. As a result, pre-budget discussions were held with civil society and the results of these meetings were used to establish the 2002 Budget ceilings.

16. **Parliamentary involvement in PRSP preparation also appears to be increasing, although many PRSPs are still approved by the executive before being distributed to parliaments.** For instance, Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was distributed to the Economic and Budget Committee of the National

Assembly for discussion and comment prior to approval by the Prime Minister. In Albania, members of parliament were briefed on the Growth and Poverty Reduction Strategy (GPRS), and the relevant parliamentary commissions will play a role in GPRS implementation. The need to regularize greater openness in government decision making and to extend participation to cover key macro and structural policy choices and trade-offs still presents major challenges (see Sections III.A and III.B below).

### **Poverty Diagnostics**

17. **The extent to which recent full PRSPs are based on rigorous poverty diagnostics varies considerably by country.** Data constraints remain a problem. For example, while Malawi, Rwanda, Vietnam, and Zambia were able to draw on recent poverty data to inform PRSP design, Albania was unable to track trends because of insufficient information. Also, in Guyana the available data did not include remote areas where many indigenous people live and also lacked a gender dimension.

18. Even where available data are weak, **most countries managed to present useful poverty diagnostics.** For example, Guinea's PRSP, despite limited quantitative information, provides a relatively thorough poverty analysis by making good use of available qualitative information. Albania and Guinea both explicitly recognized the multidimensional nature of poverty in their PRSPs, while in Guyana, efforts were made to understand the poverty impact of previous government policy. In Vietnam, a robust and comprehensive poverty analysis was undertaken and presented. As discussed further below (Section III.C), however, progress with poverty and social impact analysis of key reforms has been more gradual.

### **Priority Public Actions**

19. **All nine recent full PRSPs grounded their strategies in the objective of sustained economic growth.** Albania, Guyana, and Rwanda view growth as an explicitly private sector-led process; hence their PRSPs emphasized reform of regulatory frameworks and infrastructure development. These countries' strategies identified an agenda to promote private sector development through strengthening governance, addressing urgent infrastructure needs, and undertaking financial sector reform and further privatization. The growth objective in Vietnam's CPRGS is based on rapid private sector development and trade liberalization. There also tends to be a strong focus—in The Gambia, Malawi, Rwanda, Yemen, and Zambia, for example—on the leading role of agriculture and the need to further stimulate rural development. In many countries, poverty tends to be concentrated in rural areas. Hence, agriculture is accorded the highest priority for diversifying production and exports, creating employment, and increasing household incomes. Rural sector policies also propose ways to diversify economic activity, for example, through tourism, agro-processing, and other forms of off-farm employment.

20. **Improved governance was identified in seven of the recent nine full PRSPs as a critical pillar of the strategy, while improved access to basic health and education services was seen as a priority for all.** Cross cutting issues, such as HIV/AIDS, gender, and

the environment are also featured in several of the PRSPs, as are the creation of social safety nets and institutional reform. For example, in Albania's GPRS, there is a welcome emphasis on the environment, identifying key issues and their links with poverty, and a reasonable action plan and timeframe to address them. Vietnam's CPRGS featured gender issues and a commitment to promoting gender equity through a range of specific actions.

21. **Costing, prioritizing, and linking policies to diagnostics remain major challenges.** Some PRSPs, such as Guinea's, were commended for their efforts to cost and prioritize public actions, and others (e.g., The Gambia) have effectively incorporated technical assistance to support public expenditure tracking and management reforms. Most of the nine PRSPs, however, had difficulty in presenting a realistic and sequenced policy package to tackle poverty. Costing was a problem in the case of Vietnam, for example. Another challenge that has not been fully met is to ensure that the proposed policies are consistent with the underlying diagnostics. For example, gender policies proposed in Yemen were not well linked to poverty diagnostics, and the energy sector program in Albania faced similar problems. The JSA of Guinea's PRSP commented that many of the policies proposed in the PRSP could have been more closely related to poverty reduction.

### **Monitoring and Evaluation**

22. **The core outcome indicators selected in the full PRSPs were viewed as generally appropriate by Bank and Fund staff,** but a challenge for some countries—for example, Rwanda and Zambia—has been to identify a manageable set of intermediate indicators that will enable changes over time to be tracked. Additionally, staff have expressed concern that the targets being set are often too ambitious (see Section III.E). In Guinea, for example, the targets selected were consistent with the MDGs, but were assessed by staff to be unrealistic unless major institutional and resource constraints could be addressed. Institutional capacity to implement monitoring and evaluation plans is a constraint in all nine PRSPs, although in most cases, governments have already secured donor support to address this need (e.g., The Gambia, Guyana, Guinea, Rwanda, and Yemen).

### **D. Annual PRSP Progress Reports**

23. Since the PRSP approach is intended to be a continuous process of improving public actions for poverty reduction and growth, staff have proposed that countries update their poverty reduction strategies every two to five years. In each of the intervening years, the authorities are expected to prepare and discuss in-country annual progress reports on implementation.<sup>4</sup> So as to minimize the administrative burden on countries, reporting on

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<sup>4</sup> A PRSP Progress Report and accompanying JSA could be discussed by the Board(s) either on its own or in conjunction with an IMF or IDA operational decision. A progress report on the first year of implementation of the PRSP is required for most HIPC's to reach their completion point. For the IMF, a progress report within the past twelve months would be needed for consideration of an arrangement or review under the PRGF. For IDA, a progress report may be needed within the preceding twelve months in cases where a country chooses to update its PRSP less frequently than the three-year cycle on which IDA CASs are prepared.

progress should ideally be integrated with regular government decision-making processes (e.g., annual budgets and/or reports on implementation of national anti-poverty or development programs), and be presented as short summary documents. The exact timing of the annual PRSP Progress Report is flexible, and could change over time in order to become consistent with national reporting and decision making processes. The Bank and the Fund have prepared guidance for staff on preparing JSAs for annual progress reports on PRSP implementation. These guidelines, which are presented in Annex 1, will be revised periodically in light of experience and feedback from countries and development partners.

24. The two PRSP progress reports that have been considered by the Boards of the Bank and Fund since the Spring Meetings (Mauritania and Uganda) confirm that substantial effort is being devoted to implementation of the PRSP and poverty monitoring, and that this type of reporting helps to strengthen the dynamism of the PRSP process at the country level. The key features of these reports were:

- **Comprehensiveness.** Each country reported candidly on progress in implementation under each of the four major pillars of their respective PRSPs. In the case of Mauritania, for example, the report covers growth and the macro-economic framework, priority sectors such as rural development and education, as well as process issues such as participation. It also identifies emerging priority measures and capacity building needs. However, comprehensiveness has consequences in terms of document length as Mauritania's report with annexes comprises some 60 pages.
- **Learning from experience.** Both Mauritania and Uganda are frank about failures to reach certain targets set in the PRSP. In Uganda, further analysis of household data has allowed the government to identify factors constraining progress in human development. The report discusses possible remedial measures to address observed shortfalls. Likewise, in Mauritania, where targets have not been met, the report proposes a way forward to ensure that results are achieved as well as revisions to certain targets now regarded as unrealistic.
- **Integrating the PRSP into government decision making and the budget process.** Uganda has taken this furthest; the report serves as an important input to the budget process for fiscal year 2002/03, and has been submitted to the Parliament. In Mauritania, the Medium Term Expenditure Framework (MTEF) for the health sector has been used as a basis for the 2002 budget appropriations.
- **Capacity constraints continue to pose a huge challenge.** Mauritania identifies this problem as the prime barrier to effective implementation of its strategy, and has responded by establishing a National Capacity Building Program with a broad agenda for action, including technical assistance on macro-economic planning, poverty diagnostics, monitoring and evaluation, and public expenditure management.

### III. ADDRESSING ISSUES IN IMPLEMENTATION

25. As countries move forward from preparation to implementation of their national poverty reduction strategies, they face a series of issues that are critical to the overall success of the PRSP approach. These issues were highlighted in the joint Review and are reflected in the most recent nine full PRSPs. This section reviews developments and proposed Bank-Fund work plans in several areas, including participation, macroeconomic-policy choices and pro-poor growth, the analysis of poverty and social impacts of key reforms, public expenditure management, monitoring and evaluation, and donor alignment. Improving performance in these areas, together with capacity building and addressing key governance constraints, will be critical to success (see Box 2).

#### Box 2. Good Governance and PRSP Implementation

Good governance and effective public sector performance are central to the implementation of poverty reduction strategies. Good governance for effective poverty reduction has to do with transparency and accountability, with effective service delivery, and with a conducive climate for investment and growth. The ways in which PRSPs are approaching governance issues, including corruption and accountability, civil service reform, decentralization, and legal and judicial systems, were covered in depth in the joint Review, and are being assessed by staff on an ongoing basis. While governance issues are partly technical, they also have to do with incentives and the political context in which institutions function at the national and local levels.

#### A. Institutionalizing Stakeholder Participation and the Role of Parliaments

26. **Recent PRSPs confirm the view that the PRSP process has contributed to greater transparency and improved policy dialogue between governments and a broad range of stakeholders on poverty-related issues.** For example, in Albania, civil society organizations (CSOs) were invited to join working groups in order to express their views on PRSP content, while in Guyana, the outcomes of the CSO consultations and the government's feedback have been documented, analyzed, and communicated to the public. In Malawi, the PRSP preparation process has helped to strengthen civil society structures. Other domestic stakeholders such as the private sector and local government have also been involved in the formulation of national strategies, albeit to a lesser degree.

27. **The deepening of participatory processes is particularly evident in public expenditure management.** In recent years, CSOs have developed methodologies to influence budget processes, allocation decisions and the monitoring of expenditures with a view to making the budget a subject for public debate. Many of these methods are being used to good effect in the PRSP process. For example, the Malawi Economic Justice Network analyzes the national budget on a yearly basis; similarly, in Ghana, a CSO has started to analyze and track budget decisions, and will carry out performance monitoring of public service delivery with citizen report cards as part of PRSP monitoring. Public Expenditure Tracking Surveys (PETS) offer new scope for tracking actual expenditures at the local level:

for example, CSOs in Uganda have started to adapt this methodology for on-going input and budget tracking. Likewise, in Albania, the government will shortly carry out a quality of service and client satisfaction survey in the context of public sector reform, using the citizen report cards methodology and with support from IDA through a Poverty Reduction Support Credit (PRSC).

28. There is evidence of increasing local engagement in PRSPs in some countries, helping extend ownership of the process. For example, Ghana plans to produce a popular version of the PRSP in a range of local languages, and production of regional priority action plans derived from the PRSP is underway. Similarly, in Vietnam, the government is considering incorporating the final strategy in regional and local planning processes (see Box 3). Such developments are encouraging, but remain to be tested on a large scale.

### **Box 3. Vietnam: Localizing the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)**

The final chapter of the CPRGS, approved in May 2002, outlines the steps the government will take to ensure that “ministries, sectors and provinces integrate the CPRGS into their annual and five year socio-economic development plans”. The goals and targets outlined in the strategy are all specified at the national level, but many of the critical decisions and choices about public actions and expenditure are to be made at provincial or district levels. The government, therefore, plans a broad dissemination campaign to ensure that local officials are aware of the CPRGS and what it entails for local planning processes. There will also be a targeted staff capacity building program at the local level with a particular focus on poor and remote communes.

29. **However, it is a challenge to institutionalize the many participatory processes that PRSPs have stimulated.** Recognizing the ongoing nature of the PRSP process, some countries have continued to raise public awareness, deepen stakeholder engagement, and strengthen public support for effective implementation following finalization of the strategy. These efforts have been most apparent in five key areas: public expenditure management; creating an enabling legal framework for participation; disseminating and implementing the PRSP at the local level; increased participation of sector ministries in the PRSP; and the role of parliaments. In other cases, CSOs are providing independent contributions outside the formal PRSP consultations and have raised concerns about the extent to which these will be taken into account.

30. **Creating an enabling legal framework for civic engagement is clearly important if participation processes are to endure,** and recent evidence suggests that the PRSP offers opportunities for progress in this area. Spurred by PRSP consultations, legislation for CSO participation has been drafted in Mauritania and Yemen. Similarly, in Bolivia, the government has passed a new National Dialogue Law which institutionalizes the National Dialogue, the disbursement of Heavily Indebted Poor Country (HIPC) debt relief through municipalities, and the establishment of local oversight committees to monitor poverty reduction programs. The Bank and Fund are supporting country initiatives to institutionalize

civil society dialogue in the PRSP context, and plan to disseminate good practice in this area as it emerges. For example, on-line resources are being developed which can be used both by clients and by Bank staff to evaluate legal frameworks affecting civic engagement.

31. **Engaging sectoral agencies is central to PRSP implementation.** The joint Review found that limited involvement of sector ministries in strategy formulation risks undermining the prospects for successful implementation. Some PRSP countries have begun to address this issue since the joint Review through sector reforms that focus on effective planning and implementation arrangements. In Mauritania, for example, the alignment of the PRSP and the health sector reform strategy meets the dual objectives of more effective implementation planning and of producing costed sector plans. Many countries, however, continue to face challenges in refining participatory arrangements for the implementation and monitoring of sector strategies. The health sector reform in Albania, for example, requires the involvement of a multitude of stakeholders from the central ministry through to patients, and hence coordination has proven a daunting task.

32. **The role of parliaments in the PRSP process appears to be growing.** The Niger and Zambia PRSPs highlight the part that parliament played in the consultation process from the early stages of PRSP development. The Mauritania PRSP Progress Report points out that members of parliament participated in the General Assemblies which formed part of the full PRSP's participatory process, and that future efforts will be made to strengthen parliament's oversight capacity. The Guyana PRSP describes the establishment of National Assembly sectoral committees designed to strengthen public accountability for poverty reduction and to deepen parliament's role in governance. In the area of budget execution, the Albania, Zambia, and Niger PRSPs emphasize parliament's role in scrutinizing the draft budget proposal for its adherence to poverty reduction objectives, as well as in assuring effective oversight during implementation.

33. **At the same time, parliaments face many constraints in working to reduce poverty—ranging from knowledge gaps to infrastructure weaknesses.** One key problem, for example, is the poor flow of information between executive and legislative branches, which limits the quality and timeliness of parliaments' contribution to decision-making on poverty issues within the framework of their national constitutions. If this systemic issue is addressed more effectively, parliaments are likely to be better placed to ensure follow-up of commitments made to reduce poverty via, for example, improved service delivery at the local level. Parliaments and their committees can seek explanations when goals are not met, either in the legislature or in the media. In addition, parliaments can plan capacity building steps for which international support is becoming available. The Bank, together with other partners, is expanding initiatives to provide appropriate support (Box 4).



#### **Box 4: Selected Capacity Building Activities with Parliaments on PRSPs**

In late 2001, the World Bank and UNDP launched a collaborative program to raise parliamentarians' awareness of the PRSP approach and to help parliaments to enhance their role in the process consistent with their respective national constitutional arrangements. A pilot training program on "Parliaments, Governance and the PRSP," which uses workshop and study tour formats and distance learning, is now underway in Ethiopia, Ghana, Kenya, Malawi, Mali, and Nigeria. With Belgian and Dutch financial support, this pilot program is already having an impact. In Ghana, for example, where the first workshop with parliament was held late last year, parliamentarians are engaging more fully in a dialogue with advocacy groups for the poor in the north and are planning to review the next government budget through the lens of poverty reduction. Another training program for Balkan countries, launched in collaboration with the Parliament of Finland, is expected to expand to FSU countries. A World Bank/Joint Africa Institute workshop in Abidjan is also planned for the Africa Region early in 2003. Learning activities in East Asia will include a focus on the role of parliament in the PRSP at a national workshop in Cambodia in September 2002.

The World Bank also plans to strengthen collaboration with the UNDP, the Parliamentary Centre (Canada), the National Democratic Institute and other bodies to help parliaments develop their capacity to ensure more effective implementation of PRSPs. Planned areas of activity include distance learning activities and debates (to reinforce South-South learning, and draw out the lessons of good practice), together with outreach to the parliamentary community through internet and newsletter communications.

### **B. Macroeconomic Choices and Pro-Poor Growth**

34. One of the main findings of the joint Review was that **early PRSPs often contained overly optimistic macroeconomic assumptions** that were not supported by analysis of the likely sources of growth and the policies required to achieve such growth. They also tended to have only a **limited discussion of the macroeconomic framework, alternative policy options or contingency plans to deal with shocks, the linkages between policy choices and poverty reduction goals, and the trade-offs underpinning these choices**. These findings are further supported by the experience of the most recent set of full PRSPs. While countries are keen to address these issues, existing institutional capacity constraints and the need for analytical and technical support will realistically limit the pace at which this challenge can be met. Moreover, much remains to be done to improve understanding of the policies that support pro-poor growth.

35. There has often been a disconnect between the macroeconomic framework underpinning a country's PRSP and that upon which its annual budget is based. PRSPs have tended to be optimistic in their growth assumptions, and the related revenue, expenditure and financing targets.<sup>5</sup> Moreover, the analysis of the likely sources of growth underlying these assumptions and the contribution of planned policies has often been limited. With respect to

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<sup>5</sup> The problem of optimism in projections of growth is not unique to PRSPs. Historically, growth targets/projections for low-income countries by the Fund, Bank, and many development agencies have also tended to show an upward bias often based on assumptions of full implementation of key policy reforms.

growth targets, for example, Uganda's annual PRSP progress report highlighted the fact that recent annual growth rates of about 4.5 percent (attributed in particular to declining coffee prices) are significantly below the 7 percent targeted. Zambia's PRSP notes that growth rates of 5-8 percent would have been desirable for poverty reduction, but included a near-term growth projection of around 4 percent reflecting the adverse impact of HIV/AIDs and weaker prospects for the mining sector. Even this rate of growth is above that achieved in the recent past. In contrast, countries' budgets have generally been based on more realistic assumptions regarding expected growth rates, aid flows, domestic resource mobilization efforts and world market prices for key commodities. Countries also face difficulties in costing and prioritizing measures in their PRSPs. As a first step in addressing these concerns, countries should be encouraged to ensure that the baseline macroeconomic framework underlying their PRSP is tied to more realistic growth and financing estimates that will ultimately be incorporated in the domestic budget.

**36. To support this effort, Fund and Bank staff will be expected to base their own projections on a more thorough analysis of the likely sources of growth and present their analyses explicitly in discussions with the authorities, as well as in staff documents.**<sup>6</sup> This work will need to draw on sectoral analyses carried out by the Bank and others in the context of PRSP development and implementation. In turn, Bank and Fund staff will encourage countries to make realistic, analytically substantiated projections. This will be done in the context of staff visits, and will be reinforced by learning opportunities provided through regional PRSP events and IMF Institute courses on financial programming and policies, as well as technical assistance in support of the General Data Dissemination Standards (GDDS) (see Section III.E).<sup>7</sup>

**37. Bank and Fund staff will also place greater emphasis on helping countries to identify the policy measures needed to raise growth rates to desired levels,** including: supporting rural development; improving the private sector and investment environment; developing properly functioning legal systems; expanding infrastructure; promoting financial sector soundness, micro finance programs, and the provision of banking services in rural areas; and encouraging export diversification and expansion.<sup>8</sup> The Fund is undertaking a wide-ranging research agenda on related macroeconomic and development issues, such as the

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<sup>6</sup> For example, the recent approach to assessing external and fiscal sustainability developed by Fund staff, although intended principally for work on middle-income countries, provides a useful example of greater discipline and transparency in the staff's baseline medium-term projections, by presenting the underlying assumptions and their implications explicitly. See *Assessing Sustainability*, SM/02/166, May 28, 2002.

<sup>7</sup> It is equally important that countries improve the coverage and quality of their national accounts statistics to ensure that economic growth is being accurately measured by the data.

<sup>8</sup> Export expansion will be based on promoting trade liberalization and integration in low-income countries, but also by encouraging industrial countries to open their markets to developing country exports and to remove trade-distorting domestic subsidies.

impact on growth of exogenous shocks,<sup>9</sup> aid inflows, and market access. The Bank is working on a complementary research agenda to understand better what makes growth “pro-poor.” This will require *inter alia* a deeper understanding of the role played by initial conditions and what drives distributional changes.<sup>10</sup> Bank staff are also pursuing an operationally-oriented work program that aims to deepen understanding of sectoral and structural policy measures available to achieve growth and poverty reduction, and the conditions needed to enhance the pro-poor impact of policies.<sup>11</sup>

38. Another weakness of the macroeconomic frameworks in early PRSPs is that **few adequately examined the implications of exogenous shocks for their poverty reduction strategies and macroeconomic frameworks**, despite the fact that low-income countries’ dependence on a narrow commodity export base makes them particularly susceptible to such shocks. These frameworks lacked the necessary flexibility to respond to such shocks and, in some instances, were not current at the time the PRSP was finalized. In particular, few PRSPs included contingency plans that ensured that priority spending programs would be safeguarded during periods of difficulty, or that incremental resources would be deployed in line with these priorities.<sup>12</sup> In four cases<sup>13</sup> where Board consideration of a PRGF arrangement and underlying PRSP took place several months after completion of the PRSP, the authorities transmitted revised macroeconomic frameworks that were developed outside PRSP participatory processes. This calls into question the utility of developing single macroeconomic frameworks based on optimistic assumptions, and also the principle of country ownership based on broad stakeholder participation.

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<sup>9</sup> The findings of Fund staff analysis of the impact of exogenous shocks on low-income countries will be incorporated in a Board paper on the Role of the Fund in Low-Income Countries, to be considered at the end of 2002.

<sup>10</sup> Research over the next two years will focus on investigating pro-poor growth and inequality at the country level; sub-national determinants of pro-poor growth; income dynamics, risk and vulnerability; and social exclusion. See Martin Ravallion, 2001, *Growth, Inequality and Poverty: Looking Beyond Averages*, World Development.

<sup>11</sup> Key Bank-sponsored activities over the next year include a workshop to take stock of existing analytical and operational knowledge on key questions related to pro-poor growth, a series of country case studies which will focus on specific operational policy issues identified during the workshop, and a seminar series to provide a forum for staff to discuss and debate approaches to pro-poor growth.

<sup>12</sup> While the PRSPs for both Zambia and Yemen noted the sensitivity of their economics to specific commodity markets—copper production and oil prices, respectively—they would have benefited from the inclusion of alternative scenarios to address these risks. Although the Rwanda PRSP did not include a discussion of alternative scenarios, the underlying dialogue did touch upon these issues.

<sup>13</sup> These were Albania, The Gambia, Guinea, and Malawi. For example, projected revenue and external financing were revised down substantially in Guinea, and the lack of contingency plans in the PRSP necessitated the authorities presenting a revised macroeconomic framework in their July 2002 supplement. Similarly, delays in key privatizations in Albania curtailed financing available for 2002 and necessitated a revision of the macroeconomic framework as presented in a May 2002 supplement to the PRSP.

39. **It is therefore desirable for countries to incorporate alternative scenarios and contingency plans in their PRSPs at the outset**, so that macroeconomic frameworks and strategies can respond flexibly and resiliently to changes in the external environment, without recourse to ad hoc changes outside the PRSP participatory process. Ideally, PRSPs should present two scenarios. The first would be an optimistic case, based on the policy measures and financing requirements (domestic and foreign) necessary to attain the most desirable poverty reduction goals. The key assumptions underpinning this scenario—growth rates, government revenues, aid flows and budget execution—may not be in line with the most likely outcomes. It would therefore be prudent for countries also to develop a more conservative scenario in their PRSP that would provide an ambitious, but realistic, baseline upon which the annual budget would be based. Moreover, the base case should present contingency plans, outlining the appropriate fiscal policy response if the underlying assumptions prove to be overly pessimistic or optimistic. For example, if more resources are available than originally envisaged, the PRSP should explicitly indicate the priority areas where these resources would be deployed (such as, priority poverty spending and build-up of reserves to further buffer against shocks) without disrupting the parallel growth and macro stability objective. Similarly, the PRSP should indicate what corrective spending and/or revenue measures would be undertaken if the expected resource flows are not forthcoming. One recent PRSP, Niger's, did incorporate such alternative scenarios in its PRSP (see Box 5).

40. **Consideration of the social impact and prioritization of spending measures underlying these scenarios should ideally also be carried out** in a transparent and participatory manner.<sup>14</sup> It is important to recognize, however, that **developing alternative scenarios would further tax countries' already stretched institutional capacity**. As capacity building will inevitably take time, expectations need to be tempered while staff and others help countries to develop such capacity (in the context of visits, technical assistance exercises, and learning events).

41. As the donor community moves towards a more performance-based allocation of aid, countries that are implementing their PRSPs more effectively will face the challenge of managing additional inflows of resources. **This raises the issue for low-income countries of ensuring an appropriate balance between higher aid flows and sustainable fiscal and other policies that support macroeconomic stability**. Higher financial inflows may, in some cases, raise concerns about the quality and sustainability of the proposed spending, and/or about aid dependency and incentives for domestic resource mobilization. This may also raise issues of debt sustainability and/or macroeconomic stability, including possible appreciation of the real exchange rate (risking the loss of competitiveness), upward pressures on real domestic interest rates, or inflation. Judgments about the appropriateness of fiscal policy alternatives will vary depending on the country's starting point, the quality and recurrent cost implications of the additional spending, and the reliability, predictability, and

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<sup>14</sup> More generally, assessments of the impacts on the poor of the exogenous shocks themselves would be useful in contributing to developing contingency plans regarding the types of public spending that need special protection.

### Box 5. Alternative Macroeconomic Scenarios in Practice: Niger's PRSP

The baseline macroeconomic scenario for Niger's PRSP is presented within "a range of growth scenarios reflecting both the historical evolution and the government's commitment to alleviate poverty through adequate economic policies."

- The *baseline scenario* targets an average rate of real GDP growth of 4 percent per annum over the period 2001-05. Although ambitious, staff considered this to be feasible in the absence of external shocks and based on implementation of the strategy identified in the PRSP.
- Recognizing that the base case is not without risks (i.e., vulnerability to "natural constraints" (weather) and changes in the prices of its commodity exports), the PRSP also presents a *low case, slow growth scenario*. In this scenario, average annual real GDP growth of 2.5 percent corresponds to the average annual rate of growth during 1994-2000. The PRSP notes that under these assumptions poverty would continue to increase.
- Finally, the *high growth scenario* assumes an average annual growth rate of 6 percent, based on faster progress in improving governance, infrastructure, and the environment for investment and private sector development. Such a growth rate would be required if poverty were to be altered significantly.

While the analysis of the sources of growth underlying these scenarios is somewhat limited, the discussion in broad terms of the range of possible growth scenarios is a key strength of Niger's PRSP. Significantly, the PRSP also presents contingency plans that explicitly identify the budgetary implications of each of the scenarios, including the broad impact on revenue and adjustments to sectoral expenditure allocations through 2005. This has guided Niger's budget appropriation process.

degree of concessionality of foreign assistance. It will also be important to estimate the magnitude and implications of the proposed spending, and to determine the extent to which the country can avoid or minimize potential adverse effects through appropriate macroeconomic policies.

42. To support this effort, the Fund and Bank are undertaking research to help strengthen the analytical basis for these choices, including potential tradeoffs between macroeconomic and development objectives. The Fund and Bank are developing operational guidance to their respective staffs for examining the likely macroeconomic and poverty reduction impact of higher aid flows. The general presumption is that development assistance programs supported by the Fund and the Bank in low-income countries with strong poverty reduction strategies should be able to accommodate additional *grant* financing of poverty-reducing spending that is well targeted and can be absorbed by the domestic institutional infrastructure. Staff findings will be disseminated widely to country authorities, development partners, and other stakeholders.

43. To help countries to prepare realistic growth projections, develop alternative macroeconomic scenarios, and balance higher aid flows with the need to safeguard macroeconomic stability, **development partners—including the Fund—should engage early in the participatory process as it relates to the macroeconomic implications of**

**countries' PRSP priorities and policy choices.** There are three levels of engagement in the PRSP process—vis-à-vis the government, PRSP working groups, and civil society. The primary level of engagement, particularly for the Fund, will remain that of the government, which is ultimately accountable for PRSP implementation. However, efforts will be undertaken to ensure that line ministries and other agencies involved in implementing the national poverty reduction strategy participate in this dialogue (in addition to ministries of finance and economy and central banks). Fund and Bank staff participation in the PRSP participatory process should seek to enhance the quality and depth of dialogue on macroeconomic and financial policies, on sources and projected rates of growth, and on alternative scenarios. This will generally occur through resident missions/country offices, but will also involve staff visits from headquarters. Finally, staff will continue to engage with civil society at large in the context of staff visits, external outreach, and routine contacts by resident mission/country office staff. The Fund and Bank will also help build national capacity within governments (including parliaments), but also among CSOs, through technical assistance and learning activities (see Section IV). They will also encourage efforts by other development partners to help domestic stakeholders to participate more effectively in the development of the country's economic policy framework.

### **C. Poverty and Social Impact Analysis**

44. **Analysis of the poverty and social impact of key policy measures is an important tool for ensuring that net benefits to the poor of macroeconomic, structural, and sectoral reforms are maximized. Analyzing and articulating expected impacts is also useful for promoting more informed debate about appropriate policy choices.** The joint Review found that few countries had systematically undertaken poverty and social impact analysis (PSIA) of key policy measures in developing their PRSP. This reflected severe data and capacity constraints in many countries, as well as inadequate methodologies available for undertaking such analyses, and lack of coordinated donor assistance.

45. **Since the time of the joint Review, there has been some progress in incorporating the analysis of poverty and social impacts in the development of national poverty reduction strategies.** The Gambia's PRSP contains a partial analysis of the poverty impact of past policies, finding weaknesses in reforms of the groundnut sector and in service delivery. Albania's PRSP includes an assessment of the growth and distributional impacts of past policies and programs and identifies the most important constraints to poverty reduction. Looking ahead, some countries, for example Zambia, have specific plans to incorporate PSIA in future PRSP updates.

46. Helping countries undertake PSIA on a more systematic basis, including by making methods available for analyzing reforms, is a priority for the Bank. The Fund will provide support in its areas of core competency, and will incorporate available PSIA into PRGF program design. Several donors, including the U.K. Department of International Development (DfID) and the German Gesellschaft für Technische Zusammenarbeit (GTZ), are providing financial and technical assistance to support PSIA. **Bank staff have developed a draft "User's Guide to PSIA," setting out tools and approaches for staff and country**

**practitioners.** The draft was published on the web for public comment in April 2002.<sup>15</sup> It lays out various principles for undertaking PSIA, including the importance of initiating the analysis well in advance of policy decisions, and using national monitoring and evaluation systems to track actual poverty impacts so that reforms can be modified accordingly. A second volume of the User's Guide will be available by the end of 2002 and will present tools and approaches for reforms in specific policy areas, including trade, agricultural reform, financial sector reform, and social protection. To supplement the User's Guide, **the Bank is also preparing a PSIA "Toolkit," which will provide more detailed guidance on specific techniques and examples of country applications.**

47. Based on the User's Guide and Toolkit, existing learning events are being expanded to include in-depth training on specific PSIA tools, and to cover a broader audience of country counterparts as well as Bank and Fund staff. Work on PSIA is advancing in several countries where the Bank (with financial assistance from Norway) and DfID are undertaking pilot projects. The Bank country studies include agricultural reform in Chad and Malawi and utility reform in Guyana, Mongolia, and Pakistan, while the DfID pilots include Armenia, Honduras, Mozambique, Rwanda, and Uganda. Initial pilot studies will be discussed in a small technical workshop of country representatives and Bank, DfID, and Fund staff in October, with a view to applying lessons learned to other countries. Moving forward, the Bank and other development partners have a critical role to play in helping countries to more systematically use PSIA to underpin the design of their reform programs.

#### **D. Public Expenditure Management (PEM)**

48. **Strengthening countries' public expenditure management systems will be critical for PRSP implementation.** Work in this area continues to be a key feature of Bank- and Fund-supported programs in low-income countries.<sup>16</sup> Joint assessments of the capacity of 24 HIPC's to track and report on poverty-reducing spending (20 in Africa, and four in Latin America and the Caribbean) were discussed by the Bank and Fund Boards in March 2002.<sup>17</sup> HIPC governments were involved in finalizing these assessments and developing action plans to strengthen PEM systems. Short-term actions in this respect include broadening the

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<sup>15</sup> Accessible at [www.worldbank.org/poverty/psia/index.htm](http://www.worldbank.org/poverty/psia/index.htm).

<sup>16</sup> The Bank provides capacity building and financial support, as well as policy advice through Economic and Sector Work, such as Public Expenditure Reviews (see Box 6), Country Financial Accountability Assessments, and Country Procurement Assessment Reports. The Fund provides technical assistance on PEM reforms through missions, and resident and short-term experts. Reports on the Observance of Standards and Codes (ROSCs) have also been used as a tool for strengthening public financial management. To enable more effective stakeholder participation at the country level, the Bank is sharing knowledge about participatory budgeting and is providing training and technical assistance on social accountability and civic engagement to both civil society groups and government officials.

<sup>17</sup> *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC's)*. World Bank and IMF. March 22, 2002. See <http://www1.worldbank.org/publicsector/pe/newhipc.pdf> and <http://www.imf.org/external/np/hipc/2002/track/032202.htm>.

coverage of government expenditures, upgrading classification systems, introducing functionally based in-year reporting, and piloting of integrated financial management information systems (IFMISs). Most HIPC are introducing “bridging mechanisms” to facilitate immediate tracking. For example, in the case of “virtual” poverty funds, the existing budget classification system is used to tag and track poverty-reducing spending. Medium-term actions focus on strengthening overall legal and regulatory frameworks and budget formulation, execution, reporting, audit, and monitoring processes; full implementation of IFMISs; and staff training, all of which contribute to greater transparency, accountability, and effectiveness of public resource use.

**Box 6. Public Expenditure Reviews Supporting PRSP Process and Country Ownership: Zambia**

Zambia’s recent public expenditure review (PER) had several novel features that increased country ownership and its relevance to the PRSP. For example, joint working groups, technical assistance, coaching and training, initial studies/drafts by government, a simulated budget exercise with key stakeholders to critically review sectoral priorities, retreats, and workshops have all contributed to increasing local analytical capacity. By maintaining a joint process and product, with the Bank acting as secretariat to the final draft, it is expected that accountability systems and public expenditure management will have been strengthened through learning by doing. The differences between the Zambia PER and traditional approaches to PERs, which apply equally to other types of core diagnostic work, are highlighted in the table below.

Aspect	Traditional PERs	Zambia PER – Key Features
Coverage	Level and composition of spending	Focus on poverty; spending patterns in key sectors; links between spending, growth, and poverty Short- and long-term budget management measures
Ownership	Bank and donors	Joint process—to satisfy both PRSP and Bank operations
Participation	None	Inter-sectoral working groups Technical assistance
Bank’s Role	Write document	Goal—Joint Document Bank as Secretariat/Adviser

49. **Assessments of PEM systems are also being carried out for other low-income countries.** The Bank will assess the PEM systems of 14 additional African countries in 2002-2003. DfID is also applying this methodology in several African countries. **Assessments of HIPC’s PEM systems have also begun to influence the Bank’s ESW and the Fund’s PRGF-supported programs.** Such an assessment was incorporated into the Public Expenditure Review (PER) for Nicaragua in 2001. Follow-up from these assessments is being reflected in new Bank programmatic lending, for example in Madagascar, Mali, Mozambique, Niger, and Zambia. Chad’s expenditure tracking action plan has become the core public expenditure conditionality in SAC IV (2001), as well as in the PER and draft SAC V (2002). PRGF-supported programs are also increasingly drawing on the action plans of countries (e.g., Cameroon, Lesotho, Mali, Mauritania, Nicaragua, and Rwanda). Conditionality under Cameroon’s PRGF-supported program focuses on operationalizing



plans for new budget classification and expenditure management systems, and Mali's PRGF-supported program incorporates measures to introduce and expand budget classifications to track poverty-reducing expenditures.

50. **While there are few apparent shortages of planned assistance (including from the Bank and Fund) in the PEM area, the challenge is to ensure that assistance is delivered in a coordinated, timely way and is implemented effectively in the short and medium term.**<sup>18</sup> To ensure that assistance has a lasting impact, both countries and donors need to ensure that reforms strengthen not only technical efficiency but also transparency and accountability. In addition, it may be necessary **to reorient the direction of existing assistance to help build local capacity to achieve sustainable and effective strengthening of PEM systems.** Bilateral assistance typically covers the development of IFMISs (e.g., Ghana, Malawi, Mali, Mauritania, and Tanzania), including training, computerization, and strengthening expenditure commitment control systems (e.g., Malawi and Tanzania). There are assistance initiatives associated with enhancing skills in external audit (e.g., NORAD in Zambia, USAID in Malawi, and the EC in Mali), in internal audit (e.g., DfID in Uganda), in treasury and accounting systems (e.g., Cooperation Francaise in Mali and Mauritania) and with decentralization of spending to lower levels of government (e.g., DANIDA in Nicaragua, and SECO in Burkina Faso).

#### E. Monitoring and Evaluation

51. **Monitoring and evaluation (M&E) are critical for the effective implementation of PRSPs.** To measure progress towards results under the PRSP approach, two aspects could be further strengthened. First, the results-orientation of PRSPs could be more explicit in identifying short-term and intermediate indicators based on policies and programs, and linking these to longer-term development objectives. Second, in preparing PRSPs, earlier attention could be paid to the M&E framework, the definition of intermediate indicators, the collection of baseline data, and the assessment of institutional capacity for M&E. Progress on these two fronts is important not only for national decision makers, but also for development partners who want to see whether their assistance is helping to make a difference.

52. **It is still too early to assess the extent to which countries are taking the findings of the monitoring exercises seriously and feeding them back into policy design.** In addition, the efficiency of national M&E systems is affected by the openness of access to statistical information. Restrictive legislation and political pressure in many countries often result in data being inadequately disseminated and inaccessible to interested analysts and users. **However, recent developments suggest that relevant new data are being collected, disseminated and used to good effect in some countries.** In the two cases—Mauritania and Uganda—where further analytical work was undertaken in the annual progress reports, this work offered insights into the dynamics of poverty, and led to revision of some of the

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<sup>18</sup> For a list of the donors providing assistance in public expenditure to 24 HIPC, see *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC), Background Paper*, January 30, 2002, IDA/SecM2002-0031 and SM/02/30, Supplement 1.

original PRSP targets. Indeed, with respect to the observed setback in infant mortality, Uganda's recent progress report is an excellent example of the PRSP process at work—from timely monitoring of key outcomes, to diagnostic analysis of the causal factors at work, to revised policies and programs.

53. **Capacity constraints nonetheless remain a problem.** In Burkina Faso, for example, capacity for data collection and analysis is still weak, and staff have urged the consolidation and updating of existing information. In Rwanda, substantial assistance will be needed for full implementation of the monitoring and evaluation arrangements proposed in the PRSP. In its recent progress report, Mauritania highlights weak capacity in monitoring and evaluation as one of three main constraints currently faced. In Uganda, sectoral monitoring systems have not always been able to produce consistent information, and the government has revised its approach to focus more selectively on those indicators where data are more reliable. Weak capacity is not just evident at the technical level, however, but also applies at the managerial level. National Statistical Offices are now confronted with a range of new demands for more timely and more disaggregated information, but inadequate incentive systems and weak management still mean that such demands are not adequately prioritized.

54. **That said, support by the Bank, Fund, and other donors to scale up capacity building in monitoring and evaluation at the country level continues to good effect.** The GDDS was recently launched to improve statistical capacity in Africa (Box 7). The Bank is also piloting an instrument for improving M&E statistical capacity with multi-donor support, which has been used to assess the readiness of a number of countries preparing PRSPs to implement results-based M&E systems. In some cases, substantial progress has been made in embedding monitoring and evaluation into an institutional framework. For example, in Tanzania, four working groups have been set up under the Vice President's Office (Box 8). In Zambia, a new department is being established within the Ministry of Finance and National Planning to coordinate across sectoral and regional agencies and to support civil society involvement.

#### **Box 7. General Data Dissemination System (GDDS)**

In late 2001, the IMF, together with the World Bank and with financial support from DfID, launched a project to improve 14 Anglophone African countries' statistical capacity, using the GDDS as the basis. The GDDS framework emphasizes data quality, access, and integrity, and is intended to provide guidance for the overall development of macroeconomic, financial, and socio-demographic data. The framework takes into account the diversity of countries' economies and the developmental requirements of national statistical systems, and can provide a basis for monitoring implementation of PRSPs. The project is designed to identify strengths and weaknesses in current statistical systems, develop plans for improvements, and provide technical assistance. Assistance will be provided via a dedicated regional resident advisor and a dedicated group of short-term providers, as well as through coordinated support from international, regional, and bilateral agencies.

### **Box 8. Poverty Monitoring in Tanzania: An Example of Good Practice**

The demand for more effective poverty monitoring in Tanzania has come from a number of different processes. These included the preparation of the PRSP, which generated considerable interest, a move towards rapid decentralization and specific sector development programs; and donor support in the context of a shift from projects to budget support and corresponding needs for results-based monitoring. In response, and with the active participation of all the main actors and the donor community, a Poverty Monitoring Master Plan was developed. It involves a three tier approach: a poverty monitoring system focusing on the measurement of a limited number of *impacts* and *outcomes*, including some proxy measures more amenable to regular measurement; sector programs, especially in the social sectors, tracking *outputs*; and the monitoring of *inputs*, especially budget allocations and expenditure tracking. The approach is unusual in that it is comprehensive, emphasizing the importance of both quantitative and qualitative methods, provides for dissemination and capacity building, and includes a financing plan. The most important remaining challenge now is to improve data quality and to put in place mechanisms to ensure the system is both accountable and transparent in order to retain the confidence of all users.

55. On a global level, the MDGs provide the framework for monitoring progress toward poverty reduction. **While most of the MDG goals are included in PRSPs, different key indicators are often used to assess progress in implementation at country level.**<sup>19</sup> Indeed a wide range of indicators has been proposed in PRSPs to date, with a relatively limited common core. This mirrors the diversity of national conditions, and the range of priority policies and programs across countries. Nonetheless, most PRSPs include indicators on the poverty headcount, child and infant mortality, maternal mortality, access to ‘safe’ water and primary school enrollment. At the same time, some areas covered by the MDGs have received little attention in proposed PRSP indicators. For example, PRSPs typically include few environmental indicators apart from water and sanitation. As confirmed in an updated Bank staff review of the treatment of gender in PRSPs,<sup>20</sup> monitoring in this area tends to be weak—for example, the MDG indicators referring to women in work have so far not been mentioned.

56. While differences between country-tailored PRSP monitoring indicators and the MDGs are clearly acceptable, there may be a tension between the data priorities for individual countries and the data demands by international agencies for MDG monitoring. Nevertheless, the MDGs can help countries and development partners to achieve mutual accountability for results and can provide guidance with respect to priority public actions, subject to country circumstances.

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<sup>19</sup> A recent note by DfID Statistical Department (May 2002) investigated the overlap between MDG indicators and the leading indicators in seven full PRSPs. It found that while several of the key MDG targets are contained in most PRSPs, few of the relevant 48 MDG indicators are mentioned.

<sup>20</sup> *Gender in the PRSPs: A Stocktaking*, World Bank, PREM, Gender and Development Group, updated April 2002.

57. **Finally, there is a welcome trend toward more widespread use of participatory approaches to PRSP monitoring.** The Gambia, for example, proposes to integrate conventional quantitative monitoring approaches with participatory methods involving civil society groups. Participatory engagement in monitoring is taking many forms: in Ethiopia, CSOs are opting for independent monitoring of the PRSP process; in Albania, the government intends to invite CSOs to join the yearly review of the PRSP process, and to add their independent report to the annual PRSP progress report. Government-led monitoring systems include Participatory Poverty Assessments (PPA) in Albania, Rwanda, Uganda, and Vietnam, and the Qualitative Impact Assessment in Malawi. This type of work is beginning well upstream in several countries. For example, Nigeria is still at the early stage of developing its PRSP, but work has already begun on a framework for a community-based monitoring and evaluation system that will initially be piloted in six states, with the aim of providing the broader PRSP process with a monitoring and evaluation framework that is inclusive and transparent, and that promotes accountability.

#### **F. Donor Alignment and Collaboration under the PRSP**

58. **Countries are increasingly involving donors in PRSP preparation through, for example, including donor representatives on PRSP working groups, and/or regular consultations.** Recent or ongoing examples include Ghana, Niger, and Vietnam. The importance of alignment is also being addressed continually through discussions of aid modalities and partnership arrangements (see Box 9). In several countries, governments are taking a leadership role in coordinating and aligning donor activities. In Ghana, for example, the government has entered into an Memorandum of Understanding with a number of its development partners (ADB, Canada, Denmark, the EC, the Netherlands, UK, US, and the World Bank) for more coordinated support of the country's poverty reduction strategy.<sup>21</sup>

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<sup>21</sup> See *Strategic Partnership with Africa (SPA) Issues Note*, May 2002.

### **Box 9. Views from Clients on Alignment**

The African Learning Group on the PRSP, convened by the Economic Commission for Africa (ECA), brings together on an annual basis senior African policymakers and experts for candid discussions on how the PRSP process is unfolding in Africa. On aligning donor policies with the PRSP, they have examined innovations in donor aid modalities and partnership arrangements (for example, in Mozambique, Rwanda, and Tanzania). However, the Learning Group felt that, to forge a partnership genuinely reflecting PRSP principles, donors need to do much more to replicate or generalize the positive innovations that are already being tested, to harmonize aid procedures, and to improve coherence in their aid and trade policies. Participants felt that donors still placed undue emphasis on procedures and process and needed to shift their focus to be on impact and results. At the same time, participants stressed that African governments for their part need to take primary responsibility for ensuring that aid is being effectively used and for reducing their dependency on external aid. A joint work program on PRSP issues has been established between the Learning Group and the Technical Group of the Strategic Partnership with Africa (SPA).

*Source:* Economic Commission for Africa.

59. **Central to the promise of the PRSP approach is the principle that development partners, including the Bank and the Fund, will align their support with the priorities laid out in the country's PRSP and will aim to deliver support more effectively.** This principle has been accepted by virtually all major development partners—the challenge now is implementation. The PRSP Review suggested that development partners (including the Bank and Fund) could pursue alignment on several fronts, including: linking financial and technical support more closely to areas identified as priorities by the PRSP; deriving policy conditionality from the PRSP program; linking aid allocations to the quality of PRSP implementation; and harmonizing and simplifying policies, procedures, and practices for delivering development assistance. On each of these dimensions, the joint Review also suggested actions that the Bank and the Fund could take, including building the Bank's Country Assistance Strategy (CAS) around the country's PRSP, using PRSCs where appropriate, and aligning the Fund's PRGF more closely with the PRSP. Recent developments in each of these areas are covered below.

60. PRGF alignment with PRSPs was discussed extensively in the joint Review and the PRGF Review. The Reviews found that the broad macroeconomic and macro-relevant goals in most PRGF-supported programs, as well as the specific macroeconomic assumptions and projections, had been consistent with those underpinning the associated I-PRSPs and PRSPs. However, macroeconomic frameworks and policies in PRSPs were often described in only broad terms, and were insufficiently supported by analysis of the links between policy choices and projected outcomes (see Section III.B). This left a substantial amount of detail to be considered in the context of PRGF-supported program discussions.

61. **PRGF-supported programs considered recently by the Fund Board have continued to be consistent with countries' PRSPs.** There has also been some progress in

drawing PRGF conditionality from PRSP priorities and policies—particularly where new three-year PRGF arrangements have coincided with the completion of full PRSPs (i.e., The Gambia and Albania)—and in better articulating PRGF alignment in program documentation. The staff report for The Gambia, for example, effectively articulates the linkages between the PRGF and PRSP in terms of over-arching objectives and development priorities, as well as with respect to specific measures and conditionality (including PEM and tax collection) and the provision of technical assistance. Despite the high degree of consistency, the direction of causality is difficult to determine and the extent of progress in PRGF alignment continues to vary across countries. The remaining variations can be largely categorized in two ways. First, the transition period where pre-existing PRGF arrangements are modified to reflect PRSP priorities and policies continues. Over time, it is expected that *new* three-year PRGF arrangements would be considered in tandem with new full PRSPs. Second, there have been four cases (see footnote 12) where deviations of domestic budgets from the underlying PRSP and/or delays between completion of PRSPs and Board consideration of PRGF-supported programs, have raised issues of consistency (see text Table 2 and Section III.B).

**Table 2. Timing of Full PRSP Completion and PRGF Board Consideration**

<i>Country</i>	<i>Date of PRSP Finalization</i> <sup>1/</sup>	<i>Date of IMF Board Meeting</i>
Albania	November 2001; supplement May 2002	June 19, 2002
Gambia, The	April 2002	July 10, 2002
Guinea	January 2002; supplement July 2002	July 2002
Guyana	November 2001; addendum August 2002	To be determined
Malawi	April 2002; supplement July 2002	August 5, 2002 <sup>2/</sup>
Rwanda	June 2002	July 24, 2002
Vietnam	May 2002	June 21, 2002
Yemen	May 2002	July, 29 2002 <sup>2/</sup>
Zambia	March 2002	May 30, 2002

1/ Supplement to PRSP issued where necessary due to changes in macroeconomic circumstances since completion of full PRSP.

2/ PRSP to be considered at time of Article IV consultation Board meeting.

62. **Recent experience reinforces the need to further improve PRGF alignment.** Consultations on the macroeconomic framework should first and foremost be grounded in the PRSP preparation process (as discussed in Section III.B) and not be restricted to PRGF discussions. Moreover, alignment of macroeconomic frameworks in PRSPs with domestic budgets is critical to better alignment of PRGF-supported programs. Alternative scenarios and contingencies in PRSPs should help to ensure consistency of macroeconomic frameworks in cases where circumstances change between completion of PRSPs and consideration of associated PRGF-supported programs. This may take some time given current country capacity constraints. Fund staff are therefore developing guidance on how, in

the absence of alternative scenarios, countries can update and convey revised macroeconomic frameworks in the spirit of country ownership.

63. The Fund is also undertaking internal efforts to ensure better alignment. Headquarters staff and resident representatives are benefiting from in-house seminars. Internal review processes have also been strengthened to ensure that PRGF arrangements include, and report on, more explicit links to the underlying I-PRSPs/PRSPs. Fund staff are also developing updated guidance on key PRGF operational and program design issues, to be available by end-2002.

64. **Following the decision to align Bank CASs to full PRSPs, several CASs have been prepared—or are in the process of being prepared—on this new basis.** These include Albania, Mauritania, Vietnam, and Yemen. In each case, the CAS explains how it is linked to the PRSP and the Bank's rationale for supporting certain priorities within the country's poverty reduction strategy. Each CAS has been subject to an internal review process to verify alignment between the programs of assistance and instrument choice on the one hand, and the relevant PRSP on the other (as recommended in the joint Review). Box 10 describes the links between the Vietnam CPRGS (the PRSP) and the CAS.

65. Despite progress, **challenges remain in aligning CASs with PRSPs.** To improve practice in this area over time, Bank teams are being asked to focus on the following areas:

- When Bank staff find aspects of the PRSP program general or open-ended, or when they have concerns about the sequencing envisaged in the PRSP, they should explain in the CAS why the Bank's approach is more specific or envisages different sequencing. Building on the JSA, the CAS should also set out any PRSP priority areas which are not expected to be supported by the Bank over the time horizon of the CAS. The CAS should also explain how support from other development partners complements Bank assistance.
- The triggers for different levels of IDA assistance should be linked to the country's reform program. Specifically, the base case should be tied to adequate implementation of the PRSP (as in Vietnam). In addition, key monitoring indicators in the PRSP should be included in the CAS.
- The CAS should explain how the Bank's economic and sector work (ESW) will fill the analytical gaps in the PRSP, and how this support fits with assistance from other development partners.

### **Box 10. Alignment of IDA's Program to Support CPRGS Implementation in Vietnam**

The Bank had planned to prepare a CAS for Vietnam in September 2001, but delayed it by one year in order to await the completion of the CPRGS (discussed by the Fund and Bank Boards in June and July 2002, respectively).

Key features of the Vietnam CPRGS are its highly participatory process and strong focus on growth and policy and institutional reforms for poverty reduction.

The CAS reflects the CPRGS in several important respects:

- **Content of the CAS**—Extensive consultations with the poor have helped to change the *government's* priorities. The CPRGS—and, therefore, the CAS—gives greater recognition to the needs of vulnerable groups, such as ethnic minorities, women, and unregistered urban migrants. It places greater emphasis on making basic social services affordable for the poor, and reflects a greater awareness of poor people's vulnerability to shocks.
- **The Nature of the Policy Dialogue**—The government has developed a detailed medium-term program of policy and institutional reforms. The Bank will support its implementation through a series of PRSCs, which as far as possible will be based on prior actions and aligned with the national budget cycle.
- **The Way Aid is Delivered**—The CAS envisages delivering 25 to 40 percent of high case lending through PRSCs and sub-sector "SWAPs" (Sector Wide Approaches). Major efforts are also underway to harmonize procurement, financial management, safeguards and other measures with the government and other donors.
- **Outcome Indicators**—The CPRGS contains 'localized' MDGs to which the government has committed and against which it will measure success. The Bank—and other donors—are also committing to align their assistance to deliver the same outcomes.

66. **PRSCs have the potential to further strengthen the alignment of the program supported by the Bank with PRSPs.** First, by stressing country ownership, PRSCs help ensure that support is directed to the priorities in the PRSP. Second, by linking disbursements to achievements, PRSCs support implementation of the PRSP. Third, PRSCs allow for an improved alignment of resource flows with countries' policy and budget cycles. The PRSCs approved to date (in Albania, Burkina Faso, Uganda, and Vietnam) all illustrate these advantages of PRSCs. Moreover, these PRSCs have featured strategically selective and focused prior actions and triggers—in line with the continuing trend in all Bank policy-based lending toward increasingly focused and selective conditionality—and these have been specifically related to actions and indicators in the PRSPs.



## G. Harmonization and Donor Coordination Efforts

67. **There is a clear need to reduce the administrative burden on recipient countries of “doing business” with donors.** Harmonizing of operational policies, procedures, and practices governing aid management and delivery has assumed a high profile in recent years, and the joint Review highlighted PRSP countries’ need to reduce transaction costs and relieve pressure on their already scarce administrative capacity. Moreover, advancing the Monterrey consensus requires that aid delivery be made more effective at the country level through improved harmonization, and that donors improve the internal consistency of their own policies, such as increasing the coherence of policies for aid and trade.

68. **Several international efforts are underway to advance the harmonization agenda.** For example, the OECD-DAC Working Groups and the Multilateral Development Bank (MDB) working groups have made good progress on the Development Committee-endorsed work program of producing 8-10 good practice principles by the end of this year, so as to encourage donors to better harmonize in areas such as fiduciary standards, country analytic work, and procurement rules and guidelines. These good practice principles focus on existing modes of aid delivery. A High Level Forum on Harmonization, endorsed in the 2002 Development Committee spring communiqué, will seek to move harmonization into the implementation phase through voluntary adoption of good practice principles by donors. The forum is planned for early 2003 in Italy, to coincide with the Heads of MDBs meeting. Similarly, the Bank has been working to identify ways in which it can facilitate harmonization and strengthen partnerships. For example, it can participate in pooled funding arrangements in support of sector wide programs without compromising fiduciary standards.

69. **However, if increasing shares of external financing will take the form of program support to reinforce the PRSP process, it will be necessary to improve donor coordination in identifying key reforms to be supported and in monitoring country performance, so as to reduce transaction costs.** This would require that all donors who provide program support use a common performance assessment framework for monitoring progress in implementing agreed reforms and rely on existing processes for policy dialogue. The IMF and the World Bank are working with the European Union and bilateral donors on ways of coordinating reporting requirements and performance assessment frameworks to reduce the administrative burden associated with the delivery of program aid to countries that are implementing PRSPs. And, the SPA is moving in the next phase from identifying good practice in PRSP support by donors to the articulation and implementation of an action program for harmonizing donor practices in support of PRSPs.

70. **In addition to reporting requirements and performance assessments for financial assistance, better coordination is needed in the delivery of technical assistance.** Overlapping bilateral technical assistance in the area of public expenditure management has been reported in countries such as Mozambique and Lesotho. One promising example in this area that combines coordination in both financial and technical assistance is an expanded program on Public Expenditure and Financial Accountability (PEFA), a Trust Fund cosponsored by the Bank and the European Union. The goal of the PEFA program is to bring

various interested donors together—initially, the Bank, the EU, the IMF, and several other bilateral donors—to develop analytic toolkits, support joint assessments of PEFA capacity in client countries, and share knowledge, information, and good practice in PEFA-related capacity building. PEFA is also supported by the Bank’s Development Grant Facility and DfID, and several bilateral donors are interested in becoming partners. Within the Bank, the PEFA program is facilitating enhanced collaboration among staff in the analysis of public expenditure, financial accountability, and procurement.

71. **At the country level, there are ongoing efforts to improve the harmonization of external assistance.** The Bank has initiated a number of country pilots, starting with Vietnam and Ethiopia, to support government leadership in managing comprehensive harmonization programs with concrete and time bound outcomes. Another example is the pioneering initiative in Tanzania to track developments in government-donor relations and seek to enhance aid effectiveness, which was launched in the mid 1990s and has gained momentum with PRSP implementation and the ongoing shift toward program support (See Box 11).

#### **Box 11. Local Ownership and Monitoring of Donor Performance in Tanzania**

In Tanzania in the mid-1990s, in the face of a growing understanding that aid effectiveness was compromised by lack of country ownership and mistrust, an initiative was launched to seek ways of improving aid relationships. This decision is consistent with the principles for good practice aid relationship laid in the Tanzania Assistance Strategy. At a government/donor workshop in 1997, this work led to a set of working principles designed to guide all parties, with the prime objective of having Tanzania take the lead and fully own its development cooperation program in terms of planning, design, implementation, monitoring, and evaluation. Specific steps to be taken in pursuit of improved relations were set out. By 1999, independent observer commissioned to monitor progress found a mixed picture. While the government had taken a strong lead on macro issues and donors were more open to dialogue as well as increasing sectoral support, technical assistance remained a vexed issue with complaints that it was neither cost effective nor aligned with government priorities for capacity building.

In 2000, with the advent of the PRSP process, the Tanzania Consultative Group decided to institutionalize the independent monitoring of government/donor relations. The independence of the assessor and his familiarity with the country context contributed to both the frankness of the reviews as well as their broad acceptance by parties involved. While there was much debate about the scope of any such assessment—for example, donors felt strongly that only collective donor performance should be evaluated with no one donor singled out—there was broad consensus on five core goals which continue to be monitored by an independent monitoring group, viz. promoting ownership; reducing transaction costs; enhancing predictability of aid flows; consolidating accountability requirements and results orientation; and improving technical assistance in line with local capacity requirements.

#### IV. LEARNING, BUILDING CAPACITY, AND OUTREACH

##### A. Learning and Capacity Building

72. **Much of this report affirms the joint Review finding that weak country capacity is a major constraint to effective preparation and implementation of poverty reduction strategies.** Earlier sections discussed some of the initiatives underway to address capacity weaknesses in specific areas, such as public expenditure management and engagement of parliaments. However increased donor support is not enough. As a recent IMF review concluded, better prioritization and coordination with countries and with donors is key if capacity building efforts are to have full effect.<sup>22</sup> Moreover, capacity building is not merely a technical exercise; it is also rooted in the political economy of the country. Thus, an understanding of the sources of current weaknesses, as well as how incentives change behavior, is critical to fully address the challenges the PRSP presents. Given this, recent efforts aim to respond more effectively to local demand and conditions in order to improve their sustainability.

73. **As PRSPs move into the implementation phase, countries and other stakeholders need to extend their knowledge and skills base further.** The Bank and Fund, with support from bilateral partners, are providing learning opportunities for country PRSP teams. For example, the Bank's Attacking Poverty Program is designed on a modular basis so that it can be tailored to the needs of a particular country. The program also works with local partner institutions to help ensure that skills and learning are retained in-country.

74. Since the Spring meetings, a number of learning events have taken place for country teams and their partners. They include:

- The Attacking Poverty Course, which aims to deepen participants' understanding of key policy issues, such as empowerment, trade, and social safety nets, has been delivered to country teams in Burkina Faso, Mali, Mauritania, and Uganda, and to CSOs in Latin America.
- Country-level workshops, supporting PRSP teams and other stakeholders through focused discussions and exposure to international experience, have been held in Bangladesh, Cambodia, Guinea, and the Kyrgyz Republic.
- Sectoral-level workshops have explored the links between PRSPs and key sectors. For example, a meeting on rural infrastructure was recently held in collaboration with the Southern African Development Community in Harare, while a regional workshop on water and sanitation took place in Nairobi in May 2002.

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<sup>22</sup> *Review of Technical Assistance Policy and Experience*, SM/02/180, June 13, 2002.

75. **But capacity building clearly extends beyond learning events** and the Bank and Fund are also supporting countries on a broader front. Bank efforts are focused on a new multi-donor trust fund for capacity building, jointly administered with UNDP (see Box 12). The Fund is engaged in setting up a new network of Africa Regional Technical Assistance Centers (AFRITACS) as described in Box 13.

#### **Box 12. Poverty Reduction Strategy Trust Fund**

This multi-donor trust fund supports capacity building needs as determined at the country level, and will provide \$20 million for disbursement over three years. Proposals are prepared and approved by a country steering committee comprising the government, contributing donors, the UN representative, the Bank, and other stakeholders. Three countries have had proposals approved from the fund: Armenia, Comoros, and Georgia. Activities supported range from strengthening the participatory process to improving poverty diagnostics and establishing stronger links between sectoral interventions and poverty outcomes. Several other countries are shortly expected to receive assistance, including Albania, Bosnia, Kyrgyz Republic, Nicaragua, Togo, and Vietnam.

#### **Box 13. Africa Regional Technical Assistance Centers (AFRITACS)**

The new AFRITACS network will provide technical assistance, coordinated with other capacity building activities, in the Fund's core areas of expertise, namely macroeconomic, financial sector and fiscal issues. Initially, two centers will be established in fall 2002, one in Dar es Salaam and the other in Abidjan. If the centers prove successful, three more will be set up to cover the whole of sub-Saharan Africa. Each center will: (a) help governments to design their own capacity building programs that meet their needs; (b) follow up on the implementation of technical assistance (TA) projects and improve coordination among TA providers; and (c) respond quickly to a call for assistance in addressing emerging TA needs. The centers are set up in a way designed to foster ownership and accountability of both the recipients and the providers, with observable benchmarks in their work programs. In addition, a steering committee of representatives from African governments and donors will review performance semi-annually, and its assessment will be reflected in future resource allocations.

76. **Finally, the PRSP process is demanding that not just PRSP country teams but also Bank and Fund staff develop new skills in order to support the effective design and implementation of PRSPs.** To this end, several staff training events have been held in recent months, and in many cases staff have participated in country activities. In addition, Bank and Fund staff have had joint training such as the new course "Building and Supporting PRSPs" which was piloted in June.

### **B. Outreach Activities**

77. Recent **Bank and Fund outreach efforts have focused on disseminating the joint Review's findings**, as well as on highlighting specific topics such as pro-poor growth, PSIA,

donor alignment, and parliamentary involvement in PRSPs (see Annex 2 for more detail). Key engagements with other stakeholders have included:

- Interactions with **CSOs**, including northern NGOs and faith based organizations. For example, the Bank and World Vision are co-hosting a conference entitled “Democratizing Development: Deepening Social Accountability through PRSPs” in September. It is increasingly common practice for Bank and Fund staff to meet with NGOs, unions, and other participants in the PRSP process.
- Outreach to the **international trade union movement** has occurred primarily through dialogue with the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labor (WCL). For example, in late February, Bank and Fund staff met with representatives from the ICFTU, WCL, and the International Labor Organization (ILO) to discuss the findings of the joint Review.
- Staff are working to enhance the involvement of **parliaments** through the **Parliamentary Network on the Bank**, which aims to strengthen links between members of parliament and multilateral agencies.
- Continued dialogue with other **donor agencies**. For example, in June the Bank supported a Joint Staff Training event on Partnership and Poverty Reduction organized by the Netherlands and seven other bilateral donors where the issue of alignment was discussed.

78. In addition, efforts have been made to disseminate good practices for PRSPs to a broad audience. The two joint Review Board papers as well as external comments have been posted on the Bank and Fund websites in English,<sup>23</sup> the main findings paper is also available in French, Spanish, and Russian. To highlight areas of good practice identified in the review, the Bank and Fund recently published a pamphlet on “PRSP: Good Practices” in English, French, Spanish, Portuguese, and Russian; the pamphlet has been widely distributed among governments, CSOs, and donors. Finally, the Bank and Fund continue to publish a number of newsletters covering specific aspects of the PRSP approach.

## V. CONCLUSION

79. Drawing on recent experience of countries engaged in PRSP processes, this report reaffirms many of the strengths and challenges previously identified in the PRSP approach. Although experience with PRSP implementation still remains limited, the new full PRSPs and preparation status reports illuminate clearly the issues countries are grappling with as they turn toward implementation. While there has been progress, there remains substantial scope for improvement, particularly in opening up the macroeconomic and policy dialogue, improving public expenditure management, and achieving donor alignment and harmonization. It is important for all stakeholders to recognize that existing institutional

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<sup>23</sup> See <http://www.worldbank.org/poverty/strategies/review/index.htm>.

capacity will constrain the rate of progress in most countries in the near term. Development partners (including the Fund and Bank) have a substantial role to play in providing analytical and technical support, improving alignment of our own lending practices and working to reduce transaction costs for low-income countries. Moreover, much remains to be done to improve our own understanding of the policies and approaches that are required for sustainable pro-poor growth and poverty reduction. The international community therefore needs to continue to step up its financial and technical assistance if low-income countries can be expected to implement their poverty reduction strategies successfully and, in turn, if global progress can be made towards achieving the MDGs.

80. While there has been substantial progress in the design and early implementation of national poverty reduction strategies, significant challenges lie ahead as more countries move to implement their strategies. Addressing these challenges will require sustained effort and progress will inevitably be much slower than that to date. Expectations regarding the pace of progress from this point forward will therefore need to be tempered with patience. The staffs of the Bank and Fund will continue to report annually on progress in implementing the PRSP approach, highlighting the lessons learned and emerging issues. By the time of the next scheduled progress report, many more countries will likely have completed their first annual PRSP progress reports. Those reports should provide the basis for a more systematic examination of progress in implementation and of the results achieved. In turn, the joint Bank/Fund annual reports on progress in implementation will feed into the next joint review of the PRSP approach, which is scheduled for Spring 2005. By the time the joint Review is undertaken, it should be possible to examine the extent to which the PRSP approach has influenced the content of poverty reduction strategies and trends in poverty outcomes.

### **Guidelines for Joint Staff Assessments of PRSP Annual Progress Reports on Implementation**

1. The Poverty Reduction Strategy Paper (PRSP) approach is intended to be an on-going effort through which low-income countries improve public actions for poverty reduction and increase the effectiveness of both domestic resources and development assistance. It is envisaged that countries will periodically update their poverty reduction strategies, between two to five years. In each of the intervening years, annual progress reports on implementation should be prepared and discussed in country and presented, together with a Joint Staff Assessment (JSA), for consideration by the Executive Boards of the World Bank and IMF.<sup>24</sup> With a view to minimizing the administrative burden on countries, it is expected that the reporting on progress could be integrated within regular government processes (e.g., annual budget, poverty, and/or development reports) and be presented as short summary documents. The exact timing of the annual report is flexible, and could also change over time in order to become consistent with national reporting and decision making processes.
2. This note provides guidance to Bank and Fund staff on preparing JSAs for annual progress reports on PRSP implementation. These guidelines will be revised periodically in light of experience and feedback from countries and development partners.

#### **Purpose of the JSA**

3. The JSA must make an overall assessment for the Executive Boards as to whether progress in implementation has been satisfactory, and whether or not the strategy presented in a PRSP remains a sound basis for concessional assistance from the Fund and the Bank.<sup>25</sup> The JSA could draw on sources other than the progress report, including the views of domestic stakeholders and development partners. The amounts of assistance and detailed design of the programs in support of a country's poverty reduction strategy will continue to be determined through the Bank's CAS, and arrangements under the IMF's PRGF. The JSA of PRSP progress reports will contribute to these determinations through its assessment of

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<sup>24</sup> A PRSP Progress Report and accompanying JSA could be discussed by the Board(s) either on its own or in conjunction with an IMF or IDA operational decision. A progress report on the first year of implementation of the PRSP is required for most HIPC's to reach their completion point. For the IMF, a progress report within the past twelve months would be needed for consideration of an arrangement or review under the PRGF.

<sup>25</sup> If so, the concluding paragraph of the JSA should state that: "The staffs of the Bank and Fund consider that the country's efforts toward implementation of the strategy provide sufficient evidence for its continuing commitment to poverty reduction, and therefore the strategy continues to provide a credible framework for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion." (Note that the term "concessional assistance" includes debt relief under the Enhanced HIPC Initiative.)

the strengths and weaknesses in PRSP implementation to date. In addition, the JSA should provide constructive feedback to the country about how it might modify its strategy and/or improve its implementation over time, in light of recent developments.

### **Key Questions**

4. The JSA—within 4-5 pages—should provide succinct answers to the following three key questions about progress in implementing the PRSP. The bullet points associated with each question are indicative of potentially important issues for consideration, but need not all be covered. The nature and focus of an annual progress report for a particular country would likely vary from year to year. The longer the duration between updating full PRSPs in the country, the more detail that would be expected in the annual progress reports in the outer years and the JSA would need to be correspondingly more comprehensive.

**A. *Does the progress report provide sufficient information and analysis regarding the achievements and shortfalls experienced to date with respect to the poverty targets, priority public actions, and the monitoring and evaluation systems as set forth in the PRSP?***

- Comparison of any recent data on indicators relative to key targets set forth in the PRSP Analysis of the reasons for any shortfalls with respect to key targets and a summary of measures for improving effectiveness of priority public actions.
- Highlighting of key macro, structural, and sectoral policy measures implemented or not implemented relative to those presented in the PRSP policy matrix.
- Discussion of any recent analysis of how growth can be accelerated, and whether more systematic analysis of the poverty and social impact of reforms has been carried out.
- Summary of the execution of the budget during the past year compared to plans presented in the PRSP. This should include data on changes in the composition of spending towards poverty reducing programs including, for HIPC's, on the uses of debt relief.
- Status of monitoring and evaluation systems, including the adequacy of data collection and analysis.
- Progress on institutional development, especially on public expenditure management, and monitoring and evaluation systems, and remaining technical assistance needs.

**B. *Does the progress report propose any important changes in the strategy and, if so, are these changes appropriate in light of implementation experience to date, changes in exogenous factors, and new data and analysis regarding poverty and its determinants?***

- Analysis of the extent to which components of the strategy that were missing or weak in the PRSP, including those identified in the JSA, have now been completed or



improved, including as a result of analysis of the poverty and social impacts of policies and programs.

- Inclusion of an updated matrix with priority policy actions for the coming year, including any revisions to the macro framework, budgetary allocations, external financing requirements, and to poverty indicators/targets and growth targets.
- Update on the risks to implementation—such as those related to growth projections, vulnerability to external shocks and from financing shortfalls—and on contingency plans.

***C. To what extent has the government used its annual progress report to inform and/or involve domestic stakeholders and partners regarding implementation and to build support for its strategy?***

- Extent to which stakeholders (including the role of parliament and civil society organizations) were engaged in monitoring and reporting on the PRSP.
- Extent of dissemination of the annual progress report to the public and to donor fora.
- Degree of public access of key underlying data.
- Progress and constraints faced in harmonizing donor assistance.

## IMF and World Bank Outreach Events

### January 2002 –August 2002

Over the last eight months, Fund and Bank staffs have participated in a number of outreach events to exchange views with stakeholders and other interested groups on the experience of countries undertaking PRSPs. Many of the discussions are highlighted below.

- International Conference on Poverty Reduction Strategies, Washington, D.C., January 2002.
- Strategic Partnership with Africa (SPA) Meetings, Paris, January 2002.
- Conference on *Humanizing the Global Economy* (sponsored by the Canadian Conference of Catholic Bishops, Consejo Episcopal Latinoamericano; US Conference of Catholic Bishops, Washington, D.C., January 2002.
- Commonwealth HIPC Ministers Meeting, Malawi, February 2002.
- Meeting with DFID and Her Majesty's Treasury, London, February 2002.
- Carter Center Development Cooperation Forum on "*Are We Really Attacking Poverty*," Atlanta, Georgia, February 2002.
- DAC Partnership Forum, Paris, France, February 2002.
- Meeting with ICFTU on modalities of IMF-labor union dialogue, Washington D.C., February 2002.
- Humphrey Fellows Seminar (session on the PRSP review; role of civil society), Washington, D.C., March 2002.
- World Bank - Multilateral Development Banks (MDB) Meeting on HIPC, Washington, D.C., March 2002.
- Conference on *Financing for Development*, Monterrey, Mexico, March 2002.
- The Netherlands IMF/WB Constituency Meeting, Zagreb, Croatia, March 2002.
- Joint IMF-UNECA Seminar on *Conditionality and ownership in the context of The New Partnership For Africa's Development (NEPAD)*, Addis Ababa, Ethiopia, March 2002.

- National Assembly of Kenya in cooperation with the IMF: Workshop on *Managing an Economy*, Nairobi, Kenya, April 2002.
- Discussion with civil society organizations at the Spring Meetings of the World Bank and IMF, Washington, D.C., April 2002.
- Meeting with Nordic Development Ministries, Oslo, Norway, May 2002.
- Meeting with the German Development Ministry, Bonn, Germany, May 2002.
- Development Assistance Committee (DAC) High Level Meeting, Paris, France, May 2002.
- Meeting with EC officials, Brussels, Belgium, May 2002.
- UN Commission on Human Rights, Economic and Social Council, Experts Meeting on Integrating a Human Rights Approach Into PRSPs, Geneva, June 2002.
- Annual Bank Conference on Development Effectiveness, “PRSPs: A Pandora’s box?” Oslo, Norway, June 2002.
- IMF/German Foundation for International Development Seminar on *PRSPs in post-Conflict countries*, Berlin, Germany, July 2002.
- Debt Relief International (DRI)-HIPC steering Committee, London, July 2002.
- Meeting with UN officials and Ambassadors, Geneva, Switzerland, July 2002.
- Seminar on *Poverty and Social Impact Analysis*, the Hague, Netherlands, July 2002.
- Summit on *Experience of Faith-Based Organizations in PRSP Countries*, Canterbury, July 2002.
- Meetings with the Japan Ministry of Finance, the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) Study Group on PRSPs, Tokyo, July 2002.

## September 2002 –November 2002

Over the next few months, Fund and Bank staffs will participate in a number of outreach events in connections with the PRSP program. These are:

- World Summit on Sustainable Development, Johannesburg, South Africa, September 2002.

- World Bank/ World Vision conference on, *Democratizing Development, Deepening social Accountability through PRSPs*, Washington, D.C., September 2002.
- Debt Management Workshop for CIS countries, Tokyo, September 2002.
- UNCTAD Debt Management meeting, Geneva, September 2002.
- Regional conference on PRSP in the Balkan regions, Vienna, Austria, October 2002.
- World Bank – Multilateral Development Banks (MDB) Meeting on HIPC, Washington, D.C., October 2002.
- DFID/IMF/World Bank Workshop on *Poverty and Social Impact Analysis*, Washington, D.C., October 2002.
- High-level Meeting with Trade Unions Leaders, Washington, D.C., October 2002.
- DAC post-conflict network and Donors Conflict Prevention Network (CPRN) meeting, Paris/Bonn, November 2002.

**Annex Table 1**

**Possible Country Timelines for I-PRSPs, PRSPs, CASSs, PRGFs, and HIPC Decision & Completion points**  
(Possible Timing of Board Discussions as estimated by Staff in Consultation with Country Authorities)<sup>1/</sup>

Country	July-Sept 2002	Oct-Dec 2002	Jan-Mar 2003	Apr-Jun 2003	July-Sept 2003
Angola	...	...	I	...	...
Albania	...	...	R	...	R, PP
Armenia	R, IP	...	P, R	...	R
Azerbaijan	...	P, R, S	...	R	...
Bangladesh	...	I, F	S*	...	...
Benin	...	P, C, R	S	R	...
Bolivia	...	...	PP, F	S	...
Bosnia and Herzegovina	...	S*	...	P, R	...
Burkina Faso	...	PP, R	F	...	...
Burundi	...	...	...	I, F	...
Cambodia	R	...	R, P	S	F
Cameroon	R	P, S	R	...	R, C
Cape Verde	...	R	...	R, P	S
Central African Republic	...	F, IP	...	...	P, R, D
Chad	R	P	R	S	R, C
Comoros	I	...	F	...	P, D
Congo, Dem. Republic of	...	...	R, D	...	...
Congo, Republic of	...	...	R, D, I	...	F
Côte d'Ivoire	...	D, R, P	R	...	R
Djibouti	...	R, IP	R	F, P	...
Dominica	...	I	...	P	F
East Timor	...	...	I, F	...	...
Eritrea	...	...	...	...	...
Ethiopia	P	S	...	...	C
Yugoslavia, Fed. Rep. of	I	...	...	R	P
Gambia, The	F, P	R	...	R	C
Georgia	IP	R, P, S	...	R	...
Ghana	...	R, P, S	...	F	...
Guinea	P, R	R	R	C	PP
Guinea-Bissau	...	...	P	...	...
Guyana	F, P, S	...	R, C	...	R
Haiti	...	...	...	I	P
Honduras	...	PP	S	F, S	...
Indonesia	S*	I	...	...	...
Kenya	...	...	P	S	...
Kyrgyz Republic	...	P, S	R	R	...
Lao, P.D.R.	R, IP	...	R, P, S	...	R
Lesotho	P, R	...	R	S	...

**Possible Country Timelines for I-PRSPs, PRSPs, CAS, PRGF, and HIPC Decision and Completion Points**

**(Possible Timing of Board Discussions as estimated by Staff in Consultation with Country Authorities)**

Country	July-Sept 2002	Oct-Dec 2002	Jan-Mar 2003	Apr-Jun 2003	July-Sept 2003
Madagascar	...	P, R, S*	...	R	...
Malawi	P	R, S	...	...	R, PP, C
Mali	R, P, C	R	...	S, R, F	...
Mauritania	...	R	F	...	R
Moldova	R, IP	R, I	P	R	...
Mongolia	R	P	R	S	...
Mozambique	...	PP, R, S	...	...	...
Nepal	I	S*	F, P	...	...
Nicaragua	...	PP, F, S	...	R	C
Niger	R	S	R, PP	...	C, R
Nigeria	...	I, S	...	...	...
Pakistan	R	R	R, P, S*	R	R
Rwanda	F, P	S	...	R, C	...
Sao Tomé and Príncipe	...	P, F	...	R	...
Senegal	...	P, S, F	...	R	C
Sierra Leone	R	R, IP	...	...	R
Sri Lanka	...	P, F	S	...	...
Tajikistan	P, F, S	...	R	...	...
Tanzania	...	R, PP	...	R, S	...
Togo	...	I	F	S*	R
Uganda	F, PP	...	R	PP	R, S
Uzbekistan	...	...	I	...	...
Vietnam	S	R	...	R, PP	...
Yemen, Republic of	P	S	F	...	R
Zambia	...	R	R, F	...	R, S

**I -- Interim PRSP**

**P -- PRSP**

**IP-- PRSP Preparation Status Report**

**PP--PRSP Progress Report**

**S -- Country Assistance Strategy**

**S\*--Country Assistance Strategy Update**

**D -- HIPC decision point, enhanced Initiative**

**C -- HIPC completion point, enhanced or original Initiative**

**F -- New PRGF 3-year arrangement**

**R -- Review of PRGF arrangement, or new annual arrangement**

1/ These estimates are in some cases highly tentative and are all subject to change. PRSPs and Interim PRSPs are prepared by the countries and will necessarily reflect the countries' own circumstances and decisions. In particular, estimates for full PRSPs are based principally on country authorities' timetables. Furthermore, the timing estimates assume that the countries' Fund- and Bank-supported programs remain on track, and that understandings are reached on new programs without major interruptions. Experience indicates, however, that some and perhaps many of these dates will surely slip, and the timing of new programs is particularly subject to delay.