

INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

Prepared by the Staffs of the IMF and World Bank

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## Acronyms

|         |  |
|---------|--|
| BP      | Background Paper                                       |
| CAS     | Country Assistance Strategy                            |
| CSO     | Civil society organization                             |
| DAC     | Development Assistance Committee                       |
| ECA     | Europe and Central Asia                                |
| ESW     | Economic and Sector Work                               |
| HIPC    | Heavily Indebted Poor Country                          |
| IDA     | International Development Association                  |
| ILO     | International Labor Organization                       |
| I-PRSP  | Interim Poverty Reduction Strategy Paper               |
| JSA     | Joint Staff Assessment                                 |
| MDGs    | Millennium Development Goals                           |
| MTEF    | Medium-Term Expenditure Framework                      |
| OECD    | Organization for Economic Co-operation and Development |
| PEM     | Public expenditure management                          |
| PRGF    | Poverty Reduction and Growth Facility                  |
| PRS     | Poverty Reduction Strategy                             |
| PRSC    | Poverty Reduction Support Credit                       |
| PRSP    | Poverty Reduction Strategy Paper                       |
| PRSP-PR | Poverty Reduction Strategy Paper Progress Report       |
| PSIA    | Poverty and Social Impact Analysis                     |
| WBI     | World Bank Institute                                   |

## I. INTRODUCTION

1. **This report, along with the companion background paper,<sup>1</sup> is the latest in a series of now annual progress reports on the Poverty Reduction Strategy Paper (PRSP) process.<sup>2</sup>**

2. **The PRSP approach has gained widespread support.** The total number of PRSPs has reached 32, with 14 PRSPs completed since the last report (see Annex Table). There have also been a further six *annual PRSP progress reports* (PRSP-PRs), bringing the total to 11 by 7 countries. Another 21 countries have embarked on the PRSP process, having finalized their *Interim Poverty Reduction Strategy Papers* (I-PRSPs).

3. **This report is not comprehensive; the focus is on the implementation of selected key aspects of poverty reduction strategies in those countries that have now completed their initial PRSPs.** The PRSP documents form the primary base for the report, but it also builds upon the contents of other staff reports and papers as well as a range of external reviews. This paper does not attempt a full update of each of the core pillars of the PRSP approach, but limits itself to addressing specific aspects of the PRSP process that earlier reviews and emerging evidence suggest are the most challenging. In particular, it seeks to assess the extent to which the lessons that had emerged from the early country experience have been taken on board, and what new challenges have emerged during implementation. It also reviews what might be done, in particular by the IMF and World Bank, to ensure that identified constraints and obstacles are being addressed. The paper concentrates mainly on the process and content of PRSPs, without attempting to undertake a full review of the wide range of public actions proposed therein. In specific areas where actions are considered (such as efforts to improve the investment climate) the paper does not arrive at judgments about their impact on poverty reduction, given the early stages of implementation.

4. **There is evidence of improvement and progress, as recent PRSPs build on the efforts of earlier PRSPs, and countries more advanced in the process are successfully adapting and implementing their strategies.** For example, open and participatory processes are often being sustained during implementation, and there are some encouraging signs in terms of better framing of macroeconomic policies, and as well as a shift in spending priorities towards expenditures targeted at reducing poverty. Similarly, there is an increased focus on designing key policies to improve service delivery and governance, as well as evidence of efforts to improve public expenditure management (PEM).

5. **The PRSP, however, is an instrument charged with multiple objectives, many of which result in tensions**—for example, long-term ambition versus budget constraints,

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<sup>1</sup> The companion background paper (SM/03/279, Supplement 1) provides a more expansive discussion, along with specific country examples, of the issues covered by this paper.

<sup>2</sup> The most recent such report was considered by the Boards in September 2002 (SM/02/250, Revision 1 and IDA/DC2002/16).

comprehensiveness in addressing the different dimensions of poverty versus focus and prioritization, meeting the expectations of the international community versus country ownership and implementation capacity. This inevitably means that PRSPs will reflect compromises and that attaining some ideal level of performance along every line is impossible. It also points to the importance of developing decision-making and implementation processes to address these tensions to arrive at operationally relevant strategies that can be executed in practice.

6. **The tensions particularly manifest themselves in the following respects:**

- There are concerns about the breadth of the government's commitment beyond the team responsible for preparation, reinforcing the need for greater cohesion between PRSPs and other planning documents;
- Countries continue to find it a challenging task to strike the appropriate balance between ambition and realism in setting PRSP targets;
- Weak PEM and difficulties in linking PRSPs to the budget strain countries' administrative capacities;
- Lack of prioritization, which has resulted in inadequate focus, is often a significant problem, diminishing the potential value of the documents for both national authorities and donors; and
- There is an urgent need to improve donor alignment and harmonization around national strategies, in order to achieve successful implementation of PRSPs.

7. **The PRSP approach should be able to make a significant contribution to improving economic outcomes and reducing poverty in low-income countries.** The broad principles of the Comprehensive Development Framework expressed in the PRSP approach and the Monterrey Consensus remain fully valid. While there have been substantial achievements to date, the imperative now is to address the emerging challenges in implementation, which is the main focus of this paper.

## II. REVIEW OF RECENT COUNTRY EXPERIENCE

### A. Government Ownership

8. **The principle that national governments own their poverty reduction strategies (PRS) and are committed to implementing the policies and programs therein is central to the PRSP approach.** Parliaments are now becoming more regularly engaged in the formulation stage, and a continued role is envisaged during implementation in about half of the countries that have completed PRSPs. Dialogue between PRSP teams and line ministries in PRSP formulation and implementation is also becoming more common. The PRSP process has survived transitions in national governments in several countries, while requiring, not unexpectedly, adaptations to reflect the program of the incoming administrations.

9. **Constraints impeding the full ownership of PRSPs as the principal development planning documents have also emerged.** Where PRSPs are developed in parallel with other documents, their role in government decision-making is often unclear, although there have been encouraging shifts toward consolidation of plans in some countries. There are also cases where ministries of finance have not been fully engaged in the PRSP process, which undermines the very important link to the budget. Sometimes new “PRSP units,” often dependent on external financing and assistance to manage and draft the PRSP, are created on top of the existing government structure. While often performing a critical role as PRSP “champions,” these units could also be perceived as enclaves isolated from budget and implementing agencies. In some cases, concerns have also been voiced that the need for Bank and Fund Board consideration may be inhibiting full ownership of the strategies.

### **B. Participatory Process**

10. **The PRSP approach is facilitating greater openness of policy-making, with progress observed in four key areas.** The private sector is increasingly active through involvement in consultations and, in some cases, through more formal mechanisms. Trade unions were often not present initially, but after petitioning governments, sometimes with International Labor Organization or other support, they have joined the dialogue in many countries. Governments have also attempted to broaden discussions to ensure that voices of groups marginalized in society are included. The majority of recent PRSPs also point to an increased interest and involvement of parliamentarians in PRSP preparation and envisage a more significant role for the legislature during implementation.

11. **Participation in PRSP formulation has tended to be “broad” rather than “deep,” with a wide range of stakeholders engaged, but only to a limited extent.** This is another tension, in that broad inclusion can mean less effective participation and often results in too many proposals without the depth needed to inform choices. This is in part because civil society organizations’ (CSO) capacity to engage on the details of policy options is often limited. A continuing criticism from CSOs is that they are asked to react to existing programs rather than contribute to an overall rethink of the government’s program. Another criticism has been that some policies which critically underpin the PRSP, in particular, the macroeconomic framework, are not sufficiently open to public debate.

12. **Countries appear to be adapting gradually to the new challenge of enabling participation during implementation.** After full PRSPs are finalized and translated into action, it has not always been clear how participatory processes should endure and there has typically been a drop-off in engagement early on in the implementation phase. Non-Governmental Organizations have, however, often successfully carved out roles for themselves as suppliers of information and watchdogs in monitoring efforts of governments to live up to their PRSP commitments. Participation in PEM is also increasing in some instances but there are constraints: civil society often lacks basic budget skills which limit effective engagement, and lack of reliable and useful fiscal data is often a problem. The challenge remains, however, for governments to create institutional mechanisms to ensure

effective communication to, and feedback from, civil society, as well as delineate clear roles for civil society actors to play.

### **C. PRSP Targets and the Millennium Development Goals**

13. **The Millennium Development Goals (MDGs) are long-term poverty reduction goals adopted by the international community and thus are relevant to medium-term PRSPs in all low-income countries.** Although there is no required set of indicators or goals that must be included in PRSPs, they are expected to be framed against the backdrop of the MDGs while taking into account initial conditions and national priorities. It is therefore important for PRSPs to set out credible plans and policies to help make progress towards the MDGs, that can be supported by the provision of increased financial resources on appropriately concessional terms by development partners.

14. **Therein lies a tension in PRSP formulation between the aspirations of low-income countries over the longer horizon and their need to formulate concrete plans and policies that can feasibly be implemented in the context of the annual planning cycles in which they operate.** In this regard, there have been criticisms both that: (i) the targets set out in PRSPs are too ambitious and raise expectations that are likely to be disappointed; and, (ii) that they are not sufficiently ambitious. The annual government budget is where the appropriate balance between optimism and realism has to be struck as the poverty reduction strategy is operationalized.

15. **Countries have set targets in most areas which imply a significant improvement over their performance in the preceding decade.** It is difficult to make direct comparisons to the MDGs because PRSPs present PRSPs and targets over a period of three to five years, while the MDGs are global targets for 2015. It is also difficult to compare implied annual rates of improvement since the actual trajectories for a particular indicator may not be linear, with more rapid progress expected in the short-run for some indicators, and medium- to long-run in others. With these caveats in mind, simple extrapolation suggests that PRSPs, both early and more recent, often set targets at least as ambitious as the MDGs. **Countries further along the process of implementing PRSPs have modified their targets.** This may be in response to their recent performance, and, as the target date for PRSP goals becomes closer, governments may be more aware of their accountability for the realization of these goals.

16. **Looking ahead, it is important for countries to continue to experiment and adapt to strike a balance between ambition and realism in setting medium-term goals and objectives.** Such experimentation has sometimes taken the form of incorporating alternate scenarios and contingency plans into PRSPs. More broadly, PRSPs present an opportunity for countries to put forward the policy and institutional reforms to strengthen delivery of basic services, promote growth, and reduce poverty, and consider their implications for the levels and modalities of external financing. A key challenge lies in translating medium-term goals, which by their nature are subject to significant uncertainty, into national budgets year by year on the basis of actual policies and available financing. Countries are likely to

continue to revise some of their goals to reflect their initial experiences. At the same time, a number of countries have presented the gaps between realistic PRSP targets and their longer-term objectives as an opportunity to discuss with different stakeholders, including the international community, the actions and resources needed to realize significant improvements in outcomes over time.

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

17. **Over the past year, distributional analysis of reforms to inform PRSP design has become more common,** and there has been greater recognition in recent PRSPs of the importance and value of poverty and social impact analysis (PSIA). In addition to distributional analyses of public expenditures, planned PSIA often refers to structural reforms, indirect taxation, sector strategies (e.g., water, energy, and agriculture) and service delivery. Nonetheless, the use of PSIA to inform policy design to date has been limited and typically PRSPs and PRSP-PRs mention plans to undertake PSIA in an indicative rather than specific fashion. There can also be tensions between the need for fuller ex-ante analysis versus the need for decisions in the short term.

18. **It is important to have realistic expectations about the pace and scope of PSIA.** In particular, data and capacity constraints will temper the rate of progress as will the limitations of the current state of knowledge and methodological issues. For example, it is very difficult to define a credible counterfactual for certain policy reforms. In some cases, these factors will limit the ability to undertake PSIA, at least in the short term. However, it is also important that in cases where PSIA is undertaken, its findings are used to good effect to inform policy design and the advice provided by the Bank, Fund, and other development partners.

#### **E. Priority Public Actions**

19. **A wide range of cross-cutting, structural, and sectoral policies have been proposed in PRSPs.** The focus here is limited in scope to actions related to growth, budgetary priorities, and expenditure management, given the importance of these issues to implementation.

#### **Macroeconomic Policies and Growth**

20. **Recent PRSPs and PRSP-PRs have broadened discussions of macroeconomic assumptions, yet few PRSPs probe macroeconomic trade-offs and how such choices relate to the country's broader goals.** For example, although most PRSPs affirm the importance of low and stable inflation in their efforts to reduce poverty, there is little evidence of an explicit consideration of the inflationary implications of monetary financing. In addition, while the importance of debt sustainability is often acknowledged, this is rarely assessed in relation to the chosen fiscal path.

21. **Most recent PRSPs continue to be optimistic about growth.** Annual real GDP growth in PRSP countries<sup>3</sup> has averaged nearly 5 percent since the mid-1990s, with little variation in recent years despite the weakened global environment.<sup>4</sup> However, in setting their forward-looking targets, both early and recent PRSP targets have presented figures that exceed their five-year historical averages by around one percentage point per year. Where data are available, preliminary growth outturns have, however, been lower than projected in most PRSPs (by about 1 percentage point of GDP) and countries with progress reports have lowered their projections accordingly. Revenue and, to a lesser extent, external financing projections in the early PRSPs also appear to have been somewhat optimistic. With limited data on actual performance during PRSP implementation, it would be imprudent to place too much stock in these figures. However, there is evidence of a tension between ambition and realism in setting these targets.

22. **Devising strategies that can respond flexibly to changing circumstances is important as countries attempt to address these tensions.** The increased effort that is in evidence among recent PRSPs to ensure consistency between the macroeconomic framework underlying the PRSP and the budget underscores the importance of flexible strategies. In this regard, there remains significant scope for countries to develop alternative scenarios and to flesh out contingency plans to address unexpected developments—both positive and negative—around macroeconomic frameworks derived from careful analyses of constraints and sources of growth. The increased attention to identifying sources of growth and addressing the issue of risks in the latest PRSPs is encouraging in this respect. PRSP-PRs, on the other hand, while citing exogenous shocks as a brake on past growth, rarely assess risks and constraints going forward.

23. **Linkages between PRSPs' discussions of macroeconomic performance, growth prospects, and proposed sectoral and structural policies remain weak.** Priority actions in PRSPs are often derived from considerations of the location, assets, and activities of the poor, and the constraints they face. The priority areas are, however, not always linked to the identified obstacles to growth even where analysis of the sources of growth was undertaken. Nor do the countries implementing PRSPs appear to consider the need for adjustment of, for example, sectoral policies in light of their recent macroeconomic experiences.

24. **Recent experience suggests that trade issues are increasingly covered in PRSPs and progress reports,** although they are still not always clearly identified and integrated with other reform policies. This is an example of a policy area which, in some PRSPs, warrants further development. Trade-related measures are mostly formulated in general terms without specifying the timetable or need for complementary actions (for example, in the areas of governance or infrastructure development) necessary to make the measures effective.

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<sup>3</sup> For all 32 countries that had prepared a full PRSP as at mid-July 2003.

<sup>4</sup> In these countries, growth average 4.9 percent between 1996 and 2000, and 4.8 percent for 2001-02.



25. **The PRSP approach seeks explicitly to ensure that growth benefits the poor.** A review of the policy content and implementation record to assess whether PRSP policies to promote growth have been oriented towards the poor was undertaken for those countries most advanced in PRSP implementation.<sup>5</sup> This review used a simple framework focused on policies aimed at: (i) ensuring an appropriate investment climate; (ii) increasing the productivity and income generating potential of the poor; and, (iii) increasing the assets (education, health, and land) of the poor.

26. **Available evidence suggest that at least some of the policies and programs proposed in these areas have been initiated.** The investment climate is being addressed in several PRSPs with measures to foster private sector development. Governance and corruption concerns, identified as key determinants of the investment climate, are also given prominence in PRSPs, with explicit actions proposed in three-quarters of the recent PRSPs. In order to increase the productivity of assets of the poor and improve their ability to generate income, PRSPs emphasize the agricultural sector and rural areas, with specific interventions planned in research and to improve access to land, fertilizer, and credit.

27. **A number of countries' progress reports note implementation of actions proposed in PRSPs aimed at improving access of the poor to key basic services.** This has been particularly evident in the areas of health and education. In the latter, there are tentative signs of improvement in school enrollment and infant mortality rates in some countries.

28. **Reported poverty-reducing spending has increased in the 14 PRSP countries where data are available.**<sup>6</sup> Between 1999 and 2001, these expenditures increased relative to both GDP (on average, by 1.4 percentage points of GDP) and as a share of total government spending (by 3.9 percentage points). Real per capita poverty-reducing spending has also increased. Poverty-reducing spending has risen by the same amounts in both early and recent PRSP countries (by about 1½ percentage points of GDP and 4 percent of total spending) and is rising more rapidly in Africa.

### **Budget Processes and Public Expenditure Management**

29. **While there has been progress in improving public expenditure management, the challenges remain significant.** The need to improve budgetary processes to support implementation of spending priorities is increasingly being addressed in PRSPs and Progress Reports. There is, nevertheless, wide variation in the extent of treatment of PEM issues

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<sup>5</sup> The evidence is based on a review of PRSP-PRs, staff reports, and the World Development Indicators database for eight countries.

<sup>6</sup> These data are drawn from IMF staff reports. The definition of “poverty-reducing spending” is derived from countries’ PRSPs and thus varies across countries, although many include primary education and basic health, as well as expenditures for rural development and water and sanitation on spending outturns for poverty-reducing activities are not always reported in PRSPs.

across countries. Improving PEM is clearly a long-term process often involving significant institutional change and multiple reforms.

30. **PEM systems are gradually improving in Heavily Indebted Poor Countries (HIPC)s.**<sup>7</sup> Rates of progress in implementation of PEM measures have been similar across early and recent PRSP HIPC)s, bearing in mind that in a number of cases, this was from a situation that required substantial upgrading.

31. **A recent study by Bank staff using a methodology similar to the HIPC tracking study found significant weaknesses in 10 PRSP countries in Europe and Central Asia (ECA)**<sup>8</sup> **with no clear distinction between Balkan countries and those of the former Soviet Union.** The study found that budget formulation and execution were particularly weak with only 16 and 15 percent of the countries meeting benchmarks of adequate performance in those respective areas.

32. **The linkage between PRSPs and the annual budget and Medium-Term Expenditure Frameworks (MTEFs) generally remains weak.** This has had adverse repercussions for PRSP prioritization. Many PRSPs do not link the overall policy matrix to the budget. While there is some evidence that over time the costs of priority actions are being harmonized with the MTEF, in many countries, MTEFs are not yet firmly anchored in the national budget process and are only partially functioning, which limits their potential contribution. This challenge also relates back to the need for strong government ownership of the PRSP.

33. **PRSPs generally continue to include numerous uncosted measures.** Problems in costing can be traced to weaknesses in fiscal data, capacity constraints, and institutional arrangements. Line agencies are often not in a position to estimate current costs of the proposals submitted for the PRSP reliably and any costing indicated for sectoral programs tends to be limited to capital expenses only. Weak costing and lack of integration with the budget appears in some cases to stem from the fact that PRSP preparation has not fully involved the ministry of finance.

34. **Looking ahead, improvements in PEM are critical, but will take time.** Experience has shown that this means, among other things, that full costing of PRSPs is not possible in many countries in the short term. However, it is still important that PRSP costing activities be linked to the national budget process.

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<sup>7</sup> *Update on Implementation of Action Plans to Strengthen Capacity of HIPC)s to Track Poverty-Reducing Spending,* March 11, 2003, SM/03/90; World Bank, March 13, 2003, IDA/R2003-0043.

<sup>8</sup> See Moon (2003). The countries are Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kyrgyz Republic, FRY Macedonia, Moldova, Serbia and Montenegro, and Tajikistan.

## F. Indicators and Monitoring

35. **Appropriate indicators are needed to monitor outcomes and to help track the implementation of public programs.** There have been improvements in recent PRSPs' coverage of both MDG indicators and governance issues, and disaggregation by gender or social group has become more common. Weaknesses are nonetheless evident. Indicator lists are often too long and unfocused and some key areas, like private sector development, are not appropriately covered. Actual indicators are sometimes not well-defined, and baseline data are not always available. Many of these weaknesses are recognized by the countries themselves, which have made a commitment to improve over time. The PRSP-PRs suggest that as implementation proceeds, countries become more selective in emphasizing indicators that are more directly linked to policy actions in the PRSP.

36. **The treatment of monitoring and evaluation in PRSPs has generally focused more on improvements in data availability and quality than on institutional arrangements.** On data, the emphasis has been on surveys, with the collection of better administrative data receiving less attention. Most PRSPs also set out institutional arrangements for monitoring in only general terms. In practice, monitoring has run into various problems related to overlapping areas of responsibilities, lack of coordination among actors, and delays in the flow of information. There has been least progress in the more technically difficult area of *evaluation* of the impact of key actions.

## G. Donor Alignment and Harmonization

37. **A central expectation has been that PRSPs will enable and solidify donor and country partnerships around a common development framework.** In some countries the PRSP has been used by governments to effectively coordinate donor assistance. Furthermore, the *Rome Declaration on Harmonization* in February 2003 broadly considered the principles of good practice and standards of alignment and harmonization developed by the Organization for Economic Co-operation and Development—Development Assistance Committee (OECD-DAC) Donor-Practices Task Force and the various multilateral development bank working groups. These principles, backed by both donors and partner countries, include a commitment to support country owned strategies, reliance on partner government systems as far as possible, the shared interests in appropriate use of public funds, and the need to adapt to local circumstances.

38. **Donors are now developing systems to reflect these principles, but the implementation challenges remain significant.** This is due, in part, to tensions between the priorities and needs of external partners (including the Bank and the Fund) and country ownership and capacity. The inclusion in some recent PRSPs of donor programs and projects already in the pipeline could suggest that priorities are being driven by the supply of specific donor financing rather than deriving from newly articulated national policy agendas. Low-income countries also continue to see uncoordinated, restrictive, and frequently changing donor requirements and procedures as a significant burden. Donors, on the other hand, point out that progress in achieving harmonization is limited by national systems of

procurement and financial management which do not meet international good practice standards. Looking ahead, it is clear that many national systems to manage aid will require strengthening in order to enable progress in harmonization and alignment. In this regard, coordinated technical assistance from donors will be crucial.<sup>9</sup>

39. **While country implementation experience is at an early stage, the recent emergence of some concrete cases of good practice at the country level, including under the auspices of the Strategic Partnership with Africa, is promising.** PRSP experience suggests that governments that present a broadly owned national development strategy, supported by well-defined sectoral priorities, tend to attract wide donor support. However, it is also clear that there is no single model to harmonize budget support, sector wide approaches and project level interventions, but instead a range of innovations is appropriate.

#### H. Country Reporting on Implementation

40. **The PRSP-PR is a key element of the architecture of the PRSP approach, but a review of their content, processes, and use to date suggest that their full potential is yet to be realized.** PRSP-PRs are expected to report on progress in implementation and available results, and to identify any needed policy adjustments. Many reports have been largely limited to providing narrative overviews with little analysis or reflection and could have been more candid and strategic in assessing shortcomings and needed policy adjustments, although there are some notable exceptions. There is evidence that some countries are using their reports to inform national decision-making processes—including the budget and parliaments—although this is not always the case. In terms of meeting the needs of development partners, PRSP-PRs have been presented at donor meetings to good effect. However, the number of initiatives and different reporting formats burden governments, and the scope for streamlining documentation and reporting requirements more generally warrants further exploration both at the country, as well as the institutional level.

41. **Lags in preparing PRSP-PRs in a number of countries raise questions about the relevance of the PRSP-PR for the government.** The absence of imperatives, such as a current Poverty Reduction and Growth Facility (PRGF) arrangement or a Poverty Reduction Support Credit (PRSC) (and formal Board consideration of the PRSP-PR for disbursements) may be an issue. However, in several cases, the delay can be explained by electoral changes or difficulties in data collection. Regardless, it is important that the momentum for PRSP implementation be sustained and, given their potential value, the impetus to produce PRSP-PRs on a timely basis may need to be reinforced.

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<sup>9</sup> A good example can be found in “Bank/Fund Collaboration on Public Expenditure Issues” (SM/03/73) and SecM2003-0077. See <http://www.imf.org/external/np/fad/pubexpen/2003/021403.htm>.

### III. IMPLICATIONS FOR THE IMF AND WORLD BANK

42. **While the review of country experience indicates that the PRSP process is successfully moving into the implementation phase,** it is important that the Fund and the Bank, in coordination with other development partners, shoulder their part of the responsibility in helping ensure obstacles are being addressed. An important means of identifying constraints is to continue to provide constructive and candid feedback through the Joint Staff Assessments (JSAs). This feedback should also highlight the issues that are expected to be critical to the overall strategy delivering on its objectives, and indicate capacity building needs. At the same time, the staffs should clearly communicate to countries that the JSA and the Boards' consideration of the strategy as providing a basis for concessional lending should not detract from country ownership.

#### A. Prioritization and Focus in PRSPs

43. **The task that countries face in formulating and presenting their PRSPs is very challenging.** This has become increasingly evident as PRSPs have shifted from being narrowly focused on how spending could increase in light of debt relief, to being more comprehensive documents. One expression of this challenge has been the time that has been required for preparation of PRSPs.<sup>10</sup> Another is that PRSPs have tended to become increasingly lengthy documents,<sup>11</sup> sometimes losing focus and also hindering their operational usefulness to both national authorities and development partners.

44. **To some extent, this stems from intrinsic tensions within the PRSP approach.** It is no simple task to formulate a coherent strategy that still does justice to the range of competing proposals emerging from the participatory process, and yet provide the specificity required of an operational document. As this report highlights, analysis of the sources of growth, the macroeconomic framework, and PSIA are among the areas which warrant deeper treatment, yet the findings which emerge need to be prioritized if the agendas set out in PRSPs are to be consistent with national capacity. However, weak prioritization is also facilitated by the setting of unrealistic targets and often stems from inadequate links to the budget and weak public expenditure data and management. This, in turn, is compounded by several underlying factors: weak technical capacity and institutional constraints; demands from a range of stakeholders for PRSPs to address an increasingly diverse set of issues; and the difficulties that authorities face in making the hard choices in the PRSP among competing priorities.

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<sup>10</sup> For the 22 I-PRSP countries yet to complete their full PRSPs, the average time elapsed since their I-PRSPs were finalized stands at around 26 months, which is much longer than had been anticipated.

<sup>11</sup> The average length of PRSPs has increased steadily, from under 70 pages in 2000 to over 190 pages in 2003. While length is not, in and of itself, an issue, it can exacerbate the problem of focus and make the priority issues appear more diffuse.

45. **National governments are ultimately responsible for deciding and prioritizing among competing demands, within given budget and political constraints.** Governments should be encouraged to clarify the ‘rules of the game’ for the participatory process and how requests for public actions and new spending will be handled. Institutional arrangements for the PRSP should be coordinated with the ministry of finance and work on the annual budget, as well as other ongoing national decision-making processes. However, the Fund and Bank also have a crucial role to play in helping countries address constraints and improve prioritization over time. The need for countries to overcome capacity constraints points to the ongoing importance of staff efforts to help improve PEM through technical advice, diagnostic work, and lending operations. The Bank and the Fund, with other development partners, also need to support and respect country priorities and sequencing in their own advice and assistance, which in practice means ensuring that the content and focus of PRGF-supported programs and Country Assistance Strategies (CASs) are derived from PRSPs.

### **B. Support for PSIA**

46. **The Bank is supporting efforts to extend and deepen PSIA in various ways,** including through its Users’ Guide and advice on economic and social techniques, developing new tools in areas where current knowledge is weakest, codifying and disseminating examples of good practice, and building capacity for PSIA. It is currently carrying out, or planning, PSIA in over 40 low-income countries, in a number of cases jointly with governments, research institutes, and/or development partners across a wide range of reforms. In a number of countries, bilateral agencies have taken a leading role in advising the government on the poverty impacts of proposed public actions. Despite these efforts, mainstreaming PSIA will be gradual, and progress needs to be monitored, in particular to see how results are used to inform policy choice and design.

47. **In terms of the institutional division of responsibilities between the Bank and the Fund, the Bank is the lead agency in supporting PSIA of reforms.** In addition to strengthening country capacity, the Bank is engaged in ensuring that PSIA is carried out on key reforms in its own lending operations that are likely to have large distributional impacts. Fund staff is expected to provide support in the Fund’s areas of core competency, and incorporate available PSIA into PRGF-supported program design. Bank and Fund staff have been collaborating on carrying out PSIA on policies supported by their lending activities and will report back to the Boards on progress on these issues in the context of the upcoming paper on Bank-Fund collaboration expected in late 2003.

### **C. Macroeconomic Dialogue and Fund Engagement in the Participatory Process**

48. The Fund is taking a number of initiatives to strengthen the links between its operations and the PRSP approach. These issues were recently discussed at a Board

Seminar.<sup>12</sup> This report does, however, raise one issue that warrants attention—**the role of the Fund in the macroeconomic dialogue and the PRSP participatory process.**

49. **Macroeconomic policies and projections provide the central framework of any PRSP and the government is responsible for leading the dialogue on macroeconomic policies in the participatory process.** Given the Fund's institutional mandate, Fund staff's principal line of communication remains with the member government, and the national budget process underlies all program discussions. Consistent with the PRSP as a country-owned process, the government, not the Fund, should lead the discussion of the macroeconomic framework in the public domain and ensure that this discussion is integral to the PRSP participatory process. To date, the interactions among the authorities, civil society, and the Fund have typically involved two out of the three parties at any given time. However, as the participatory process matures, the discussions about macroeconomic policy choices and tradeoffs can be expected to include all parties in the context of the broader PRSP dialogue.

50. **In operational terms, governments should provide an explicit forum for macroeconomic dialogue in the context of the PRSP process.** This is something most PRSP countries have not done so far. Partly, it is an issue of country capacity: deepening and widening of skills is a prerequisite to strengthen government's ownership of its own macroeconomic framework. When PRSP committees or working groups in charge of macroeconomic issues are established, the Fund Resident Representative could be invited to become a member to participate according to the modalities established by individual governments. It is important that Fund engagement in the participatory process begin early—at the stage when PRSPs are being formulated—and be ongoing, and that the Fund continue its outreach efforts to civil society and donors.

51. **Beyond this, the Fund's macroeconomic dialogue and support should continue along existing lines.** At the country level, Article IV consultations and other missions will engage with other stakeholders in a similar fashion to non-PRSP countries, (including meeting with parliamentarians, civil society, labor groups, or private sector representatives). In a broader context, the Fund will continue to support countries' capacity building efforts through IMF Institute courses, workshops, and the regional technical assistance centers.<sup>13</sup> The Fund continues to play a leading role in taking the macroeconomic analytical agenda associated with the PRSP approach forward—with ongoing research projects in a number of areas, including addressing vulnerability and exogenous shocks and assessing debt sustainability. Disseminating the findings of such research is expected to be a key component of the Fund's macroeconomic dialogue with low-income countries.

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<sup>12</sup> *Aligning the Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Paper (PRSP) Approach—Issues and Options* (SM/03/94, Correction 1, 4/29/03).

<sup>13</sup> The IMF's two recently established African Regional Technical Assistance Centers (AFRITACs) are in Dar es Salaam, Tanzania, and Bamako, Mali.

#### D. World Bank Alignment

52. **The PRSP approach has broad implications for both the process and content of IDA's work in low-income countries**, and the report does not provide a full assessment of the status and challenges on this front. The focus here is limited to highlighting those aspects that were recognized in earlier reviews, that is, support for capacity building and analytical work; the alignment of CASs; and PRSCs.

53. **Bank supported capacity building activities have primarily focused on strengthening the skills of stakeholders to implement, monitor, and evaluate PRSPs.** The World Bank Institute (WBI) and the networks provide an extensive range of support to governments and CSOs on these fronts, and WBI delivers the majority of these activities in collaboration with local partners. In addition, country take-up from the PRS Trust Fund for capacity building, financed by the Netherlands and Japan, has accelerated: 15 countries have received support from the trust fund to date, with another ten applications in the immediate pipeline.<sup>14</sup> Extensive efforts have been made over the past year to increase awareness of PRSP good practices as well as build staff skills.

54. **IDA's analytical agenda has expanded its country coverage and depth over the past year**, with the specific content areas including sources of growth, investment climate, and service delivery being informed by the needs and priorities faced at the country level. It is important that the timing and also the mode of carrying out Economic Sector Work (ESW) lend themselves to the PRSP, and there are an increasing number of good practices in this respect, including joint work with governments. Ongoing work on pro-poor growth will buttress the PRSP agenda, as well as provide useful background in particular country cases.

55. **A review of the 20 CASs prepared in support of countries' PRSPs as of end-FY03 finds increasing alignment with PRSPs in terms of vision, diagnosis, program, and results.** Many of the challenges identified in the last progress report were addressed in the CASs of the last year, particularly in terms of explaining when and why International Development Association's (IDA) program of assistance is more specific or chooses not to support certain PRSP objectives; describing complementarity with support from other development partners; and linking base case programs of support to satisfactory PRSP implementation. Recent CASs have adopted key PRSP monitoring indicators as CAS program indicators, and the design of CAS programs is also drawing on feedback received during the PRSP participatory process.

56. **Continued PRSP implementation has been defined in all recent CASs as a benchmark for the base case.** Countries can present their annual PRSP-PRs—accompanied by a JSA—for the Board to monitor satisfactory continuation in the base case in the context of major lending operations and/or CAS progress reports for the country.

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<sup>14</sup> <http://www.worldbank.org/poverty/strategies/prstf/trustfund.htm>.



57. **However, challenges remain in making PRSPs and CASs more focused on results.** For PRSPs, countries need to better articulate expected outcomes, set more realistic targets and choose measurable indicators of progress. Results-based CASs are being piloted for several countries to better link selected country outcomes—as articulated in the PRSP—to IDA programming. The goal is to more explicitly trace the causal relationships between IDA-supported activities and development results, and more systematically evaluate progress. Five pilots are underway in FY04, and results-based CASs will be mainstreamed for all IDA countries following the normal CAS cycle. However, enhancing the results focus of PRSPs and CASs is limited by the availability of baseline data and the frequency and reliability of monitoring. Where PRSPs are not well prioritized, there are implications for CAS prioritization and selectivity. Further shifts toward program and budget support lending are constrained in many countries, in particular by weak PEM and governance. While capacity building to strengthen PRSP implementation, including monitoring and evaluation, now regularly figure in CAS programs, this will remain a challenge.

58. **All CASs discuss the move toward PRSCs, including activities to lay the ground for their introduction either in the current or next CAS period, depending on the country's fiduciary and institutional capacity.** PRSCs represent a minority but growing share of IDA's support, rising from 3 percent of IDA approvals in FY01/02 to 9 percent in FY03 and, as of end FY03, there are eight countries with PRSCs under implementation. Preparatory work—in particular, core diagnostic ESW and capacity building activities—is underway to enable PRSCs to become an important vehicle of IDA support to low-income countries with strong programs.

### **E. Operational and Procedural Issues**

59. **There are a number of procedural matters that need to be addressed in light of recent operational experience.** The proposals, which confirm what has become customary practice, are as follows:

- (i) When a country prepares an I-PRSP in the absence of Fund or Bank lending requiring Board consideration of the strategy, there is no reason to require a JSA and formal Board consideration. Instead, the I-PRSP should be posted on the Bank/Fund's external websites, and circulated to the Boards for information by the relevant Executive Director. Where a member is to receive financial assistance from one institution, but not the other, the I-PRSP/JSA would still be considered formally by each Board (in keeping with the principle of consideration by both Boards for concessional lending by one or the other institution), but typically on a lapse-of-time basis in the institution where no financial assistance is contemplated at the time.
- (ii) Full PRSPs and PRSP-PRs should be posted on the Bank/Fund's external websites upon formal transmittal by the authorities of the finalized documents. They (along with a JSA) should normally be considered by the Boards within three months of their official receipt by the Fund and the Bank, regardless of whether or not there is an

operational need. Under no circumstances should any delays extend beyond four months.

- (iii) Approval of a new PRGF arrangement or completion of reviews normally requires a PRSP document to have been considered within the preceding twelve months. To avoid distorted incentives to rush with either the PRGF review or a PRSP document around the one year mark, some limited flexibility has proven desirable. However, it is important to ensure that the spirit of the policy continues to be met, which would, inter alia, require that the expected delay before the government's PRSP document is finalized to be minor and, in any case, not extend beyond the subsequent review or approval of a new arrangement. The staff report should note why the delay is being encountered.

#### IV. CONCLUSION

60. As noted at the outset of this paper, the PRSP is an instrument charged with multiple but competing objectives, each of which is considered critical to the PRSP approach. This report has focused on how a diverse set of developing countries across all regions have been addressing the challenges that these objectives and associated tensions imply. Substantial achievements have been made at the country level. These actual, as opposed to ideal, practices, will help define what might be reasonably expected in PRSPs along such dimensions as ownership and participation, prioritization and links to the budget. They also highlight the importance of sustaining the momentum of poverty reduction efforts, while addressing the weaknesses that impede faster progress.

61. Given multiple objectives and a variety of constraints at the country level, in practice full PRSPs reflect compromises. Nonetheless, over three years since the initiative was launched, good practices have developed with respect to ownership and institutionalized participation. There is a strengthened focus on growth and better integration of macroeconomic frameworks into the strategies. Furthermore, the focus on results and the alignment of external assistance are improving.

62. Progress continues to be contingent on the same factors identified in earlier reviews, including effective capacity building to meet skill needs, strong country leadership, and sustained commitment on the part of development partners to make the process work. Countries are encouraged to develop alternative scenarios that illustrate the potential impact of improved policies, resource availability and aid modalities that can help low-income countries in their efforts towards meeting the MDGs. Looking forward, the Bank and the Fund will work with governments over the coming year to address emerging challenges in implementation, particularly those of supporting PRSPs' treatment of macroeconomic framework, budgetary processes, trade, and PSIA.

63. The next PRSP Progress Report in September 2004 will focus on the efforts by the Bank and the Fund to align their assistance and enable countries to successfully implement their PRSPs, and to advance towards the achievement of the MDGs.

**Annex Table. Countries with Full PRSPs<sup>1</sup>**

| <i>Early PRSPs</i> <sup>2</sup> | <i>Recent PRSPs</i> <sup>3</sup> |
|---------------------------------|----------------------------------|
| Albania *                       | Azerbaijan                       |
| Bolivia                         | Benin                            |
| Burkina Faso **                 | Cambodia                         |
| Gambia, The                     | Cameroon                         |
| Guinea                          | Chad                             |
| Guyana                          | Ethiopia                         |
| Honduras                        | Ghana                            |
| Malawi                          | Kyrgyz Republic                  |
| Mauritania **                   | Mali                             |
| Mozambique *                    | Mongolia                         |
| Nicaragua *                     | Nepal                            |
| Niger                           | Senegal                          |
| Rwanda                          | Sri Lanka                        |
| Tanzania **                     | Tajikistan                       |
| Uganda **                       |                                  |
| Vietnam                         |                                  |
| Yemen                           |                                  |
| Zambia                          |                                  |

1/ Based on information available as of mid-July 2003. See Annex Table of background paper for completion dates of all PRSP documents.

2/ PRSPs reviewed in SM/02/250 Rev. 1 (9/11/02) and before.

3/ PRSPs completed during the past year.

\* and \*\* indicate one and two PRSP-PRs, respectively.