

INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

**Poverty Reduction Strategy Papers—Detailed Analysis of Progress in Implementation**

Prepared by the Staffs of the IMF and World Bank

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## Acronyms

AAP	HIPC Expenditure Tracking Assessment and Action Plan
ADB	Asian Development Bank
CAS	Country Assistance Strategy
CEM/DPR	Country Economic Memorandum/Development Policy Review
CFAA	Country Financial Accountability Assessment
CSO	Civil society organization
CWIQ	Core Welfare Indicators Questionnaire
DAC	Development Assistance Committee
DfID	Department for International Development
ECA	Europe and Central Asia
ESW	Economic and Sector Work
GDDS	General Data Dissemination System
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
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 organization
NPRS	National Poverty Reduction Strategy (Kyrgyz Republic)
OECD	Organization for Economic Co-operation and Development
PEM	Public Expenditure Management
PER	Public Expenditure Review
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
PRSP-PSR	Poverty Reduction Strategy Paper Preparation Status Report
PRSTF	Poverty Reduction Strategies Trust Fund
PSD	Private sector development
PSIA	Poverty and social impact analysis
SWAp	Sector Wide Approach
UNDP	United Nations Development Programme
WBI	World Bank Institute
WTO	World Trade Organization

## I. INTRODUCTION

1. **This paper, along with the companion summary paper (SM/03/279), is the latest in a series of now annual reports on the Poverty Reduction Strategy Paper (PRSP) approach.**<sup>1</sup> Previous reports had sought to identify both good practices and weaknesses that emerged during the design of countries' strategies. This paper seeks to assess the extent to which these lessons have been taken on board, and whether new challenges to implementation have emerged. It also considers what might be done, particularly by the Fund and World Bank, to ensure that identified constraints are being addressed.
2. **As the approach moves into the implementation phase, there is evidence of progress across a wide range of fronts.** The broad principles of the Comprehensive Development Framework (CDF) expressed in the PRSP approach and the Monterrey Consensus remain fully valid. Recent PRSPs are building 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 signs of better framed macroeconomic policies and 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).
3. **The PRSP, however, is an instrument being charged with multiple objectives, many of which imply tensions**—for example, the range of proposals emerging from the participatory process versus prioritization; comprehensiveness in addressing the different dimensions of poverty versus selectivity and focus of the strategy and national implementation capacity; the pace at which PEM can improve against that needed for successful PRSP implementation; and meeting the expectations of the international community versus country ownership.
4. **This implies that PRSPs need to reflect choices and compromises across the multiplicity of objectives.** Attaining some ideal levels of performance along every line is impossible and countries' abilities to manage the tensions inherent in the process will depend crucially on technical and administrative capacity. Strengthening such capacity will inevitably take time and will require the support of donors. Development partners also need to support and respect country priorities, and sequence their own advice and assistance. Finally, the quality and usefulness of PRSPs will also continue to be affected by governments' ownership of the strategy and their willingness to make the tough decisions in prioritizing competing demands.
5. **This paper concentrates on those aspects of the process and content of PRSPs seen as most challenging in addressing these tensions and demands.** It does not attempt a

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<sup>1</sup> See IMF and World Bank (2002d).

comprehensive review of the wide range of public actions proposed in PRSP, nor does it attempt to arrive at judgments about their effectiveness in achieving the ultimate objectives, given that implementation is still at an early stage. With progress in addressing the emerging challenges, the PRSP approach should be able to make a significant contribution to improving economic outcomes and reducing poverty in low-income countries.

6. **The paper reviews both the design of ‘recent’ PRSPs (that is, the 14 strategies completed over the past year), as well as evidence on implementation, adjustments, and reporting for the ‘early’ set of eighteen PRSPs.** The PRSP documents form the primary evidence base for the report, but it also builds upon the Joint Staff Assessments (JSAs), other staff reports and papers, as well as a range of reviews by non-governmental organizations (NGOs), development partners and academics, and feedback received by staff over the past year.

7. Following a brief recap of the status of the PRSP approach in terms of country coverage, Section III covers government ownership, the participatory process, PRSP goals and the Millennium Development Goals (MDGs), poverty and social impact analysis (PSIA), priority public actions (related to growth and public expenditures), indicators and monitoring, alignment, and country reporting. Section IV turns to various operational implications for the IMF and World Bank, as well as specific procedural questions. Some concluding remarks are laid out in the final section.

## II. PRESENT STATUS

8. **There has been a significant accumulation of experience in the preparation and implementation of national poverty reduction strategies across all regions since the last PRSP progress report** (Table 1). The total number of PRSPs under implementation has reached 32, with 14<sup>2</sup> PRSPs completed over the past year. There have also been a further six<sup>3</sup> *annual PRSP progress reports* (PRSP-PR), bringing the total to 11 reports by seven countries. Another three countries produced *interim PRSPs* (I-PRSPs).<sup>4</sup>

9. **For most countries, the PRSP preparation process continues to be time consuming.** For those countries with completed PRSPs, the duration from interim PRSP to full PRSP has averaged 20 months. This however understates the time required to prepare PRSPs across all countries—for the I-PRSP countries yet to complete their full PRSPs, the average time elapsed since their I-PRSPs were finalized stands at around 26 months.

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<sup>2</sup> Azerbaijan, Benin, Cambodia, Cameroon, Chad, Ethiopia, Ghana, Kyrgyz Republic, Mali, Mongolia, Nepal, Senegal, Sri Lanka, and Tajikistan.

<sup>3</sup> Albania, Burkina Faso, Mauritania, the Republic of Mozambique, Nicaragua, and Tanzania.

<sup>4</sup> Bangladesh, Bosnia and Herzegovina, and Indonesia. See Annex Table I for a full list of I-PRSPs.

10. The reasons provided for extended preparation time noted in the PRSP preparation status reports (PRSP-PSRs) of seven countries<sup>5</sup> in the past year include: the need to broaden participation (Armenia); technical assistance required for well specified and prioritized measures (Armenia); delays in external financing (Sierra Leone); and political changes or disruptions (Madagascar, Pakistan, Sierra Leone). Some post-conflict countries (e.g., Sierra Leone, Democratic Republic of Congo) are among those experiencing the longest PRSP preparation times underscoring capacity constraints.<sup>6</sup> There continues to be a tendency for the revised timetables in PRSP-PSRs to be ambitious, although the recent PRSP-PSRs have generally done a better job of specifying new technical assistance needed to help address delays (Madagascar, Sierra Leone, Pakistan).

**Table 1. 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 for completion dates of all PRSP documents.

2/ PRSPs reviewed in IMF and World Bank (2002d).

3/ PRSPs completed during the past year.

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

11. **Countries are experimenting with the content and focus of PRSP-PRs as a tool for making adjustments to the PRSP in the light of experience.** However, there are some concerns that PRSP-PRs are not being utilized to their full extent (see Sections III.I and IV.D).

<sup>5</sup> Armenia, Cape Verde, Democratic Republic of Congo, Djibouti, Madagascar, Pakistan, and Sierra Leone.

<sup>6</sup> See Evans and others (2003) for an overview of other constraints faced by conflict-affected countries.

### III. RECENT COUNTRY EXPERIENCE IN IMPLEMENTATION

#### A. Broad Government Ownership

12. **The principle that countries broadly own their strategies is central to the PRSP approach.** However, a critical dimension of country ownership that determines prospects for implementation is the extent to which governments are committed to the PRSP. The March 2002 Joint Review found that levels of government ownership had improved relative to the tri-partite Policy Framework Papers that PRSPs replaced, but that there was scope for improvement. There is evidence that some early lessons have been taken on board over the past year.<sup>7</sup> However, problems remain where PRSPs are developed in parallel with other planning documents; where ministries of finance have not been fully involved; and where units charged with PRSP design operate as enclaves, and are not fully linked to normal government decision making and budget processes.

13. **The majority of recent PRSPs testify to increased interest and involvement of parliamentarians in formulation, and a more significant role for the legislature is envisaged during implementation.** In Guinea, for example, the budget debate will contain a section on PRSP progress and results, while in Benin, parliamentarians will sit on a PRSP monitoring commission with other stakeholders. PRSPs have been presented to parliament in about half of the countries to date (e.g., Niger and Tajikistan) and some PRSPs have also been reviewed by parliamentary committees. The Public Accounts and Finance Committees were actively involved in Ghana, for example. However, consolidating the engagement of legislatures in the PRSP will continue to be important, especially as a counterbalance to ad hoc participatory processes.

14. **Early involvement of line ministries in the design of the strategy is becoming more common and there is accumulating good practice in this respect.** For example, in Mali, the formation of eleven thematic groups facilitated line ministry involvement, and included agencies such as rural development and infrastructure that have played a less prominent role in many early PRSPs. In Mongolia, there was good inter-ministerial cooperation, and line agency engagement resulted in a PRSP based on sector strategies. At the same time, however, some line agencies are typically less involved—for example, ministries of transport and rural development.

15. **There is evidence that in some cases the PRSP process has changed the dynamics of the budget negotiation within government.** For example, in Tanzania, the high level of dialogue between core and line ministries during PRSP formulation is now, two and half years on, a routine way of government business. **However, there are also cases where ministries of finance do not appear to have been adequately engaged in PRSP**

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<sup>7</sup> See Booth (2003).

**preparation** (e.g., Kyrgyz Republic and Cambodia), which could diminish the likelihood of implementation and obscure the role of the PRSP in national decision-making processes.

16. **Despite the wide variety of institutional arrangements that countries have put in place to manage their PRSPs, no single institutional model has emerged which consistently delivers better results.** However, there are some principles that country experience suggests are important to PRSP design and sustained implementation. Most notably, while it is not essential for the ministry of finance to lead the PRSP process, its engagement is vital to ensure that the PRSP priorities are reflected in budget allocations. PRSP implementation is also more effective when the lead agency has sufficient authority to coordinate relevant agencies: for example, in Tanzania, the PRSP unit has proved very effective at galvanizing other parts of the government around the strategy. Experience in countries where different government institutions are in charge of work on the MDGs and the PRSP suggests that close coordination is also crucial on this front.

17. **Tension is apparent between the creation of PRSP “enclaves”—special units dedicated to the PRSP—and broader government ownership.** Such units are often dependent on external financing and assistance to manage and draft the PRSP,<sup>8</sup> and this can militate against mainstreaming responsibility for the strategy. Sometimes new “PRSP units” are created on top of the government structure, connected to the President’s office (e.g., Tajikistan and Kyrgyz Republic), or located in parts of government that are not linked to cabinet or other normal decision making channels (e.g., Ghana). In part, this reflects a broader tension between a strong lead agency and other bodies of government. While an institutional champion can drive the process forward, as has worked well in the case of Tanzania, this needs to be carefully managed to avoid detracting from a more collaborative style of government.

18. **In many countries, PRSPs continue to be developed in parallel with other planning documents,** and thus may not be regarded as a central statement of the government’s medium-term intentions. In some cases, this stems from the fact that long-term plans were well established or were developed prior to the PRSP initiative and continue to operate (e.g., Vietnam and Nepal). In other countries, the early PRSPs were of limited scope and outlined only how Heavily Indebted Poor Country (HIPC) debt relief would be spent (e.g., Bolivia). There have, however, been recent moves to consolidate plans in some countries; for example: the government in Nicaragua has indicated its intention to roll the entire matrix of goals and intermediate indicators from the PRSP into the National Development Strategy; the authorities in Bolivia intend to align the revised PRSP with their General Development Plan in the coming months; and Cambodia plans to consolidate future five-year plans with its Poverty Reduction Strategy.

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<sup>8</sup> See Nordic Aid (2003).



19. **National elections and changes of government have had implications for government ownership and the continuity of the PRSP in several countries.** In all such cases, the transition from one administration to another has slowed the progress of the design (e.g., Madagascar) and implementation (e.g., Bolivia and Albania) of the strategy. New administrations have typically reassessed existing PRSPs and adapted the program of activities to their policy stance: for example, in Honduras, the new government's *Plan De Gobierno* was put forward as a platform for implementing and refocusing the PRSP. Some have interpreted such changes as evidence that the initial PRSPs in these countries were neither analytically robust, nor built on sufficient consensus. On the other hand, it is unrealistic to expect a strategy with specific assumptions and policy commitments to endure in its entirety from one elected government to the next, and revisions set out in a progress report, or through a re-crafted strategy (e.g., Bolivia), are only to be expected in the light of electoral changes.

## B. Participatory Processes

20. **Participation remains a central tenet of the PRSP process and the body of evidence suggesting that the PRSP has led to greater openness continues to grow.** Participation has, however, tended to be "broad" rather than "deep," with some commentators questioning the assumption that maximizing participation will necessarily produce a better and more broadly owned document.<sup>9</sup> The lack of sufficient technical expertise and information among stakeholders has been a constraint, although there is some encouraging evidence regarding participation beyond the formulation stage.

21. **The experience of the last year indicates that the private sector is increasingly active in PRSP formulation,** both through their involvement in consultations (e.g., Cambodia), as well as through more formal mechanisms such as sector or thematic working groups (e.g., Kyrgyz Republic). There is also growing good practice of governments more proactively soliciting private sector viewpoints, including Ethiopia (Box 1).

22. **Trade union participation has been more pronounced in recent PRSPs, although this is often still not mainstreamed.** Unions were seldom involved initially but after petitioning governments, sometimes with International Labor Organization (ILO) or other support, most countries have brought labor groups into the PRSP dialogue. Discussion with organized labor have been difficult on some issues: for example, in both Cambodia and Sri Lanka, proposals to increase labor market flexibility proved contentious, and in Sri Lanka, resulted in unions threatening to boycott further discussions.

23. **Many governments have attempted to ensure that voices of marginalized groups are included in the PRSP dialogue,** for example, by soliciting the views of ethnic minorities in Cambodia and internally displaced people in Azerbaijan. However, this remains a

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<sup>9</sup> See Gerster and Randel (2003).

challenge given the technical nature of some PRSP discussions, language issues, and the relative isolation of the poorest. The concerns of poor people have also fed into the PRSP through other channels, in particular through participatory poverty assessments, as in the Kyrgyz Republic and Ghana, and a perception of poverty study in Chad.

24. While the limited participation of women in PRSP formulation remains a cause for concern<sup>10</sup>—the Azerbaijan PRSP points out that only 10 percent of those attending public meetings were female—**there have been some proactive efforts to integrate the gender perspective more fully in the PRSP.** For example, in Benin, civil society organizations (CSOs) were asked to choose women representatives as far as possible to attend meetings; in Tajikistan a qualitative study of women’s perceptions of poverty was undertaken; and in Nepal two women-only meetings were held to ensure that the gender dimensions of poverty were considered.

### **Box 1. Incorporating Private Sector Views in the Ethiopian PRSP**

In 2001, the Government of Ethiopia included private sector actors in PRSP consultations, but many felt that the draft did not sufficiently reflect business concerns. By the end of 2002 there was an opportunity for more candid dialogue as both the government showed a greater willingness to discuss private sector development (PSD) issues and the business community had organized itself and was able to speak with a coherent voice. After consultations with private sector bodies in the six largest towns, and discussions with the Ethiopian and Addis Chambers of Commerce, the Ethiopian Manufacturers Association and several sectoral associations, a workshop was organized by the World Bank where the government and private sector successfully reconciled their points of view.

Subsequently, the full PRSP contained a PSD section which largely incorporates the proposals that came out of the consultations. Constraints are analyzed, including those to rural business development, and actions to address these are identified. Furthermore, the PRSP formally recognized the role of the Public Private Consultation Forum (PPCF) and the PPCF concept has now been applied in three sectors with export potential.

25. **There are indications that participatory processes have affected PRSP content,** although directly tracing this influence requires detailed case studies.<sup>11</sup> For example, in Cambodia, CSOs’ concerns that there should be greater scrutiny of the poverty and social impacts of key policies that affect the poor were reflected in the PRSP, and the participatory process in Nicaragua led to a new pillar on governance and a focus on the impact of growth on the poor. Recent research concluded that pressure from CSOs led to a greater emphasis on governance and accountability issues in many PRSPs in the Europe and Central Asia (ECA) region.<sup>12</sup> However, a continuing criticism from CSOs is that they are asked to react to

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<sup>10</sup> See Garrett and Zuckerman (2003).

<sup>11</sup> Alonso (2003) conducts a detailed case study to trace the sources of major pro-poor policy decisions in the Tanzania and Vietnam PRSPs.

<sup>12</sup> See ODI (2003).

existing programs rather than contribute to an overall rethink of options for poverty reduction.

26. **A further criticism of participatory processes has been that some policies which critically underpin the PRSP are not open to public debate:** in particular, the macroeconomic framework is often seen as being presented as a *fait accompli* in the PRSP.<sup>13</sup> In addition, structural policies such as trade have also been depicted by some as closed to discussion,<sup>14</sup> although CSO capacity to engage on such issues also inhibits policy debates on this front.

27. **One encouraging development is that many countries are undertaking more systematic communications campaigns around the strategy, raising awareness as to the process and content.** For example, in Yemen, a simple booklet using both pictures and text was published by an NGO to inform people about the PRSP, and in Tajikistan, literature was disseminated in Tajik, Russian, and Uzbek to ensure that all citizens could gain access to information. The challenge remains in most countries, however, for governments to create institutional mechanisms to ensure effective communication to, and feedback from, civil society, as well as establish clear ‘rules of the game’ for the participatory processes that set out the respective roles of government and other stakeholders.<sup>15</sup>

28. **As full PRSPs are finalized and are translated into action, it has not always been clear how participatory processes should endure, leading to what some have described as a “participation gap.”** Most countries do show a drop off in engagement early on in the implementation phase, which is perhaps to be expected as roles and responsibilities take time to define. However, some PRSPs show forethought: for example, the Kyrgyz Republic PRSP details the potential for continued partnership between government and civil society, while an annex to the Ghana PRSP outlines the comparative advantages of CSOs in various areas of implementation. At the implementation stage in Nicaragua and Honduras, participation has led to an increased focus on governance, including legal frameworks for civic participation and access to information. The majority of PRSP-PRs of the last year involved broad consultation, and demonstrated gains in opening up policy making to wider involvement and scrutiny. In particular, developments in two key areas point to a degree of institutionalization: PRSP monitoring and the budget process.<sup>16</sup>

29. **Inclusive design of PRSP monitoring arrangements provides the clearest example of institutionalization of civil society engagement.** Many countries have

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<sup>13</sup> See Cling and others (2003).

<sup>14</sup> See, for example, Joint NGO Briefing Paper (2003).

<sup>15</sup> This is an area in which development partners may usefully be able to provide support in the future.

<sup>16</sup> Another area being pursued in several countries, translating the PRSP into local priorities—including in the context of decentralization—is not reviewed here.

encouraged civil society and other stakeholders to play an active role in tracking policy developments: in Honduras, for example, a Consultative Committee monitoring progress includes NGOs and other civil society bodies. In those countries where civil society does not have a formal responsibility in monitoring, NGOs have often successfully carved out a role as suppliers of additional poverty data and information, as well as performing a watchdog function monitoring efforts of governments to live up to their PRSP commitments. The trend toward participatory monitoring looks set to continue: all the full PRSPs completed since last September explicitly envisage a role for civil society in monitoring and evaluation in the future. Translating these plans into practical activities, however, requires some effort: a recent regional workshop in Latin American identified the effective implementation of laws designed to enable participation and the provision of user friendly information as pre-requisites for effective civil society engagement.<sup>17</sup> Finally, CSOs are increasingly taking an active role in monitoring service delivery through the use of techniques such as scorecards, although the links to broader PRSP monitoring are not always well articulated.

**30. Ongoing participation is evident in the budget process in a number of PRSP countries, although the impact of these efforts on budgetary allocations and management have yet to be determined.** In The Gambia, for example, the government now consults with civil society representatives to establish ceilings for sector budget envelopes, while in Nicaragua, CSOs are formally consulted as members of the Social and Economic Planning Council during the annual budget cycle, and a new committee advises on ongoing fiscal reform. However, there are still constraints to participatory budgeting; for example, civil society often lacks basic budget literacy, and lack of timely, reliable, and useful fiscal data are often a problem.<sup>18</sup> Uganda reflects good practice in tackling this problem by distributing simple brochures to help broaden public awareness of budget basics.

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

**31. The MDGs are long-term poverty reduction goals adopted by the international community.<sup>19</sup> As such, they are relevant to medium-term poverty reduction strategies 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

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<sup>17</sup> See [www.worldbank.org/accs](http://www.worldbank.org/accs).

<sup>18</sup> See Alonso and others (2003) and <http://www.worldbank.org/wbi/attackingpoverty/programs/casestudies.html>.

<sup>19</sup> See United Nations (2001) and UNDP (2003).

that can be supported by the provision of increased financial resources on appropriately concessional terms by development partners.<sup>20</sup>

**32. There is a natural tension between the aspirations over the longer horizon of low-income countries and the need to formulate concrete plans and policies that can feasibly be implemented in the context of the annual national planning cycles in which governments operate.** The annual budget is where the appropriate balance between optimism and realism has to be struck as the poverty reduction strategy is operationalized. There have been diverse criticisms leveled against the targets set out in PRSPs. One concern expressed by a range of stakeholders and set out in the March 2002 Joint Review<sup>21</sup> was that PRSP targets are too ambitious and raise expectations that are likely to be disappointed. Another, more recent criticism has been that PRSPs are not sufficiently ambitious with respect to the MDGs.<sup>22</sup> This section reviews the empirical evidence and finds that the targets presented in early and recent PRSPs are generally ambitious relative to both historical rates of progress and to the MDGs, although individual countries are tending to revise targets downward in light of implementation experience.<sup>23</sup>

**33. Countries have set PRSP targets in most areas at levels that imply a significant improvement over past performance** (Table 2). For example, all countries for which data are available (3 and 9, respectively) set poverty and water targets in their PRSPs that imply a substantial improvement on progress over the preceding decade.

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<sup>20</sup> Assistance is also needed to strengthen collection and monitoring indicators, as for example through the IMF's General Data Dissemination System (GDDS) which covers 23 MDG indicators, and the World Bank's range of assistance has recently been augmented with the new 'StatCap' program (see <http://www4.worldbank.org/afr/stats/statcap.cfm>).

<sup>21</sup> See IMF and World Bank (2002b and 2002c).

<sup>22</sup> See UNDP (2003).

<sup>23</sup> There are many PRSP targets which could demonstrate progress toward the MDGs' overarching goals not included in this comparison because the relationship of the PRSP target to the MDG target is not clear (for example, *gross* rather than net enrollment rates). This section draws heavily on Harrison and others (forthcoming). Country tables are available at <http://www.worldbank.org/data/prsp/mdg-prsp.html>.

**Table 2: PRSP Targets Versus Historical Trends (percentage share of PRSPs)**

Goal (Number of countries in sample)	More ambitious than historical rate	Over 5 percentage points more ambitious than historical rate
Poverty (3)	100	67
Malnutrition (9)	89	22
Under five mortality (22)	77	32
Immunization (11)	73	27
Assisted Delivery (7)	71	43
Gross girls primary school enrollment (12)	42	17
Primary Completion Rate (5)	40	20
Water (11)	100	9

*Source:* Harrison and others (forthcoming)

34. **It is difficult to make direct comparisons between the targets presented in countries' PRSPs and those embodied in the MDGs**, mainly because PRSPs present poverty reduction strategies for a period of three to five years and generally set targets over a similar timeframe, while the MDGs are global targets for 2015. Comparisons require that PRSP targets through 2015 need to be imputed by annualizing the growth rate or by using another extrapolation method. Caution is needed in interpreting the results. Depending on the indicator involved, the actual trajectory toward the target may vary considerably, with more rapid progress in the short-run for certain goals (e.g., school enrollment) and in the medium- to long-run for other goals (e.g., income poverty, gender, etc.). Subject to these methodological limitations, the following observations can be made.

35. **In some areas, targets set out in full PRSPs are generally at least as ambitious as the corresponding MDG target.**<sup>24</sup> For example, 11 out of 13 PRSPs that included child malnutrition set targets that would result in an outcome at least as ambitious as the MDG target. Similarly, of the 20 PRSPs that set water access targets, 17 PRSPs set these at rates that would result in an outcome at least as ambitious as the MDG targets, and 8 out of 14 PRSPs have similarly ambitious targets for net primary enrollment. This was not the case for targeted rates of progress to reduce child and maternal mortality, where PRSPs often set less ambitious targets than the MDG target. Recent full PRSPs have continued to set targets that are ambitious relative to the MDGs: the proportion of PRSP targets that are more ambitious than the MDGs has increased slightly over time. This is due to an increased number of ambitious targets for child malnutrition.

<sup>24</sup> For example, if the implied PRSP target in 2015 is more than 100 percent, then it was determined that the PRSP target is more ambitious than the MDG. Where the MDG target is to reduce the level by a certain proportion—for example reduce child mortality by two-thirds between 1990 and 2015—an annual rate of improvement was imputed and compared against the annual rate implied by the PRSP target. All the implied rates are calculated assuming an exponential growth path, rather than the linear growth path. The comparisons here are for the subset of MDG indicators for which data are available over time and targets are clearly set.

36. **Countries with PRSPs under implementation have often revised their targets downward.** For example, Nicaragua's PRSP (2001) and Progress Report (2002) show that for malnutrition, primary enrolment, and water access, the government has reduced its annual target growth rates. The comparison of literacy, vaccination, and water targets in Burkina Faso's PRSP (2000), first and second progress reports (2001 and 2002) also reveals this trend. Possible reasons for this could include: a better understanding of both historical trends and resource and capacity constraints, as well as the determinants of key human development and poverty outcomes at the country level; and a scaling down of projections which could be related to lower than expected growth outturns (see paragraphs 54-55).

37. **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 (see paragraphs 56-57). More broadly, PRSPs provide an opportunity for countries to present 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.<sup>25</sup> A key challenge lies in translating medium-term goals, which by their very nature are subject to significant uncertainty, into national budgets year by year on the basis of actual policies and available financing. Countries will likely 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, and used this 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**

38. **The March 2002 Joint Review found limited evidence of distributional analysis to inform PRSP design and this continues to be the case in many countries.** However, there have been some encouraging developments in terms of greater recognition in PRSPs of the importance of PSIA and of corresponding plans to undertake analysis for the reforms likely to have large distributional impacts. In addition, as the PSIA methodology is better understood, opportunities will arise to look beyond the short run impacts and consider, for example, the medium-term implications of major policy reforms. Data and capacity constraints at the local level will nevertheless temper the rate of progress, as will limitations placed by the current state of knowledge.

39. **Over the past year, several countries have utilized the results of distributional analysis to inform the design of key reforms.** Recent examples include Sri Lanka's waterfront reforms (with the assistance of the Asian Development Bank (ADB)) and

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<sup>25</sup> See World Bank 2003e.

Albania's social benefits reform. In Senegal, Core Welfare Indicators Questionnaires (CWIQ) and Perceptions of Poverty surveys were carried out to identify constraints to access to health and education services and the results helped to identify vulnerable groups and ways to provide assistance. More generally, benefit incidence analysis in the social sectors is often being used to inform priorities in favor of basic education and primary health care.

40. **A high proportion (73 percent) of PRSPs and PRSP-PRs over the past year mention plans to undertake PSIA to investigate the impact of proposed reforms.** These plans apply only to selected reforms among those likely to have large distributional impacts, rather than to all actions presented in the PRSP. For example, Cambodia saw a need for PSIA with respect to indirect taxation, land reform, and trade; Tanzania highlighted the distributional effects of interventions in the agriculture sector; and Vietnam is assessing the impact of enterprise reforms (Box 2). In addition to distributional analyses of public expenditures, PSIA has been proposed for structural reforms, indirect taxation, utility reforms, agricultural reforms, and service delivery. Increased momentum is also reflected by the inclusion of PSIA activities in about 40 percent of the applications to the Poverty Reduction Strategy Trust Fund (PRSTF) (see paragraph 134). Likewise, JSAs over the past year have increasingly highlighted the need for PSIA. For example, Tajikistan's JSA discusses the need for an analysis of reforms in the energy, water, and telecommunications sectors, and Mali's JSA mentions plans regarding the cotton sector reforms and work envisaged on privatization.



### **Box 2. PSIA of PRSP Reform Programs: the Case of Vietnam**

Vietnam's Comprehensive Poverty Reduction and Growth Strategy emphasizes a gradual path of transition to a market economy, and is being supported by the Bank's Poverty Reduction Support Credit (PRSC) II which includes PSIA for three key reforms. Joint work by the government and the Bank is already planned or under way as follows.

To inform debate about *trade liberalization*, the Bank and an international economic research institute assessed the effects of the recent reforms using a computable general equilibrium model, finding that liberalization should benefit all income groups, and that expanding sectors should compensate for contractions in the highly protected, import competing sectors. To inform the agenda associated with World Trade Organization accession, the Bank is working with the National Center for Social Sciences and Humanities with the aim of extending analysis of the differentiated impacts by age, location, sex, and ethnicity.

An assistance fund to support redundant *State Owned Enterprise* workers became fully operational in late 2002, informed by an ex-ante PSIA. Assistance includes support for re-training and compensation designed on the basis of the analysis of the earnings of "similar" workers (in terms of age, skills, residence, etc.) who are either self-employed or work in the private sector, and recognizes the different priorities of men and women. In consultation with the ministry of finance, a survey of separated workers is scheduled to take place after the fund's first year of operation.

While the expansion of non-farm employment calls for *rural land market liberalization*, some fear that this could result in distress sales and a higher concentration of land ownership. Various policy options to mitigate adverse consequences are being discussed and piloted, but little is known about the effectiveness of different options. PSIA is planned based on a recent household survey and will also explore gender dimensions of changes in access to land, and be complemented by participatory poverty assessments in various regions.

41. **The PSIA of reforms provides new opportunities for participation.** Fostering and drawing upon public discussion of policy can be useful at various points of the PSIA process. At an early stage, the debate can inform the choice of reform for which analysis should be undertaken. During the analysis, discussions can help identify stakeholders, understand transmission channels, and validate technical impact analysis. Finally, it can also be useful for monitoring and evaluation purposes and to increase the accountability of implementing agencies. Good practice suggests an iterative process of information sharing and cross-checking of findings with relevant groups, starting at an early stage. For example, CSOs in Uganda have recently been involved in an exercise to decide the priorities and sequencing of PSIAs for proposed structural policies. In Chad, the government, producers' organization, and local researchers were involved at the outset in the design of the ex-ante PSIA of the cotton sector reform and, once the analysis is completed, these stakeholders will agree upon the way forward in light of the likely impacts of different scenarios.

42. **It is important to have realistic expectations about the pace and scope of PSIA.** Data and capacity constraints will temper the rate of progress, as will restrictions placed by the current state of knowledge and methodological issues. For example, it is very difficult—and often impossible—to define a counterfactual for policy reforms. As a result, low-income countries will have to focus their analysis on a limited number of proposed reforms, among those that are likely to have large distributional impacts. In addition, the detailed analysis of

distributional impacts can take time and resources, and might not always be feasible in the short-run or in emergencies and crises. In such cases, low-income countries could, however, still be informed by more basic analysis.

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

43. **It is not possible in a report of this nature to undertake a comprehensive review of the wide range of public actions being proposed and implemented in PRSPs.** The focus here is selective, on public actions related to growth, budget priorities and PEM, given their relevance to poverty reduction and their prior identification as key challenges. However, it is important to keep in mind that this report does not address the impact of these actions on poverty, given that implementation is at an initial stage.

44. Before turning to these topics in detail, it is useful to draw out the cross-cutting themes of prioritization, analytical challenges, and implementation constraints that emerge from a fuller discussion of the actions.

45. **The early PRSPs were often not well prioritized, and recent experience suggests only limited progress in addressing this critical challenge.** Prioritization implies limiting and sequencing the set of policy measures to those that can most likely be achieved, given administrative, technical, fiscal, and political constraints, over the time horizon of the strategy. Prioritization depends on the macroeconomic targets (overly ambitious targets could accommodate insufficient expenditure prioritization) and the relation between the PRSP and the annual budget. In many countries the link between the PRSP and the budget process is limited, in part because of the way in which the PRSP process has evolved at the national level, and also because the underlying budget processes are weak and the MTEFs are nonexistent or not functioning effectively (see paragraphs 73-76). How well the participatory process is managed, and how far development partners are prepared to align their own programs to the national strategy also impacts on prioritization.

46. **Governments face a clear tension between the expectation that the PRSP be comprehensive and the requirement to identify strategic priorities.** Over time, PRSPs have become increasingly broad in their analytics and their policy actions, picking up on a wide range of issues such as the MDGs (see paragraphs 31-37); trade (see paragraph 60); environment; gender (Box 6); energy; and PEM issues (paragraphs 77-88).<sup>26</sup> This may be one reason why the average length of PRSPs has increased (from around 70 pages in 2000 to 190 in 2003). However, there is a concern that increased length means that prioritization remains elusive (see paragraph 117).

47. **A key element of the PRSP is the matrix of policy actions and institutional reforms, and target dates for their implementation.** All the recent PRSPs have such

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<sup>26</sup> See list of other reading materials (Annex IV).

matrices: most specify the timing of measures and the lead implementing agencies are specified in about one-half of the matrices. The matrices generally include a large number of measures, and the extent to which actions are prioritized varies across sectors, with education and health typically being somewhat clearer. Some countries, and sectors within a country, focus on capital investment needs rather than structural or institutional reforms, whereas the latter would also normally be expected to be relevant. The general approach is to list actions under sectoral headings and, in many countries, every sector/ministry appears to have been included regardless of its importance in the strategy, although this runs the risk of burying priority actions in the detail. At the same time, there are some examples of improvement—for instance, Senegal and Cameroon have organized the priority public actions in their policy matrices according to the main elements of the PRSPs, but have yet to take the next step to full prioritization.

48. **Another cross cutting issue is the importance of applied analysis to inform policy choices, which in some countries, such as Cameroon, has led to greater focus on priority actions.** However, while an increasing number of countries have undertaken good analysis of the sources of growth and the barriers to pro-poor growth, this is often not linked explicitly to the choice of actions and reforms. Likewise, the improved understanding of who is poor, as revealed by the poverty diagnostics, may not be matched by corresponding measures that would address the particular constraints that they face. An understanding of the likely distributional consequences of key reforms is needed to inform decision-makers ex-ante. However, all this presents a very challenging endeavor for PRSP countries, and is an area where partners, including the Bank and Fund, are also still learning.

49. **PRSP implementation experience reveals a range of constraints to countries meeting their growth and poverty reduction targets.** As discussed below, exogenous shocks have been identified as problems in some PRSP-PRs. Levels and delays in donor financing may be a potential constraint to implementation (as identified by Burkina Faso in its PRSP-PR), although in many cases donors have been supportive (see Section III.H, below). Another important implementation constraint is limited institutional capacity. Mauritania's 2003 PRSP-PR notes weak absorptive capacity as a risk which the government seeks to address through developing capacity in the areas of design and programming, project execution, monitoring and evaluation, and harmonization of donor procedures.

### **Macroeconomic Policy Frameworks and Growth**

50. Previous reviews concluded that many early PRSPs pay little attention to macroeconomic frameworks. They were overly optimistic in their macroeconomic (especially growth) assumptions, and provided little evidence that macroeconomic and sectoral policies were underpinned by a robust analysis of the sources of growth<sup>27</sup> and the global environment.

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<sup>27</sup> This has been further borne out by the experience of those countries more advanced in PRSP implementation. (See Muthuram and Nagarajan (forthcoming) for a review of the first 21 full PRSPs.)

Despite progress on some fronts, recent experience suggests that **PRSP countries could do more to inject realism and flexibility into their macroeconomic frameworks**. These shortcomings could arise from a range of reasons including lack of national capacity and insufficient information on the amount, and timing of, disbursements by external partners.

### *Macroeconomic Frameworks in PRSPs*

51. **Recent PRSPs have broadened the description of their macroeconomic frameworks and assumptions, and continue to emphasize the primacy of accelerating growth for poverty reduction.** Each of the PRSP-PRs described macroeconomic performance since their full PRSP and all but one updated their medium-term macroeconomic frameworks. In most PRSPs and PRSP-PRs, the coverage has moved beyond the typical growth/fiscal nexus to touch on monetary policy, debt management, and the external position.

52. **Nevertheless, few PRSPs analyze the choice of macroeconomic policies more deeply and how these actions relate to the PRSP's broader goals.** For example, while most PRSPs identify the importance of low and stable inflation to the real incomes of the poor, there is little evidence of an explicit consideration of the implications of monetary financing for inflation, its impact on the poor, and the constraints on delivering sectoral policies. While there is often an acknowledgement of the importance of debt sustainability, this is rarely assessed in relation to the choice of fiscal path and the need for policy choices. Similarly, exchange rate and monetary policies are rarely dealt with in depth. One notable exception is Cameroon, whose PRSP discusses the implications of conducting fiscal policy within the constraints of regional monetary policy, and identifies the impact of macroeconomic policy on country risks and the cost of capital. Cambodia's PRSP also examines debt sustainability and external vulnerability, and its implications for the fiscal path and budget financing.

53. **At a broad level, there appears to have been an increased effort to strengthen the link between the macroeconomic framework underlying the budget and the PRSP.** However, the links between the sectoral policies envisaged in the PRSP and the budget generally remain weak. Over time, individual countries have typically used their progress reports to integrate better PRSP expenditure plans—at least at the aggregate level—more fully into the budgetary framework. This implies that, over time, more effort is being made to marry the cost of delivering the identified priority public actions with the budget constraint, which stems from the overall macroeconomic framework. Tanzania, for example, has put forward a more comprehensive presentation of the resource envelope, including external financing, domestic revenue, and domestic financing.

### *Projections and Outturns*

54. **Countries with progress reports appear to be injecting some realism into their macroeconomic projections**, which is central to having balanced expectations and maintaining broad-based support. The six most recent progress reports revised their annual real GDP growth projections downward by an average of 1 percentage point,<sup>28</sup> which is broadly in line with the extent to which first year outturns differed from initial projections for the eighteen early PRSP countries. Most recent PRSPs, nevertheless, continue to be as optimistic about growth as the earlier PRSPs.<sup>29</sup> For both groups, average annual growth is projected to increase by about 1 percentage point from an historical average, in the range of 4½ to 5 percent per year.<sup>30</sup> Revenue and, to a lesser extent, financing projections in the early PRSPs also appear to have been somewhat optimistic. Actual revenue<sup>31</sup> and foreign financing for the first 18 PRSPs, on average, fell short of initial projections by ¾ and ¼ of a percent of GDP, respectively, although around one-third of the first 18 PRSP countries matched or outperformed their projections. Countries have identified levels of, and delays in, donor financing as a potential constraint, but domestic revenue efforts have also tended to fall short.

55. **With only one year of data on actual performance, it would be imprudent to place too much stock in these figures. These developments nevertheless underline the tension between ambition and realism in setting macroeconomic targets.** Recent performance should also be assessed against the backdrop of the relatively weak global growth over the past couple of years, and the uncertainties of the post-September 11 period. Countries that have completed PRSPs, on average, have proved remarkably resilient in the face of these developments. Annual real GDP growth in PRSP countries averaged nearly 5 percent since the mid-1990s, a marked improvement over performance between 1980 and 1995, and outpacing growth in non-PRSP countries. Of more direct interest to living standards is the rate of per capita growth, which was, on average, zero in PRSP countries over the 1980s and early 1990s, and has risen to nearly 2½ percent per annum since the mid-1990s.

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<sup>28</sup> Preliminary indications are that growth during the first year of implementation (typically 2001 or 2002) in these countries averaged about 80 percent of projections.

<sup>29</sup> The sample includes all 14 recent PRSPs (see Table 1) except Chad, which is excluded because of its unusually high growth projections due to new oil production.

<sup>30</sup> Projected annual growth in PRSP projections was compared to actual performance over the period 1997-2001. For the 18 early PRSPs, the projection period covered the 3-4 year PRSP horizon (years varied between countries) and, for the 13 recent PRSPs, the projection period covered 2003-2005. Comparisons with actual average growth rates for the decade, 1992-2001, show a larger divergence of PRSP targets from historical averages, but may be distorted by the output declines in the transition economies in the early 1990s.

<sup>31</sup> The revenue numbers represent a mix of revenue only, and both revenue and grants. However, the latter did not have any strong relationship with the countries that over- or under-performed; i.e., underperformance was attributable to both domestic revenue performance and the provision of grants (in roughly equivalent terms).

### *Shocks and Flexibility*

56. **One of the major reported impediments to sustained growth is exogenous shocks.** The PRSP-PRs for Tanzania and Burkina Faso, for example, cited the collapse of export prices and fluctuating cotton prices, respectively, as having affected their strategies.<sup>32</sup> However, very few countries have adequately addressed the limited analysis of risks in their earlier PRSPs. Although some have revised down their growth projections, most PRSP-PRs do not include an assessment of risks and constraints going forward. On the other hand, there has been greater attention to risks in the majority of recent PRSPs. Many PRSPs acknowledge vulnerability to exogenous shocks or a global downturn, and some are more specific: for example, Cambodia points to climatic risks, Mali identifies gold and cotton prices, and Senegal focuses on petroleum import prices.<sup>33</sup> While a number of countries have identified capacity constraints as a limit to performance, baseline projections naturally assume full policy implementation. Countries could also do more to identify and include explicit analyses of the policy implementation risks to inform the realism of the baseline.

57. **Devising strategies that can respond flexibly to changing circumstances is important as countries attempt to address these tensions.** The increased effort evident among recent PRSPs to ensure consistency between the macroeconomic framework underlying the PRSP and the budget underscores the importance of addressing this issue. 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. Most recent PRSPs and progress reports do not present explicit contingency spending plans. There are, however, exceptional cases reflecting good practice. For example, Mali identified contingencies in response to various exogenous shocks and Cameroon’s PRSP includes priority sector spending adjustments required to address various risks (including absorptive capacity, commodity prices, and external financing). Mongolia’s PRSP sets out both high and baseline growth scenarios based on differing sectoral growth contributions, yet the absence of costing and sometimes vague policy actions limits the robustness of the different scenarios.<sup>34</sup> While countries could go beyond this in elaborating their macroeconomic frameworks, few have attempted to do so (e.g., Senegal and Benin included scenarios relating to various risks).

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<sup>32</sup> A forthcoming IMF paper on shocks in low-income countries will explore these issues in further detail.

<sup>33</sup> In Mali, the shock occurred between PRSP finalization and Board consideration, although the first year impact was greater than envisaged under any of the scenarios.

<sup>34</sup> Two other PRSPs, Cambodia and Ghana, considered the impact of lower growth on poverty outcomes through sensitivity analyses.

### *Sources of Growth and Policy Choices*

58. **There is evidence of increased attention to sources of growth in recent full PRSPs.** The general approach has been to assess growth performance in terms of past sectoral trends without examining systematically external shocks or microeconomic constraints. While some PRSPs (e.g., Mali, Ghana, and Sri Lanka) do not examine systematically past growth experience or future growth sources, there are some notable examples of better practice. Ethiopia provides a detailed empirical analysis of sectoral growth performance, macro-growth determinants, and micro-level production function estimations. Cambodia's PRSP and Tanzania's PRSP-PR both examine quantitatively sectoral growth contributions and rates, and the employment- and income-generating potential of those sectors. Cameroon's PRSP reflects the preliminary findings of a comprehensive sources of growth study and uses the "1-2-3 model" to simulate growth over the medium term taking into account priority actions (see Box 3).

#### **Box 3. Multi-sector Macroeconomic Model in Cameroon**

Cameroon's PRSP projects medium-term growth and poverty outcomes using a detailed multi-sector and macro-econometric endogenous growth model that was developed by the government, with technical assistance from the World Bank and the United Nations Development Programme (UNDP).

The model's growth determinants include: medium- and long-term production capacity (private physical capital, productive public capital, and human capital driven by performance in education, health, and the job market) and factors causing short-term fluctuations in demand or supply. Sectoral growth is projected as a function of long-term determinants (human capital, infrastructure, and foreign direct investment), short-term determinants of aggregate demand (relative prices, terms of trade, and income), and exogenous factors (such as specific sectoral policies and programs, and business plans of recently privatized companies).

The econometric projections were revised in some cases in order to take into account additional information derived from a sources of growth study and, to ensure consistency between sectoral strategies and the macroeconomic framework, the sectoral growth profiles were reviewed through a series of technical meetings between the macro unit and priority sector teams.

59. **Nevertheless, the choices of priority public actions in PRSPs are still not derived from the identified growth sources and risks.** In some cases, this is because PRSPs have not adequately identified future sources of growth to help guide policy choices. Yet, even where analysis of the sources of growth was undertaken, priority areas are not always linked to the identified obstacles to growth. Thus, proposed public resource allocations are not informed by potential returns on investments in different activities. Currently, priority sectors and actions are often derived from considerations of the location, assets, and activities of the poor (see paragraphs 61-66). For example, despite its other strengths, Cambodia's PRSP could have focused more on programs aimed at eliminating the identified obstacles to growth. Moreover, the recent PRSP-PRs rarely address how macroeconomic performance has affected the implementation of priority actions, nor do they seem to consider the need for adjusting policies in light of their recent macroeconomic experience. For example,

Tanzania's progress report could have spelled out the specific policy changes aimed to promote growth and reduce poverty.

60. **The treatment of trade issues is symptomatic of the weak links in many PRSPs between overall strategic goals and priority public actions** (see Box 4). Most of the trade-related measures are formulated in general terms, without clearly specifying the timetable or the need for complementary actions, although Azerbaijan, Cambodia, Kyrgyz Republic, and

#### **Box 4. Treatment and Analysis of Trade in Recent PRSPs**

PRSP reviews and international NGOs<sup>1</sup> have noted the overly general discussion of trade-related issues. Recent experience, however, suggests that awareness of trade issues has increased, as they are increasingly included in recent PRSPs, and several PRSP-PRs have followed up on trade-related measures included in their PRSPs. Notwithstanding the absence of trade actions in Mauritania's PRSP, they were introduced in the first PRSP-PR, and their implementation followed up in the second PRSP-PR.

Trade-related priorities differ across countries, depending on trade openness, the commodity composition of trade, and implementation capacity. For example, the simplification of customs procedures and the removal of remaining currency controls could be instrumental for improving international competitiveness—as identified in Azerbaijan's PRSP, while regional integration is a PRSP priority identified by the Kyrgyz Republic, a country with limited access to neighboring markets. In Ethiopia—a post-conflict country with a limited implementation capacity—trade objectives are identified in broad terms in the PRSP, with the intention to postpone reforms until major post-conflict rehabilitation and reconstruction issues are resolved.

Cambodia's PRSP represents good practice on the treatment of trade. The availability of a trade diagnostic study and a firm decision of the authorities to incorporate the findings of that study into the PRSP helped reflect a wide range of trade issues. Under the Integrated Framework initiative, a nationally representative IF steering committee was set up, with a key role in facilitating consultations on trade issues.

Elsewhere, several PRSPs have only incomplete discussions of trade. For instance, notwithstanding significant trade restrictions maintained by neighboring countries, the discussion of regional integration is absent from Tajikistan's PRSP. Benin points to the narrow export base and limited market access as trade development constraints, but stops short of proposing measures to address these problems. Trade-policy analysis appears at times to lack internal consistency, with several papers focusing on export promotion, while downplaying the implications of import restrictions for export incentives, and advocating import-substitution policies. An ad valorem tariff rate of 60 percent for food imports proposed by Sri Lanka's PRSP to ensure a uniform protection of domestic producers seems to be out of line with the commitment to reduce trade protection. While export promotion is one of the objectives of the Kyrgyz Republic, it also envisages import tariff revisions "to protect and support domestic producers."

*Source:* Diop and Koliadina (forthcoming).

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<sup>1/</sup> See Ladd (2003).



Sri Lanka do reflect good practices by presenting trade-related measures with specific targets and indicators of progress. While the coverage of trade issues has improved over time, these are still not always clearly identified, integrated with other reform policies, or linked explicitly to growth (e.g., Sri Lanka and Senegal). There is little consideration of the distributive implications of trade policy. Cambodia is one of the few cases where the analysis covers risks associated with multilateral liberalization, and stresses the need to carefully sequence the reduction of rice import tariffs, given its importance to farmers' livelihoods, while in Vietnam, analysts are considering the impact of trade liberalization on women. None of the PRSPs presents an explicit poverty impact analysis or consider safety net arrangements.

### **The Design and Implementation of Pro-Poor Growth Policies**

61. The PRSP approach seeks explicitly to ensure that growth benefits the poor.<sup>35</sup> **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 countries most advanced in implementation.**<sup>36</sup> This used a simple framework focusing on policies aimed at: (i) improving the investment climate; (ii) increasing the productivity and income generating potential of the assets of the poor; and (iii) increasing the assets of the poor (education, health, land reform). Available evidence suggests that at least some of the policies and programs proposed in these areas have been initiated. However, the intended outcomes of these actions will not be evident in the short term and more time is needed to see if reforms in key sectors can be sustained and the expected benefits are realized.

62. **There have been efforts, in varying degrees, to improve the investment climate through implementation of various actions** (Box 5). In many countries this is critical to encouraging private sector activity, which is seen in all PRSPs as the key engine of growth. Vietnam, for example, is implementing a State Owned Enterprise reform plan, eliminating a number of business licenses, and supporting the development of small and medium enterprises through the establishment of a fund to provide credit services. Other countries (e.g., Mauritania) have focused on simplifying the tax structure. Table 3 shows changes in the time and cost of setting up businesses in PRSP countries, and indicates that many have reduced the number of days for setting up businesses, although few countries have been able to reduce the cost.<sup>37</sup> In some cases, measures undertaken at the country level may not yet be reflected in these figures—for example, in Vietnam, adoption of a new enterprise law in 2000

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<sup>35</sup> A useful definition of pro-poor growth provided by Ravallion and Chen (2003) who consider growth to be pro-poor when the poverty measure of interest falls or when the rate of income growth of the poor is positive.

<sup>36</sup> The evidence is based on a review of PRSP-PRs, staff reports and the World Development Indicators database for eight countries.

<sup>37</sup> These data, drawn from the World Bank's *Doing Business* project, could suffer from several drawbacks including that the benefits of recent reforms may not be reflected and there may be a formal/urban sector bias.

and streamlining of registration procedures has been associated with a doubling of private business registrations over the past two years. Burkina Faso cut the time required to process papers to establish new businesses from three months to 15 days, and reduced the number of formalities from 15 to 8 and Mozambique took steps to update the commercial code to meet market needs. An ongoing concern, however, has been that PRSPs rarely use specific analysis (such as firm level surveys) to identify priorities for improving the investment climate, although these are now planned in a number of countries.

### Box 5. Measures to Improve the Investment Climate in PRSPs

Priority areas for all the recent PRSPs include policies to improve the regulatory environment, the *financial* sector especially credit constraints for the poor, and infrastructure. The themes which recur most frequently in the financial sector are micro-finance and commercial bank restructuring, followed by improvements in the legal and regulatory framework. Recent staff reviews found that while countries typically did not prioritize *transport* measures, nor were realistic time estimates developed, there is evidence of better articulation of links between the *energy* sector with the macroeconomic and fiscal framework, as well as with service delivery and the environment. Tajikistan, for example, in its implementation matrix, identifies energy actions ranging from tariffs for full cost recovery, collections, privatization, restructuring and rehabilitation.

Priority Areas for improving the Investment Climate  
(% of PRSPs identifying as priority area<sup>1</sup>)

Improving macroeconomic stability	94
Supporting small & medium enterprises	78
Infrastructure	81
Governance & Corruption	78
Improving regulatory environment	72
Promoting foreign direct investment	66
Trade Policy	63
Finance	72
Improving legal system	72

Source: Muthuram and Nagarajan (forthcoming).

<sup>1/</sup> Sample of all 32 PRSPs completed as of mid-July 2003.

63. **A key investment climate and service delivery problem identified in a number of PRSPs is weak governance and corruption.** About one-third of the PRSPs explicitly emphasize improved governance or anti-corruption as significant issues and almost three-quarters propose actions related to combating corruption and improving governance. Governance policies set out in PRSPs have included, for example, efforts to strengthen the rule of law through police and ombudsmen, and improved access to justice through more court staff, better pay and training. In PRSP-PRs, countries have reported implementation of actions in these areas, particularly judicial reforms, measures to improve transparency and to tackle corruption as well as improvements to PEM. Most of these reforms are at a

preliminary stage however, and time and further efforts are necessary before outcomes become evident.

64. **There has been a focus in PRSPs on policies aimed at increasing the productivity of assets of the poor and improving their ability to generate income from these assets.** In addition, all the PRSP-PRs have emphasized the need to promote the agriculture sector and increase investment in rural areas more generally, given large and impoverished rural populations. Specific planned interventions to increase productivity of the rural poor have included policies to establish agricultural research and extension services, to secure access to land, inputs, fertilizer and credit, and to improve rural infrastructure. Mozambique's PRSP-PR, for example, highlights investments made in agricultural infrastructure, while rural electrification was emphasized in Burkina Faso. Both Vietnam and Tanzania implemented specific programs to increase land access for women, while Uganda has approved the Land Act which provides the legal basis for regularizing land tenure under *mailo*,<sup>38</sup> freehold and customary tenure regimes, and allows decentralized land administration and conflict resolution.

**Table 3: Improvements in the Business Climate: Reducing the Time and Costs of Registering a Business for Selected Early PRSPs**

Country	2002 Days	2003 Days	% change Days	2002 Cost (% of GNI per capita)	2003 Cost (% of GNI per capita)	% change Cost as % of GNIpc
Albania	62	47	-24.2	62.5	61.0	-2.4
Azerbaijan	104	102	-1.9	20.8	20.7	-0.4
Benin	63	63	0.0	167.6	186.4	11.2
Bolivia	77	67	-13.0	164.4	165.1	0.5
Burkina Faso	39	39	0.0	327.8	327.8	0.0
Ethiopia	44	44	0.0	429.0	423.5	-1.3
Honduras	146	81	-44.5	66.9	76.8	14.7
Mozambique	214	160	-25.2	73.9	136.6	84.9
Nicaragua	69	71	2.9	308.6	448.8	45.4
Tanzania	37	36	-2.7	228.9	228.6	-0.1
Uganda	36	36	0.0	113.9	113.9	0.0
Vietnam	68	69	1.5	36.2	34.2	-5.5
Zambia	40	40	0.0	43.3	30.6	-29.3

Source: <http://rru.worldbank.org/DoingBusiness/default.aspx>.

65. **Policies to help increase the assets of the poor through improved social services have been a prominent feature of PRSP implementation.** A number of countries report implementation of actions to improve access to key basic services—for example, Uganda has

<sup>38</sup> *Mailo* land is one of the many categories of land ownership that exist in Uganda.

increased the number of schools and teacher incentives in rural and remote areas, and Mauritania has expanded health centers and increased vaccination programs to improve health services oriented to the poor. Burkina Faso has established a national HIV/AIDS Council in the President's Office to enhance the visibility, national leadership and coordination of programs in this area. Most countries seem to have redirected some resources towards these social sectors (see paragraphs 67-71), and in some countries there are already indications of improvements. Tanzania provides a concrete example, with basic education programs attracting an additional 52 percent of budgeted allocations between 2000-03, during which period net enrollments have increased from 57 percent to 85 percent. Similarly, in Nicaragua, infant mortality rates have declined from 40 to 31 per 1000 births between 1998 and 2001. Elsewhere however, progress has been constrained by a lack of understanding of the determinants of desired outcomes. The challenge for some countries is to assess in more depth what is needed to translate targets into policies that will achieve the intended results.

**66. Most PRSPs address gender disparities throughout the document and recognize gender as a crosscutting theme.** However, as Box 6 notes, gender issues still need to be more systematically incorporated into the strategies, especially in sectors beyond health and education. A key issue will be building the capacity both of women's organizations to have input into the PRSP participatory process and government agencies to include gender analysis into their public policy choices. As countries make progress in including gender issues and increasingly report on this in their PRSP progress reports, a stronger base of information will be available on which to report.

#### **Box 6. Is Gender Mainstreamed in PRSPs?**

Although PRSPs discuss various aspects of gender inequalities—from literacy rates to gender-based violence—specific actions are most often proposed in education and health alone. A recent Bank staff review found that almost all PRSPs propose gender-responsive public provisioning of health and education. Tanzania, for example, reports gender parity at primary level of schooling, but continuing gaps at secondary and tertiary levels. The review also found that attention to gender issues outside of education and health tended to decline from diagnosis, to public actions to monitoring. The Rwanda PRSP addresses gender-based disparities in education, health, law, and political participation in its diagnosis. Its policy actions, however, target only the gender-gap in education. A recent study of four PRSPs (Bolivia, Ethiopia, Malawi, and Yemen) concluded that gender issues still need to be more systematically incorporated, particularly with respect to public expenditure and the investment climate.<sup>1</sup> While uniform attention to gender issues across sectors is not to be expected, and attention to health and education is encouraging in the context of the MDGs, empirical evidence suggests that gender issues are important not just in the human development sectors.

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<sup>1/</sup> See Whitehead (2003).

## Poverty Reducing Spending<sup>39</sup>

**67. Reported poverty-reducing spending has increased, on average, both in relation to GDP and total spending for the 14 PRSP countries where data are available.**<sup>40</sup>

Notwithstanding data constraints (see below), it is possible to identify broad trends in expenditures. Between 1999 and 2001, poverty-reducing outlays increased, on average, by 1.4 percent of GDP in the 14 countries for which *outturn* data are available (Figure 1a). As a share of total government spending, poverty-reducing spending increased by 3.9 percentage points during the same period (Figure 1b). Real per capita poverty-reducing spending also increased.

**68. Poverty-reducing spending has risen by the same amounts in both early and recent PRSP countries** (Figure 2). For both groups of countries, these outlays have risen by about 1½ percentage points of GDP and 4 percent of total spending. Early PRSP countries are projecting larger increases both as a percentage of GDP, and as a share of government outlays.

**69. Poverty-reducing spending is rising more rapidly in Africa.** As a percentage of GDP, spending in Africa will rise more rapidly than in other regions, fueled by the large increases expected in Mozambique (5 percentage points of GDP). Changes in the composition of outlays are also more noteworthy in African countries, even when Mozambique is excluded from the sample: the share of this spending in the government budget is projected to climb 8½ percentage points, compared to only 2½ percentage points in non-African countries.

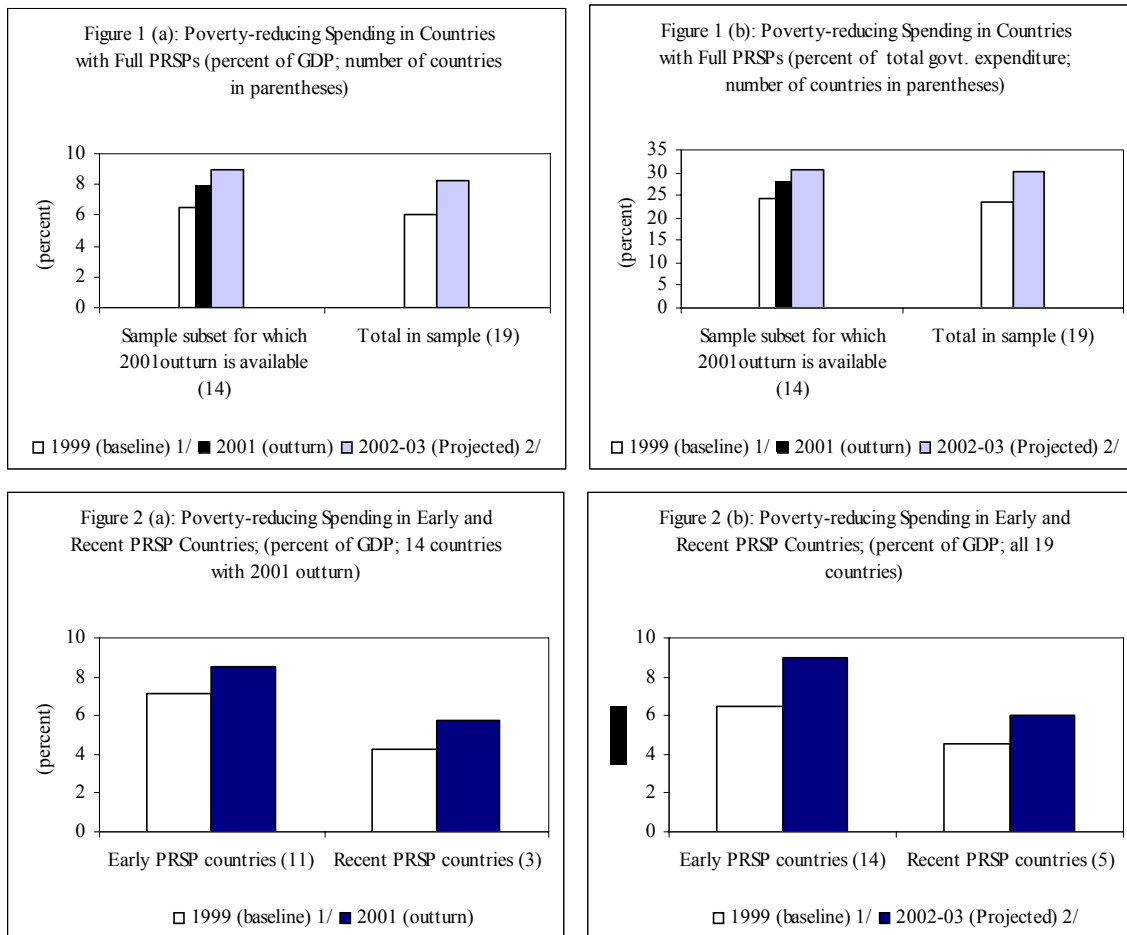
**70. Many budget systems are unable to provide disaggregated data by function or program identified in PRSPs as poverty reducing.** In many countries, expenditure data are only available on the basis of an economic classification (e.g., wages and subsidies) or a line-item classification. Without data on a functional (e.g., health and education) or program basis (e.g., primary health, basic education, or programs to combat HIV/AIDs), however, it is difficult to match spending allocations with government priorities. Due to weaknesses in budget classification and reporting, only one-quarter of IMF staff papers provide a complete

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<sup>39</sup> Jointly prepared with the Fund's Fiscal Affairs Department (FAD).

<sup>40</sup> Based on data reported in IMF staff reports issued through May 2003. Data reported in SM/03/294 are based on responses to a recent questionnaire sent to desk officers of all HIPC. 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. The country sample includes Bolivia, Burkina Faso, The Gambia, Guinea, Guyana, Honduras, Malawi, Mauritania, Mozambique, Niger, Rwanda, Tanzania, Uganda, Vietnam, Benin, Cambodia, Ghana, Mali, and Senegal. The latter five countries are recent PRSPs. Data on spending outturns for poverty-reducing activities are not always reported in PRSPs.

disaggregation of such spending.<sup>41</sup> This lack of program or functional data has constrained decision-makers and stakeholders in assessing tradeoffs and in monitoring results. Thus, PEM reforms in many countries, including HIPCs, have centered on the design of pragmatic “bridging mechanisms” to help countries identify and track poverty-reducing spending.<sup>42</sup>



Sources: National authorities and IMF staff estimates. Number of countries indicated in parentheses.

1/ In two cases, baseline data are for 2000.

2/ Average projected expenditure for 2002 and 2003.

<sup>41</sup> The category for which disaggregated data are most commonly available is rural development. For the 10 countries reporting these data, spending is projected to rise by 0.7 percentage points of GDP during 2002-03. This accounts for over a fifth of the projected increase in total poverty-reducing spending in these countries. Other categories of spending for which disaggregated data are available are water and sanitation (6 countries), primary education (5 countries), and primary health care (3 countries).

<sup>42</sup> See IMF and World Bank (2001 and 2002a).

71. **Rising spending will need to be accompanied by improvements in the efficiency and targeting of spending to ensure that low-income countries make as much progress as possible towards meeting the MDGs and PRSP goals.** As experience with the PRSP process deepens, countries should also further refine the definition of poverty-reducing spending to target programs most closely linked to poverty reduction. The efficiency of spending can also be improved by reallocating spending to these programs. These efforts would complement those intended to strengthen public expenditure management (see below).

### **Public Expenditure Management<sup>43</sup>**

72. **Efforts to improve PEM are essential to ensuring that budgetary resources are used for their intended purposes.** As such, measures to increase poverty-reducing spending are often complemented in PRSPs by steps to improve PEM systems. This section examines progress in the costing of new policy measures and their integration into budgetary frameworks; available evidence on recent improvements in PEM systems in PRSP countries; and the treatment of PEM measures in PRSPs.

#### ***Costing of Measures and the Budgetary Framework***

73. **The costing of specific measures in PRSPs and their integration into Medium-Term Expenditure Frameworks (MTEFs) generally remains weak.** While a few PRSPs contain strong links between costing, the annual budget, and the MTEF (e.g., Cameroon), many do not. Many explicitly keep the costing for priority public actions within the total resource envelope for the budget (Kyrgyz Republic, Ghana, and Benin), although there are exceptions (e.g., Ethiopia, Senegal). Furthermore, typically PRSPs are weak in linking the overall policy matrix to the budget (Cambodia, Tajikistan, Kyrgyz Republic, Ghana, and Senegal). In some cases, there is little connection between spending priorities identified in the PRSP and the government's MTEF (e.g., Azerbaijan, Cambodia, Ethiopia, and Sri Lanka). The weakness of PRSPs in costing has been a consistent theme in JSAs.

74. **Weaknesses in costing have adverse repercussions for the prioritization and focus of PRSPs.** In some cases, there are also inconsistencies between prioritization and budgeted costs. In Ethiopia's PRSP, for example, the costing of priority actions emphasizes pharmaceuticals, whereas the strategy emphasizes preventive care. In countries where PRSP implementation is more advanced, there has been some progress in costing and linking priorities with the budget, though more work remains. In Tanzania, for example, the costing of roads and agriculture—both high priority areas—remain to be completed. In Burkina Faso, program budgets have been prepared in most ministries, but these have not been aggregated and linked to the PRSP.

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<sup>43</sup> Jointly prepared with FAD.

75. **Line agencies are often not in a position to reliably estimate the total (capital and current) costs of the proposals submitted for the PRSP.** Hence in a number of PRSPs—including Ghana, Cambodia, Kyrgyz Republic, and Sri Lanka—any costing indicated for sectoral programs is limited to capital expenditures only. This is especially true outside of the social sectors where sector strategies had often been subject to greater attention in the past, and in some cases, supported by sector-wide programs (e.g., Cambodia). Agencies responsible for infrastructure development (ministries of roads, rural, water, and so on) are particularly prone to estimate only capital requirements, which may in part be determined by the perceived role of donor projects in financing the strategy. In some cases, partial costings may also be linked to the orientation of the agency responsible for PRSP preparation, which in a number of countries sits with the ministry of planning or a central team, rather than the ministry of finance, which is more familiar with the budget process (e.g., Kyrgyz Republic and Cambodia).

76. **In countries where PRSP implementation is at an advanced stage, the costing of priority actions is better harmonized with the MTEF.** In Tanzania, the costing of targets in health, education, and roads are being harmonized with work on the MTEF. In Mozambique, the costs of priority actions are now consistent with the overall budgetary envelope and are anchored in the MTEF. The progress report for Nicaragua also notes improvements. In the case of Burkina Faso, an MTEF with program budgets has been integrated into the regular budget cycle. However, as noted in Box 7, in many countries, MTEFs are not yet firmly anchored in the national budget process and are only partially functioning, which limits their potential contribution, including vis-à-vis the PRSP.

### **Box 7. Progress in Implementing MTEFs**

The potential contribution of MTEFs to the PRSP approach was flagged in the March 2002 Joint Review and continues to be picked up in many JSAs. More mature MTEFs, such as that of Uganda, have forged a close link between the MTEF and the PRSP.

A recent study of experience in eight PRSP countries found that some—including Tanzania and Rwanda—have made impressive progress in implementing MTEFs. Strong links have also been forged in these countries between the MTEF and expenditure policies delineated in the PRSP, and in some cases, the MTEF and PRSP were introduced together (Albania, Benin, and Rwanda). However, there is typically still some way to go in institutionalizing MTEFs into the broader public expenditure management system.

Among the lessons derived from these experiences are that initial conditions and the building blocks of sound public expenditure management are necessary to implement a useful MTEF. This implies that reforms that seek to put in place the basics—as emphasized, for example, in HIPC Action Plans—may need to precede the elaboration of an overly sophisticated MTEF. In addition, the lack of predictable donor resources flows to the budget has constrained the ability of countries to move towards full-fledged MTEFs.

*Sources:* Evan and others (2003); Le Houerou and Taliercio (2002).



### ***Progress in Improving PEM Systems***

77. **Special attention has been placed on improving PEM systems in HIPCs.** In February 2002, the World Bank and IMF Boards considered a paper assessing the capacity of HIPCs to track poverty-reducing spending.<sup>44</sup> The assessments indicated significant weaknesses in PEM systems, with countries meeting, on average, only about half of the 15 benchmarks for budget formulation, execution, and reporting.<sup>45</sup> In conjunction with the assessments, countries developed Action Plans (AAPs) to strengthen their PEM systems.

78. **There are indications of progress in implementing the measures in AAPs, suggesting that PEM systems may be improving.** A recent assessment of progress suggests that countries may have met an additional benchmark compared to the comprehensive assessment in February 2002.<sup>46</sup> Fourteen of 21 HIPCs have initiated or implemented more than 80 percent of all planned measures in their action plans (Figure 3). Six countries have fully implemented at least one medium-term measure ahead of schedule. Progress is similar across budget formulation, execution, and reporting. A number of countries have fully implemented actions to strengthen budget classification (e.g., Cameroon, Ethiopia, Ghana, Honduras, Mali, Niger, and Rwanda), helping provide the framework for a stronger link between budget formulation and spending priorities. In Tanzania, fiscal data are now available by economic, program, and functional classification, as well as by region and district, and are consistent with the IMF's *Government Finance Statistics*.

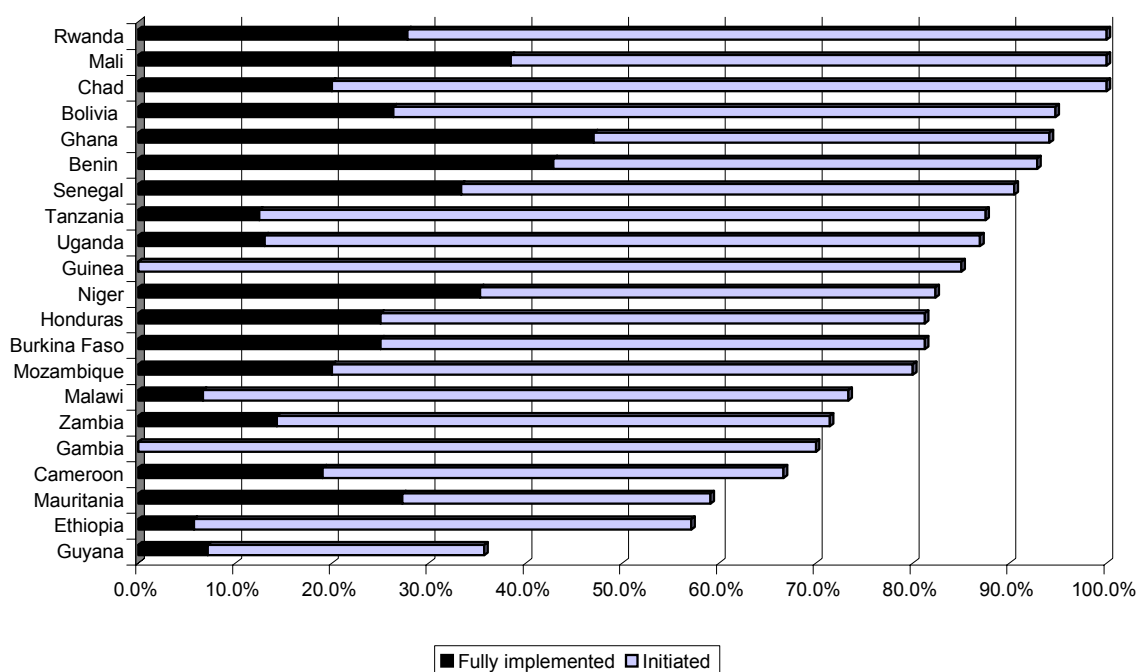
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<sup>44</sup> See IMF and World Bank (2002a).

<sup>45</sup> The benchmarks represent the PEM system capabilities deemed necessary for tracking poverty-reducing spending. Seven indicators relate to budget preparation, and four each to execution and reporting.

<sup>46</sup> See IMF and World Bank (2003b). This assessment is based on the number of measures that have been fully implemented in countries' action plans, and assumes no slippages in other areas since the comprehensive evaluation.

**Figure 3. Total Measures Fully Implemented or Initiated by Country**



Source: World Bank and IMF PEM Assessment and Action Plan (AAP) Updates.

Note: Based on unweighted number of measures initiated or fully implemented by country. Countries with more advanced PEM systems may be undertaking more complex reforms that take longer, and might appear as making less progress than others. Most of the measures not yet initiated relate to the medium term and were not undertaken for various country-specific reasons. Therefore, cross-country comparisons should be interpreted with caution.

79. **Progress in implementation of PEM measures from action plans is similar in early and recent PRSP countries.** In both groups of countries about 80 percent of measures have been implemented, with performance especially strong in Bolivia and Rwanda (early PRSP countries), and Ghana and Mali (recent PRSP countries).

80. **A recent study by Bank staff using a similar methodology found significant weaknesses in 10 PRSP countries in ECA,<sup>47</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.

81. **PRSP countries in ECA have made more progress in improving their treasury systems and automating budget execution than in strengthening budget formulation.** Nevertheless, budget outturns still differ significantly from budget allocations in many

<sup>47</sup> See Moon (forthcoming). The countries are Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kyrgyz Republic, FRY Macedonia, Moldova, Serbia and Montenegro, and Tajikistan.

countries, with expenditure arrears often being accumulated and frequent intra-year changes to the budgets. These reflect, inter alia, weaknesses in budget formulation, including the realism of the budget and its relationship to the macroeconomic framework.

*PEM Measures in PRSPs*

82. **PEM reforms are increasingly being addressed in PRSPs, with recent PRSPs incorporating more measures than the earlier ones.** The average number of PEM measures rose from 8 in 2001 to over 16 in PRSPs produced during 2002–03. This finding is consistent with a recent assessment of 13 HIPCs, which found that countries are increasingly incorporating PEM measures from their AAPs.<sup>48</sup> The focus of recent PRSPs is weighted more heavily toward budget execution and reporting than early PRSPs.

83. **There is wide variation in the extent of treatment of PEM issues across PRSPs,** ranging from very limited (e.g., three measures proposed by Yemen) to extremely comprehensive (e.g., Niger with 82 measures), with African countries generally including the largest number of measures. An encouraging finding is that the number of PRSPs that contain only a minimal level of discussion of PEM issues has declined over time, and that this is true for both HIPCs and non-HIPCs, indicating that the critical role of improving PEM systems has been recognized more generally.<sup>49</sup>

84. **Budget formulation has received the most attention in PRSPs.** This could reflect the sequencing of reforms, although recent PRSPs are weighted more heavily toward budget execution and reporting than early PRSPs. Over one-third of PRSPs incorporate measures to strengthen the PEM capacity of local governments, consistent with the ongoing trend to devolve public spending on critical services.

85. **The PRSP-PRs confirm that concern about PEM issues has grown over time.** PRSP-PRs generally cover about 14 PEM measures, which is about 50 percent more than the average for their PRSPs. Moreover, recent PRSP-PRs (those completed since 2002) contain more such discussion than those completed in 2001. Keeping in mind the caveats associated with self-reporting, almost all countries with PRSP-PRs indicate progress in improving their MTEFs, while Burkina Faso and Mozambique report progress in improving budget classification. Several countries also report the establishment or strengthening of audit institutions (Mauritania, Nicaragua, Tanzania, and Uganda).

86. **In sum, there is preliminary evidence that PEM systems are improving in HIPCs and of increased incorporation of PEM measures in PRSPs.** Nevertheless, progress in this area is likely to be gradual. This implies, for example, that full costing of policy measures in

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<sup>48</sup> See IMF and World Bank (2003b).

<sup>49</sup> The coverage of PEM measures is slightly higher in HIPCs by about 1½ more measures on average.

PRSPs may not be possible in many countries in the short term. Efforts to improve costing should be linked to and buttress the national budget process. There are still a number of countries whose capacity in budget formulation, execution and reporting, including with respect to the reporting of poverty-reducing spending, is weak. Therefore, a well-sequenced and comprehensive strategy for addressing weaknesses in PEM remains an integral part of countries' poverty reduction strategies.

87. **Strong government leadership is essential for successful PEM reform.** As part of this effort, the articulation of the government's PEM reform strategy in either the PRSP or other country-owned documents can help guide the respective roles of development partners (including the Bank and Fund). Governments and development partners should consult at an early stage to ensure the appropriate sequencing of reforms.

88. **The new framework for Bank/Fund collaboration provides an opportunity for countries to articulate a country-led and comprehensive approach to PEM reforms.** Under this framework, countries articulate their strategies for improving public expenditure policies and their PEM systems in country-owned documents, including PRSPs. The Bank and Fund, as well as other development partners, could respond to requests from countries for assistance in the diagnosis of PEM systems and the design and implementation of reform strategies.<sup>50</sup>

## F. Results Indicators

89. **A major challenge highlighted in the March 2002 Joint Review was the lack of appropriate indicators in PRSPs that would help track the implementation of public programs.**<sup>51</sup> Experience over the past year suggests that there had been some significant improvements in the coverage of MDG indicators and governance issues, and that disaggregation by gender or social group to enable disparities to be tracked has become more common. There are nonetheless weaknesses in that indicator lists are sometimes too long and unfocused and some key areas, like PSD, are not covered well. In addition, actual indicators are sometimes not well-defined and baseline data are not always available.

90. **A comparison of early and recent PRSPs reveals that the coverage of MDG indicators and baseline data has improved significantly over time, which strengthens the basis for harmonized reporting on results** (see Table 4).<sup>52</sup> The share of countries which do not propose MDG indicators for PRSP monitoring is much lower among recent PRSPs

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<sup>50</sup> See IMF and World Bank (2003a).

<sup>51</sup> See IMF and World Bank (2002b and 2002c); Booth and Lucas (2001).

<sup>52</sup> The temporal distinctions cast important insights and the differences do seem to be significant, although each sub-sample is relatively small and "lumpy." The set of early PRSPs and PRSP-PRs comprises Albania, Bolivia, The Gambia, Honduras, Mozambique, Niger, Tanzania, Uganda, and Zambia. The recent set comprises PRSPs for Azerbaijan, Benin, Cambodia, Cameroon, Chad, Ghana, Kyrgyz Republic, Mongolia, and Nepal.

(24 percent) compared to the early ones (39 percent). Recent PRSPs propose indicators for monitoring progress that encompass most of the MDGs—especially in the areas of education, mortality, poverty, and water—although less so for gender and environment.<sup>53</sup> However, while the overall coverage of subject areas is good, there are often different specific indicators. For example, 24 countries propose indicators for immunization, but only three include the relevant MDG indicator (i.e., proportion of one-year-old children immunized against measles). Recent staff analysis also suggests that PRSP countries face challenges in ensuring data comparability and quality. In this context, partners, including the Bank, should encourage countries to collect data that are needed to monitor MDGs. Countries should avoid parallel reporting processes, while partners need to coordinate to reduce duplication of work to help countries build up their national systems for reporting.<sup>54</sup>

**91. Tracking progress in governance, a major pillar of most PRSPs, appears to have improved over time.** Some countries have introduced innovative approaches:

Kyrgyz Republic, for example, includes the corruption index calculated by Transparency International, as well as measures of perceptions of the population (e.g., confidence in public administration). In countries where civil service reform is a prominent challenge, this has been picked up, with indicators related to civil service size (Cambodia) or retraining (Kyrgyz Republic). Several PRSPs also include PEM indicators (e.g., the Ghana document includes timely disbursement of budgets and allocations to priorities). However, some recent PRSPs include governance indicators that would be difficult to quantify and track or which require further development (for example, in Ghana “democratic effectiveness of District Assemblies” and “level of corruption in key GPRS areas” are proposed).

**Table 4. Use of MDG Indicators as PRSP indicators (percent)**

	Recent PRSPs	All 32 full PRSPs
Poverty headcount	100	100
Education	78	70
Gender	67	45
Health	91	79
Environment	52	43

*Note:* Figures reflect average for the respective samples.

*Source:* See footnote 54 for sample composition and definitions.

<sup>53</sup> “Use” of an MDG indicator is assessed by first identifying whether a PRSP has at least one indicator for each sub-category of MDGs 1-7. For example, for MDG1, there are five sub-categories, namely: poverty headcount; poverty gap; income distribution; child malnutrition; and malnutrition. Since all 32 PRSPs assessed have at least one indicator related to poverty headcount, its coverage is 100 percent. For MDG2, there are three sub-categories, namely: enrollment/attendance; progression/completion; and literacy. Since on average 70 percent of the 32 PRSPs assessed have at least one indicator each related to MDG2, its coverage is 70 percent.

<sup>54</sup> This agenda is being supported also in the context of the results indicators for IDA 14.

92. **PRSPs have proposed a range of indicators to measure PSD. However, good practices are less evident in this area, in part because of the diversity of conditions, as well as the lack of experience and established international good practice in this area.** The types of indicators being tracked range from the macroeconomic level, such as share of investment in GDP and total production of important crops, to specific dimensions of the investment climate (e.g., changes in the number of unjustified inspections is proposed by the Kyrgyz Republic, along with business registrations). A number of countries are also picking up measures to capture gains in productivity (e.g., rice paddy yields in Cambodia).

93. **Disaggregation of indicators in order to be able to track key disparities in society is an increasingly common good practice, although the indicators in some PRSPs would benefit from greater disaggregation to capture rural/urban, regional, income, and gender imbalances.** Disaggregation by gender is now being done in most countries for education and health, and is extending beyond these traditional areas with Cambodia, for example, tracking the percentage of female members of parliament and female prosecutors.

94. **Some countries may not have been sufficiently selective and strategic in their choice of indicators** (e.g., Azerbaijan). Mali's PRSP recognized that the extensive indicator list needed to evolve over time as data availability and systems improve. The PRSP-PRs indicate that, in practice, countries are becoming more selective in the reporting of indicators, although it is important that countries report on a common core over time. Greater selectivity and a shift toward having indicators that are more directly linked to poverty reduction and policy actions in the PRSP also helps to explain why alignment with some MDG indicator categories (e.g., forests and air quality) has tended to decrease while, in other areas noted above, the alignment has strengthened over time.

## G. Monitoring

95. **The treatment of monitoring and evaluation in PRSPs has generally focused on improvements in data availability and quality, and institutional arrangements have received much less attention.** PRSP monitoring is broader than monitoring final poverty outcomes; it is a management tool to help steer implementation on an ongoing basis. A good monitoring system comprises not just data tools, such as household surveys, but the responsibilities and relationships of government and non-governmental institutions that collect, analyze, and use the data.

96. **Since the 2002 Joint Review, much has been done to improve data availability and quality—especially on poverty outcomes and impacts—through better, more regular, and more timely surveys.** Sri Lanka, for example, includes a full discussion of existing and planned surveys, while Pakistan is preparing to launch a CWIQ as a rotating module of their Living Standards Measurement Study. Elsewhere, including in Mozambique, lighter surveys that can be carried out more frequently than fully fledged household surveys have been introduced. However, a number of PRSP-PRs point to delays in surveys as being a problem (e.g., Albania). Less attention has been devoted to improving routine administrative (as opposed to survey) data. One exception is Tanzania, where a group coordinated by the

President's Office and including representatives from the regional and local governments is working to improve administrative data within ministries. In some countries with limited quantitative data, qualitative studies have been used to good effect to fill some gaps (e.g., Chad).

97. **Most PRSPs set out the proposed institutional arrangements for monitoring in only general terms**, listing the main actors involved (often by broad category, such as civil society, academia, and the media) and a brief definition of their general responsibilities, though this may be well articulated elsewhere. Tajikistan's JSA highlights what is a common problem: a special unit responsible for monitoring and improving the PRSP is set up under the Office of the President, but how it will perform its duties and its relationship to the State Statistical Committee are not clear.

98. **Challenges commonly encountered by countries in setting up and implementing PRSP monitoring systems include lack of coordination and collaboration between actors, overlapping responsibilities, and delays in the flow of monitoring information.** In the short term, it is easier to start new surveys than to define and clarify relationships and responsibilities across a range of actors that have a stake in data collection and analysis. Some of the recent PRSPs, including Ghana and Benin, however, do seek to define the roles and responsibilities of actors. In Malawi, the Ministry of Finance and Planning is seeking to tackle the problem of delays in reporting by withholding funding to ministries and departments that do not submit satisfactory monthly reports.

99. **There has been limited progress in setting up systems to evaluate the impact of poverty reduction strategies.**<sup>55</sup> Given high requirements in terms of data and capacity, and methodological complexity, one would not expect evaluations to be carried out for all interventions, especially country-wide ones, and not at this relatively early stage. Nevertheless, it is generally useful to carry out at least some evaluations, especially for major targeted interventions, and planning of evaluations takes time. Ghana is again a good practice example, laying out plans for two key impact assessment studies to be completed in the short term, and two to three additional studies to be completed by the first PRSP-PR, while Nicaragua's PRSP-PR flagged its plans to undertake a more comprehensive evaluation.

## H. Donor Alignment and Harmonization

100. **The principle that donor support should be aligned around, and follow from, country-owned poverty reduction strategies is now widely accepted.** At the global level, and as part of their commitment under the Monterrey Consensus, donors and countries endorsed the *Rome Declaration on Harmonization* in February 2003.<sup>56</sup> Under this, principles

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<sup>55</sup> Only a few PRSPs distinguish between monitoring and evaluation (for example, Bolivia and Mozambique) and even fewer set out plans for poverty impact evaluations.

<sup>56</sup> See [http://siteresources.worldbank.org/NEWS/Resources/Harm-RomeDeclaration2\\_25.pdf](http://siteresources.worldbank.org/NEWS/Resources/Harm-RomeDeclaration2_25.pdf).

of good practice 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 (MDB) working groups<sup>57</sup> encourage countries to design, in agreement with the donor community, action plans with clear and monitorable proposals to harmonize donor assistance.

**101. While PRSPs do appear to provide an impetus for enhancing donor coordination,<sup>58</sup> the implementation challenges remain significant.** This applies to the World Bank and IMF as well as other partners (see Section IV below for discussion of the challenges this poses for the Bank and Fund). For example, a recent Bank study<sup>59</sup> found that the government took a material lead in donor coordination in only three of the 48 PRSP countries studied, although an additional 30 percent indicated promising developments. The need for strengthened national capacity is critical in this context. As donor programs and projects in the pipeline come already costed, some recent PRSPs have continued to simply attach these to policy matrices (e.g., Kyrgyz Republic, Mali, Senegal, and Sri Lanka). This could suggest that priorities are being driven by the supply of specific donor financing rather than deriving from newly articulated national policy agendas.

**102. Low-income countries see uncoordinated, restrictive, and frequently changing donor procedures and policies as imposing a significant burden.** In Vietnam, for example, donor procurement procedures were viewed as complicated and restrictive, and there was inadequate consultation with government on the type and role of technical assistance and selection of experts. Governments face difficulties in meeting the multiple demands of donors. For example, the extensive interest in Bolivia's PRSP resulted in separate financial and technical reporting systems for each donor, imposing a heavy administrative burden on the national statistical institute. In addition, even when there is agreement between donors to harmonize assistance, the modalities can still vary, which imposes strain on the government. For example, in Burkina Faso, the Bank and other donors conditioned their disbursements on upfront implementation of policy measures supporting PRSP objectives, whereas the European Union used IMF reviews and results (e.g., MDG indicators) as triggers. Although both approaches are consistent with the PRSP, using different measures of progress created difficulties.

**103. Donors, on the other hand, point out that progress in achieving harmonization is limited by national systems of procurement and financial management that do not meet**

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<sup>57</sup> The MDBs have reached broad agreement on common approaches to procurement practices; on evaluation of sectoral programs; on public financial management; and environmental impact assessments. (See OECD-DAC, 2002a and 2002b.)

<sup>58</sup> See Nordic Aid (2003).

<sup>59</sup> See World Bank (2003c).



**international good practice standards.**<sup>60</sup> For example, some donors have argued that their ability to take part in “basket funding” arrangements is constrained by their responsibilities to account for public expenditure to their domestic constituencies.<sup>61</sup> In some cases (e.g., Sector Wide Approach (SWAs) in Tanzania and Uganda), donor harmonization efforts have reduced partner country transaction costs, while increasing donor’s costs in having to standardize the information received.

104. **Country implementation experience is at an early stage although evidence suggests that a diversity of approaches are being used and the recent emergence of some concrete cases of good practice at the country level is promising.** Operational experience suggests that governments that present a broadly owned national development strategy, supported by well defined sectoral priorities, can attract wide donor support and enhance coordination. Recent examples include:

- Uganda’s Poverty Eradication Action Plan sets out national strategies in roads, health, education, and more recently water and sanitation, justice, and law and order, which are being supported by SWAs and budget support from donors that are integrated into the government’s MTEF;
- Niger, where momentum for alignment and monitoring around the PRSP is building, as evidenced at the first national PRSP forum held in June 2003;
- Ethiopia, which views donor alignment and harmonization as central to the implementation of its Sustainable Development and Poverty Reduction Program and which has presented the donors with a comprehensive alignment and harmonization program that covers budget support, SWAs, project and program support, and capacity building; and
- Mozambique, where ten bilateral donors are coordinating budget support with disbursements, monitoring and reporting within a unified budget support framework, which is also consistent with the Fund and Bank programs.

Similar approaches are also being used in Benin, Burkina Faso, Ghana, Malawi, and Tanzania.

105. In some countries, even though the PRSP process has increased the frequency of coordination activities—and therefore some short-term transaction costs—**there is also more openness and transparency of dialogue with partners on goal-setting, resource allocation and outcomes monitoring.** Consultative Group mechanisms are evolving into

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<sup>60</sup> Nordic Aid (2003).

<sup>61</sup> Ibid.

institutionalized processes and have increased government leadership (e.g., Ghana), as well as enabling a more coherent delivery of development assistance.

106. **Bank and Fund staff have proposed a framework for the coordination of donor budget support and its alignment with the PRSP.** To help strengthen budget processes, the coordination framework would align the PRSP with the national budget cycle, and to improve the predictability of external financing, donor conditionality would support PRSP priorities and implementation. Assessments of progress at the country level would draw on the government's annual PRSP-PR process and avoid setting up parallel review systems. This approach is being piloted in Burkina Faso and Ethiopia under the auspices of the Strategic Partnership with Africa.<sup>62</sup>

107. **Looking ahead, PEM and national systems for managing aid require strengthening.** Gaps which are identified through assessments of public financial and procurement systems need to be urgently addressed through capacity building support, which in turn must be coordinated to be fully effective. Tanzania and Vietnam are among the many countries where a number of these issues are being tackled. For example, at the request of the government of Vietnam, the ADB, Japanese Bank for International Cooperation, and the World Bank are working to harmonize their procurement, financial management, environment, and social procedures and are undertaking joint portfolio reviews.

## I. Country Reporting on Implementation

108. **A key element in the architecture of the PRSP approach to ensure a focus on implementation and ongoing results orientation are countries' PRSP-PRs.** These are expected to provide countries with an opportunity to report on progress in implementation and available results, and to identify any strategy or policy adjustments. While the sample of countries that are advanced in implementation and utilization of these instruments is not extensive, it is twice as large as was available at the time of the last progress report. It is appropriate at this juncture to reflect on the content of these reports, and how useful the associated processes have been in informing national debates and domestic decision-making processes, as well as meeting the needs of development partners.

109. **To date, the content of many PRSP-PRs has been largely limited to providing narrative overviews of implementation, with limited analysis or reflection.** While there have been notable exceptions—for example, Uganda's review of adverse trends in infant mortality which led to consideration of corrective actions—in general, the PRSP-PRs could have been more candid and strategic in assessing shortcomings and needed policy adjustments. Perhaps the most notable adjustments in the PRSP-PRs have been the revision of PRSP targets, typically downward, in the light of the country's recent experience (e.g.,

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<sup>62</sup> See <http://www.spa.org/>. The Bank is pursuing alignment in arenas beyond the SPA, including an enhanced partnership with the EC as well as with the Department for International Development (DfID).

Mauritania and Nicaragua). Macroeconomic, especially growth, projections have also been revisited (see Section III.E).

110. **In reporting on results in PRSP-PRs, household surveys are the primary source of poverty data, with qualitative studies and, less often, administrative data also being used.** While the need for improved data quality is stressed (e.g., Albania), the PRSP-PRs do indicate improvements on this front. Likewise, the poverty analysis is improving, although most countries also recognize the need for deeper understanding of the determinants of poverty and of policy impacts (e.g., Mauritania and Nicaragua). Data availability and dissemination is also reported to be improving (e.g., Burkina Faso). A number of countries report their activities aimed at refining their indicators and strengthening monitoring, through workshops and technical work.

111. **There is evidence that some countries are using their PRSP-PRs to inform national decision-making processes, although there remains scope for improvement.** Countries have typically used their progress reports to better integrate PRSP expenditure plans—at least at the aggregate level—more fully into the budgetary framework and to report progress against PRSP targets. In Burkina Faso, for example, the PRSP-PR has become the key mechanism to monitor results across different areas of government activity. In Mozambique there are plans to integrate monitoring of the PRSP into the regular system of quarterly and annual reporting by the executive to the Parliament, although the first PRSP-PR was not subject to consultations with civil society. Tanzania’s PRSP-PR led to intensive reconsideration of the strategy by stakeholders, leading to agreement on the need for a better fit with the budget cycle, and that future PRSP-PRs be ready by the annual Poverty Policy Week.

112. **In terms of serving the needs of development partners, PRSP-PRs have been presented at donor meetings to good effect.** For example, the Mongolian and Nepalese governments intend to utilize their PRSP-PRs at Consultative Group meetings, and Niger’s report was showcased at a multi-donor PRSP Forum. However, the number of initiatives and different expected reporting formats burden governments. In Tanzania, for example, reporting requirements include the PRSP Progress Report, the annual and half-year reviews of the Budget Support Program, the Tanzania Assistance Strategy, the Public Expenditure Review (PER), and the Poverty and Human Development Report. Millennium Development Reports are also expected on an annual basis by the UNDP. In many countries, a number of these types of reports could feed into, or be subsumed by, each other. It is important for the Bank and Fund to be sufficiently flexible in terms of expectations and requirements to allow single documents to serve multiple needs. The scope for streamlining documentation and reporting requirements more generally warrants further exploration both at the country, as well as the institutional level. One area which is being explored jointly with UNDP is an assessment of the statistical, monitoring and reporting implications of PRSPs and MDGs, and ways to reduce associated reporting burdens.

113. **There have been lags in preparing PRSP-PRs in a number of countries.**<sup>63</sup> This raises questions about the relevance of the PRSP-PR for the government, particularly in the absence of imperatives such as a current Poverty Reduction and Growth Facility (PRGF) arrangement, PRSC or a HIPC completion point (and thus the need for the Board to formally consider the PRSP-PR). In several cases, however, the delay can be explained by electoral changes (e.g., Bolivia and Honduras), unanticipated shocks, difficulties in policy implementation (e.g., Guinea) or difficulties in data collection. In some cases, it may also point to weak government ownership and lack of awareness of PRSP reporting cycles. Regardless, it is important that the momentum for PRSP implementation not be lost and the impetus to produce PRSP-PRs on a timely basis may need to be reinforced. In this regard, the Bank and Fund can promote awareness of the role and value of PRSP-PRs, both as a tool to operationalize and reorient strategies—in particular through the link to the annual budget cycle—as well as an instrument to facilitate donor coordination (see Section IV.D).

#### IV. KEY ISSUES FOR THE FUND AND THE BANK

114. **The review of country experience against important elements of the PRSP approach—namely ownership, participation, macroeconomic frameworks and growth, and indicators and monitoring—indicates that the PRSP process is successfully moving into the implementation phase.** However, it is important that the Fund and the Bank, in coordination with other development partners, shoulder their part of the responsibility in addressing identified constraints.

115. **JSAs are important means for providing constructive and candid feedback.** JSAs routinely comment on the individual items specified in the guidelines. However, they should also provide an overarching assessment of the cohesiveness of the strategy and highlight those issues central to its overall success. For instance, the JSA should address whether the macroeconomic framework together with the envisaged structural and other policies contained in PRSPs are sufficiently conducive for the private sector-led growth necessary for poverty reduction. While some JSAs take this approach, others do not, and there is a need for this to be addressed more systematically. Country experience has also shown that capacity constraints, both technical and institutional, often impede PRSP implementation. While the Fund and Bank will continue to support countries' capacity building efforts, JSAs should also identify any binding capacity constraints and how these could be alleviated through technical assistance from other sources.

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<sup>63</sup> The average time between PRSPs and PRSP-PRs (and subsequent PRSP-PRs) for the sample of countries that have prepared progress reports is not unduly long (15 months) and, on average, delays seem consistent with what might be required to align PRSP and domestic budgetary cycles. However, there are another 14 countries where more than a year has passed since the finalization of the PRSP and have yet to prepare a progress report. The time elapsed since the finalization of the PRSP for this latter group averaged nearly 17 months at the end of June 2003. However, due to delays in 2002 between PRSP finalization and Board consideration, there are only four cases among these 14 where more than a year has transpired since the Board date.

116. This section turns to the IMF and IDA more directly in relation to selected issues of current importance to countries and stakeholders, specifically, the challenges of prioritization; PSIA; the Fund's role in the macro dialogue; and the alignment of IDA operations. Finally, it covers some procedural issues.

## A. Common Issues

### Prioritization and Focus in PRSPs

117. **The formulation of comprehensive poverty reduction strategies is very challenging.** It is no simple task to formulate a coherent strategy that does justice to the range of competing demands and yet provides specificity. As governments have attempted to manage these demands, PRSPs have tended to become increasingly lengthy.<sup>64</sup> While there are some exceptions (e.g., Nepal), most recent PRSPs, like the early PRSPs, do not prioritize across the menu of proposed policies impeding their operational usefulness to both national authorities and development partners. To the extent that there is not sufficient analysis and political consensus to underpin and enable focus on the priority actions, countries tend to propose a large number of actions across a wide range of areas, and the intended focus of the strategy is unclear. To some extent, this stems from intrinsic tensions within the PRSP process. Weak prioritization also often stems from insufficient attention to framing strategies within budget constraints and setting realistic targets, and is in turn compounded by several underlying factors such as:

- technical capacity and institutional constraints—particularly, in terms of costing, expenditure management and budget processes (see paragraphs 72-88);
- expectations that PRSPs cover an increasingly wide range of topics and deepen analysis in a number of areas, and that they can serve an increasing number of functions; and
- the nature of the participatory process can raise expectations and authorities are often unable, or find it difficult, to make the hard choices among the competing priorities.

118. **These weaknesses reduce the usefulness of PRSPs for national authorities and development partners (including the Bank and Fund).** Ultimately, governments are responsible for deciding and prioritizing among competing demands, given budget and political constraints. This is a tension that all governments face. However, the “wish list” nature of PRSP measures and the failure to embed the strategy into a framework that reflects resource and capacity constraints can adversely affect the prospects for implementation. In addition to detracting from their operational value, such PRSPs do not meet the needs of

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<sup>64</sup> The length of PRSPs has increased steadily, from under 70 pages on average in 2000 to over 190 pages in 2003. The average length of all PRSPs currently stands at over 150 pages.

partners, except in the narrowest sense, as they lack a clear indication of national priorities and policy and program commitments.

119. **One response to this problem would be a significant streamlining of the PRSP into a summary strategic statement, but this is inconsistent with the basic tenets of the PRSP approach.** A summary document would lack the value of a more detailed document in providing specificity with respect to the underlying diagnostics, the corresponding policy and program commitments, budget implications, goals and indicators, and proposed implementation and monitoring arrangements. More importantly, country ownership implies that countries should continue to choose the nature and extent of detail in their own PRSP. Another general lesson from PRSP experience is that unless the PRSP itself reflects participants' views and indicates that the government is listening and responsive, stakeholders are likely to become frustrated and critical of the PRSP process.

120. **Effort should be placed on addressing the underlying difficulties that countries face in improving the focus and emphasis of their PRSPs.** The Fund and Bank have a crucial role to play in helping countries address constraints and improve prioritization over time through building capacity, as well as facilitating progress in donor alignment. In particular:

- Governments should be encouraged to clarify the 'rules of the game' for the participatory process, especially how demands for public actions and new spending will be handled. While the priorities and corresponding policy choices will evolve in the context of PRSP development, it is important for the government to be clear about what is achievable in the near term by clarifying the overall macroeconomic, resource, and other constraints once these become known.
- 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. PRSP champions within government play a very useful role, but this should not be at the expense of creating PRSP enclaves isolated from the budget process or implementing agencies.
- Development partners can help countries overcome capacity and technical constraints. This assistance should extend beyond the national PRSP team to strengthen the technical skills and institutional arrangements in relevant line agencies, and also in nongovernmental stakeholder organizations so that they understand the constraints and trade-offs. Efforts to improve program costing are especially critical, but need to be built into longer term programs of improving PEM and tackling the underlying data quality and classification constraints. This points to the ongoing importance of efforts by the Bank and Fund to improve PEM through lending operations, technical assistance, and economic and sector work (ESW).
- Finally, but not least, development partners (including the Bank and Fund), need to support and respect country priorities and sequencing in their own advice and

assistance strategies. Prioritization requires hard choices and selectivity on the part of development partners as well as governments. In particular, development partners need to take the PRSP policy matrices seriously by working towards a single policy framework that is developed by government and shared by its development partners, rather than having several different policy matrices that overlap.

### **Facilitating PSIA**

**121. While low-income countries are expected to carry out and integrate PSIA into the choice and design of their poverty reduction strategies, there are a number of challenges** related to data, analytical, and institutional capacity constraints, which presently limit the scope for such analysis. Bank and Fund efforts need to focus on strengthening national capacity so that PSIA can more routinely be done in-country, and on providing direct analytical support in the near term. Mainstreaming PSIA in policy formulation will necessarily be gradual given time, human resources, and financial constraints.

**122. In a number of countries, bilateral agencies have taken a leading role in advising governments on the poverty impacts of proposed actions. The Bank is the lead agency for PSIA among the Bretton Woods Institutions.** It has, over the past year, pursued several fronts to promote and strengthen PSIA. First, a *User's Guide for PSIA* has been published, which draws on economic and social tools and is adaptable to different reform issues and degrees of country capacity.<sup>65</sup> Second, the Bank has prepared detailed guidance on social and economic tools.<sup>66</sup> The Bank is also codifying and disseminating examples of good practice in PSIA.<sup>67</sup> However, it is important that in all cases where PSIA is undertaken, its findings are used effectively to inform program design and policy advice provided by the Bank/Fund staff and other development partners.

**123. The Bank is also engaged in ensuring that PSIA is carried out on key reforms under IDA-supported lending operations that are likely to have large distributional impacts.** The priority areas for PSIA for the Bank are expected to be identified in the Country Assistance Strategies (CASs), and the results of the analysis to be presented in ESW (including as core elements of poverty assessments), in loan or credit documentation, or as self-standing studies. The Bank has correspondingly expanded the country coverage of PSIA, and is currently directly supporting, or preparing to support, PSIA in over 40 low-income

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<sup>65</sup> The User's Guide and comments received are posted on <http://www.worldbank.org/psia>.

<sup>66</sup> These tools are presented in the annex to the User's Guide. Details on selected economic tools are available in Bourguignon and Ferreira (2003).

<sup>67</sup> A technical workshop in October 2002 discussed the early experience of World Bank and DfID-sponsored pilots, highlighting the fact that the PSIA of key reforms is generally feasible in low-income countries and contributes towards a more informed dialogue on alternative policies, although the analysis could be both time- and resource-intensive, civil society needs to be involved more fully. See <http://www.worldbank.org/psia>.

countries, half of which are in Africa.<sup>68</sup> The reforms analyzed vary and include reforms of public utilities, land, agriculture, and trade, as well as fiscal reforms.

124. **For their part, Fund staff is expected to provide support in the Fund's areas of core competency, and incorporate available PSIA into PRGF program design**, including countervailing measures where appropriate. 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.

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

125. **Macroeconomic policies and projections provide the central framework within which countries can formulate policies and measures in a consistent and integrated way.** Such frameworks permits stakeholders to see and think through the implications of a set of policies on the entire economy, and provide a frame of reference for an informed national dialogue in which macroeconomic trade-offs and policy choices can be considered. As such, it is important that discussions on the macroeconomic framework play a central and early role in the participatory processes underpinning countries' PRSPs.

126. **There are only a few cases emerging where macroeconomic issues have been included in participatory discussions.** For example, Mali's macroeconomic, growth and competitiveness working group reported to the broader National Technical Committee in charge of preparing the full PRSP. More commonly, however, rather than involvement in formulation, there tends to be an emphasis on participatory monitoring of macroeconomic developments (e.g., Ghana and Malawi). These limitations are partly an issue of country capacity: deepening and widening of skills is necessary to strengthen ownership of macroeconomic frameworks. More generally, there has been limited progress in the set of recent full PRSPs and PRSP-PRs in opening the public debate to include a discussion of the macroeconomic framework. This reinforces the earlier criticisms from civil society groups and other observers that tough policy choices and trade-offs are routinely considered only between ministry of finance and central bank officials, and Fund staff during discussions regarding the PRGF-supported program, rather than in the PRSP participatory process.<sup>69</sup>

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<sup>68</sup> These include Albania, Azerbaijan, Bangladesh, Benin, Bolivia, Burkina Faso, Cambodia, Cameroon, Chad, Democratic Republic of Congo, Cote d'Ivoire, Djibouti, Dominica, Ethiopia, Georgia, Ghana, Guyana, Honduras, Indonesia, Iran, Kyrgyz Republic, Lao PDR, Lesotho, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sri Lanka, Tajikistan, Uganda, Vietnam, Yemen, and Zambia.

<sup>69</sup> See, for example, McGee (2002); Stewart and Wang (2003); and Oxfam (forthcoming). Also, the recent Nordic Aid (2003) review reported that macroeconomic consultation tended to be restricted to "a limited segment of government" and the Fund's macroeconomic policy discussions did not extend beyond government (e.g., Bolivia and Zambia).



127. **Governments need to take the initiative in mainstreaming the discussions of macroeconomic frameworks and policies in the participatory processes.** The national budget process underlines all program discussions and, given the Fund's institutional mandate, Fund staff's principal line of communication remains with the member government. Consistent with the PRSP as a country-owned process, the government should bring any ongoing dialogue into the public domain and ensure that the discussion of the macroeconomic framework 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, discussions about macroeconomic policy choices and tradeoffs can be expected to include all parties in the context of the broader PRSP dialogue.

128. **Governments need to provide an explicit forum for macroeconomic dialogue in the context of the PRSP process.** One means for bringing the macroeconomic dialogue into the participatory process would be to include a working group on macroeconomic issues as part of the set of technical committees that countries establish to inform the development of the PRSP. The Fund Resident Representative could be invited to become a member of such a group or other modalities established by individual governments, and engage in an informed public discussion on the issues under consideration. In this context, the emphasis would be on providing support through the analysis and explanation of the implications of different macroeconomic choices. Such assistance is a key part of the package to help countries build the institutional and technical capacity to develop macroeconomic frameworks in PRSPs that are consistent with the resource and capacity constraints and are yet appropriately ambitious.

129. **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.** The Fund needs to remain aware of all important steps in the design and evolution of the macroeconomic frameworks contained in PRSPs, on which PRGF programs are to be based—early and ongoing engagement is crucial in this regard. Such engagement would also help clarify the reasons for, and developments behind, the decisions that governments take in the context of implementing their Fund-supported programs.

130. **Beyond this, the Fund's macroeconomic dialogue and support should continue along existing lines.** In a country-specific context, Article IV consultations and other missions will engage with other stakeholders in similar fashion to non-PRSP countries (including meeting with parliamentarians, civil society, labor groups or private sector representatives).<sup>70</sup> Moreover, the nature and outcomes of this dialogue are being given increased attention in mission planning and reporting. In a broader context, the Fund will continue to support countries' capacity-building efforts through: IMF Institute courses and

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<sup>70</sup> See <http://www.imf.org/external/np/sec/pn/2003/pn0333.htm> and <http://www.imf.org/external/np/exr/docs/2003/021303.htm>.

workshops (such as the April 2003 technical workshop on “Macroeconomic Analytical Issues in Taking the PRSP Approach Forward”); the provision of technical assistance (including through the Fund’s regional technical assistance centers);<sup>71</sup> and assessing compliance with, or basing advice on, various standards and codes.<sup>72</sup> The Fund continues to play a leading role in taking the macroeconomic analytical agenda associated with the PRSP approach forward—research projects are ongoing 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.

### C. World Bank Alignment

131. **The PRSP approach has broad implications for IDA’s work in low-income countries.** For example, the development of indicators to be used for tracking IDA results has been closely tied to how the PRSP approach is unfolding at the country level.<sup>73</sup> The focus here is limited to the critical aspects of alignment that were recognized in the March 2002 Joint Review—viz. support for capacity building and analytical work, the alignment of CASs, and PRSCs.

#### *Capacity Building and the Analytical Agenda*

132. **The Bank’s capacity building activities at the country level are focusing on strengthening the skills of stakeholders to implement, monitor, and evaluate PRSPs,** including such areas as fiscal management and community empowerment. World Bank Institute (WBI), through the Attacking Poverty and other programs, and the networks provide an extensive range of support to governments and CSOs in PRSP countries on these and other themes, with WBI delivering the majority of these activities in collaboration with local partners.

133. **Extensive efforts have been made over the past year to increase awareness of PRSP good practices for both staff and clients, as well as development partners.** Approximately 30,000 copies of the ‘good practices’ pamphlet designed to disseminate the findings of the March 2002 Joint Review, and translated into four languages, have been

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<sup>71</sup> The IMF’s two recently established African Regional Technical Assistance Centers (AFRITACs) are in Dar es Salaam, Tanzania, and Bamako, Mali.

<sup>72</sup> Fund and Bank staff prepare Reports on the Observance of Standards and Codes that assess countries’ against benchmarks of internationally recognized good practice in three broad areas: transparency (e.g., the GDDS (see footnote 20), the Code of Good Practices in Fiscal Transparency and the Code of Good Practices in Monetary and Financial Policies); financial sector standards; and market integrity standards. ROSCs covering the financial sector, and monetary and financial policy are usually done within the framework of the Financial Sector Assessment Program. See <http://www.imf.org/external/np/exr/facts/sc.htm>.

<sup>73</sup> See World Bank (2003d).

distributed on request to PRSP teams, development partners, and civil society, and a revised PRS Sourcebook was published. Regional learning events were held in Latin America and hosted jointly with other partners in the Balkans and Central Asia. Staff training has included three offerings of a core PRSP course, offerings by various Bank networks, and a number of activities related to pro-poor growth, monitoring, and events targeted at sectoral staff. WBI also has an ongoing program for senior staff of 10 bilateral donors to enhance their ability to support the PRSP process.

134. **Country take-up from the PRSTF, financed by the Netherlands and Japan, and managed jointly by the Bank with the UNDP, has accelerated:** 15 countries have received support from the trust fund with another ten applications in the immediate pipeline.<sup>74</sup> Take up has been particularly high from countries in both the ECA and Middle East and North Africa regions, as well as from Africa. The activities supported so far vary considerably, from poverty monitoring to PEM, which is consistent with the trust fund's objectives of providing flexible support from the early stages of PRSP development through to activities associated with implementation. A high proportion of grants are used to fund local as opposed to international consultants. Recent reviews of experience suggests that the devolution of PRSTF management to the country level has enhanced coordination between the World Bank, the UN, and the contributing donors.

135. **The PRSP approach has revealed substantial needs for diagnostic and analytical work, and while the most urgent gaps are typically filled in the run-up to a full PRSP, a continuing program of relevant work is often needed to strengthen understanding in key areas over time.** Part of this agenda relates to PSIA, but it extends further, to work on public expenditures, especially in the area of developing sectoral programs and moving towards program budgets, sources of growth, investment climate assessments, service delivery, advice on further prioritization of the PRSP, and so on. This work is being undertaken at the country level, by government agencies, think tanks, and NGOs, often with the support of partners.

136. **IDA's program of ESW and analytical and advisory services is playing a key role on this front, with an expanding country coverage and depth over the past year.** Between FY01 and March 2003, analytic work completed for IDA countries includes 28 financial accountability assessments, 24 procurement assessments, 28 PERs, and six investment climate assessments, with an increasing share in Africa. All the new CASs to support PRSP implementation have discussed the status and plans regarding core ESW,<sup>75</sup> as well as filling broader knowledge gaps identified in the PRSP/JSA. At the time of Board presentation, 70 percent of the CASs prepared in support of PRSPs had two or three pieces of

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<sup>74</sup> <http://www.worldbank.org/poverty/strategies/prstf/trustfund.htm>.

<sup>75</sup> Poverty Assessment (PA), Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report, and Country Economic Memorandum/Development Policy Review (CEM/DPR).

core ESW in place, although only three cases— Albania, Azerbaijan, and Vietnam—had all five pieces of core ESW in place at the time of the CAS.

137. **It is important that the timing and also the mode of carrying out ESW lends itself to the PRSP.** There are several good practice cases building on earlier experiences like Zambia's public expenditure work in 2001/2 (see Box 8). Another example is the cycle of annual PERs in Chad, Ethiopia, Tanzania, Uganda, and Zambia, which have been used to inform the national PRSP-PRs.

138. **The specific content areas covered in ESW are informed by the needs and priorities faced at the country level.** For example, ongoing work on Bolivia's Poverty Assessment is focused on sources and patterns of growth, consistent with the government's priorities for the PRSP. A recent Poverty Assessment in Bosnia and Herzegovina was undertaken in very close coordination with the PRS process and all the diagnostics were used as an input into the PRSP. Some recent PERs have also tackled the issue of how to strengthen the links between the PRSP and the budget—for example, Cambodia's Integrated Fiduciary Assessment and Public Expenditure Review, and Bolivia's PER, while Zambia's recent PER deals directly with the PRSP's key objective of improving administrative governance. These issues are also being tackled in a regional study of budgets and PRSPs in ECA. Work on the investment climate in Ethiopia is being used to flesh out and prioritize the agenda for PSD that was set out in the PRSP, while the Senegal CEM addresses some of the key issues picked up in the PRSP such as constraints to wealth creation and assistance for vulnerable groups. Ongoing work on pro-poor growth will buttress the PRSP agenda more generally, as well as provide useful background in particular country cases (see Box 9).

### **Box 8. Poverty Assessments and their Links to PRSP Preparation and Monitoring in Kyrgyz Republic and Nicaragua<sup>1</sup>**

The process for the recent Kyrgyz Republic Poverty Assessment (2003) was inclusive, with joint report-writing by government officials and Bank staff, and complemented by local capacity-building measures, via the training of officials and independent Kyrgyz Republic researchers in poverty analysis. Joint Bank-Kyrgyz Republic poverty diagnostics were presented at a workshop for all National Poverty Reduction Strategy (NPRS) Working Groups at the CDF/NPRS Secretariat, and subsequently to the Consultative Group meeting of donors in Bishkek in October 2002, and the findings were important for shaping donor programs and commitments to supporting Kyrgyz Republic policy reforms. Dissemination of the report in Bishkek generated significant interest from the media, civil society, and NPRS working groups.

The Nicaraguan PRSP, building on a 2001 World Bank Poverty Assessment, used an MDG framework for selecting goals and targets. The 2003 Nicaragua Poverty Assessment provided support to the government in monitoring progress in PRSP implementation as well as prospects for reaching the MDGs. Analysis of country-specific determinants of MDG outcomes helped to identify key strategies and future operational interventions. The analysis revealed that nearly half of the ten PRSP targets were not on track and needed additional efforts, and that progress measured by intermediate indicators was mixed. IDA's analysis showed that continued progress toward the MDGs and PRSP goals to be closely linked to the recovery of growth in Nicaragua.

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<sup>1/</sup> See World Bank (2003a and 2003b).

### **Box 9. The World Bank's Analytical Work Program on Pro-Poor Growth**

A new program of work on pro-poor growth will complement a well-established program in the research department, and operational work at the country level, and seek to respond to questions about how to increase the impact of growth on the poor and whether or not policies that aim to do so reinforce or undermine the growth process. The goal is not to provide a specific policy framework for pro-poor growth, but rather to propose a common methodology for designing and measuring pro-poor growth; develop an analytical approach for designing pro-poor growth strategies that combines growth and distributional policies; and provide operational guidance on key macro, sectoral, and thematic policies and how they relate to poverty and growth, as well as how country context and initial conditions might inform the selection and prioritization of such policies.

The work program will combine several different analytical methods, including *country case studies* which will build on an international benchmarking exercise to provide a clear story behind the growth and poverty outcomes over the past 20 years. New work is also being initiated to deepen understanding about sources of growth and, in particular, the role of labor markets.

### ***Country Assistance Strategies***

**139. A review of the 20 CASs prepared in support of countries' PRSPs as of end-FY03 finds that CASs are increasingly aligned with PRSPs in terms of vision, diagnosis,**

**program, and results.**<sup>76</sup> Many of the challenges for alignment identified in the last PRSP progress report have been met by the 16 CASs in FY03. Specifically, the recent CASs generally have done a better job of explaining when and why IDA's program of assistance is more specific or chooses not to support certain PRSP objectives. CASs discuss how support from other development partners complements Bank assistance, and base case programs of support are linked to satisfactory PRSP implementation. Recent CASs have adopted key PRSP monitoring indicators as CAS program indicators, and have laid out plans of ESW to fill analytical gaps. The design of CAS programs is also drawing on feedback received during the PRSP participatory process (as in Nicaragua, for example).

140. **Results-based CASs are being piloted for several countries to better link selected country outcomes articulated in the PRSP to IDA programming.** The goal is to trace the causal relationships between IDA-supported activities and development results more explicitly, and to evaluate progress more systematically. Five pilots are underway in FY04, and results-based CASs will be mainstreamed for all IDA countries following the normal CAS cycle.

141. **However, challenges remain.** 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 issues, and strengthening of donor coordination and greater selectivity is also needed. While CASs are oriented toward the MDGs, the extent to which countries' PRSPs relate to the MDGs varies across countries. Finally, activities to strengthen country capacity for PRSP implementation—including monitoring and evaluation—now regularly figure into CAS programs, but capacity building will remain a challenge for the foreseeable future.

142. **Each of the CASs discusses the country's own vision, summarizing the PRSP's strategic objectives and its pillars,** namely, the range of structural, social, institutional, macroeconomic, and other policies aimed at addressing PRSP objectives, and how PRSPs relate to the MDGs. Since September 2000, all IDA CASs have dealt with the MDGs, and depending on the extent to which countries' PRSPs relate to them, include tables setting out specific PRSP targets and their relationship to MDGs and summaries of a country's status vis-à-vis certain MDGs (e.g., Honduras CAS). The Ethiopia CAS explains the PRSP's overarching objective, its four pillars, main cross-cutting themes, and how the PRSP targets for the medium- and long-term relate to the MDGs, along with the obstacles and IDA's strategy to help Ethiopia meet these goals.

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<sup>76</sup> Since July 2002, CASs in IDA-only eligible borrowers have been presented only after the country has prepared its first full PRSP.

143. **The CAS's diagnosis of the country situation—including policies and institutions—is expected to candidly reflect on the PRSP, based on the JSA, and all CASs have included a summary of the JSA's view on PRSP strengths and weaknesses.** In cases where the Bank's program includes significant reforms that are not underscored in the PRSP, the CAS should highlight such divergences, explain the rationale for their inclusion in the CAS, and discuss how differences will be resolved with the government. Although CASs to date have not significantly diverged from PRSPs, CASs supporting PRSPs are doing a better job of explaining when the program of assistance is more specific or chooses not to support certain PRSP objectives. For example, the Tajikistan CAS, while in line with PRSP objectives, explains its rationale for a limited focus based on the particularly difficult local environment.

144. **Each of the recent CASs discusses how its program supports PRSP objectives,** including activities aimed at capacity building for PRSP implementation. Each also includes a section on donor partner activities indicating, in most cases, that the CAS program is selective based on the Bank's comparative advantage. The Rwanda CAS, for example, notes the government's central role in coordinating donors and its implications. The Honduras and Nicaragua CASs were prepared in close coordination with IDB.

145. **CASs reflect selectivity in one or more ways**—by supporting some, but not all, of the PRSP's pillars; by focusing on certain sub-sectors or priorities based on the Bank's comparative advantage vis-à-vis other donors; and by limiting the number of operations in the program. However, reflecting many PRSPs' need to improve prioritization, CAS programs would also benefit from further prioritization. Good practice examples include the Niger CAS, which concentrates on key areas covered by the PRSP, but provides support only to a subset of activities, and the Yemen CAS, which proposed fewer operations than the previous, to enable greater focus on key PRSP sectors based on the Bank's comparative advantage.

146. **All of the CASs defining a base case scenario include satisfactory PRSP implementation as a trigger.** Albania's base case triggers are linked to satisfactory progress in implementing the PRSP reform agenda, including addressing key findings of an investment study, satisfactory implementation of the Anti-Corruption Plan, and agreement and satisfactory implementation of a monitoring plan, including completion of the 2002 household survey. Among the triggers for maintaining the base case scenario in the Sri Lanka CAS is satisfactory implementation of the PRSP's economic reforms, including improved functioning of factor markets, improved targeting of welfare programs as measured by the share of benefits going to the poor, and improved rural incentives as measured by the number of titles issued to farmers.

147. **All of the CASs prepared in support of PRSPs outline a performance monitoring framework that links CAS program indicators and benchmarks to PRSP objectives,** which is outlined in 80 percent of CASs in a table in the main text. However, the degree to which clear linkages are made and are aligned with PRSP priorities varies. Such frameworks set out qualitative and quantitative CAS indicators linked to PRSP targets, usually identifying

which CAS program instrument will contribute to achieving the benchmark. For example, the Azerbaijan CAS adopts the PRSP objective of facilitating an enabling environment for growth, which is linked to the CAS goal of generating jobs and sustainable non-oil sector growth, and associated indicators include the volume of credit to the private sector, access to financial services outside the capital, and an increase in SME sector employment.

148. **CASs are not able to quantify indicators in all PRSP areas.** The key challenges echo those reviewed in Section III.F-G. These include the lack of baseline data, weak monitoring systems, too many or unclear indicators, and difficulties in measuring progress in key areas like private sector, informal sector development, and governance. To address this concern, which is often cited in JSAs, about 80 percent of CASs supporting PRSPs include specific support for PRSP monitoring and evaluation and statistical capacity building (e.g., through the Trust Fund for Statistical Capacity Building). IDA and other development partners are providing various support in this area—for example, to Malawi’s master plan for statistical capacity, and a focus on results in Senegal’s health sector, where the CAS adopts the PRSP’s targets for reducing morbidity due to malaria as its own.

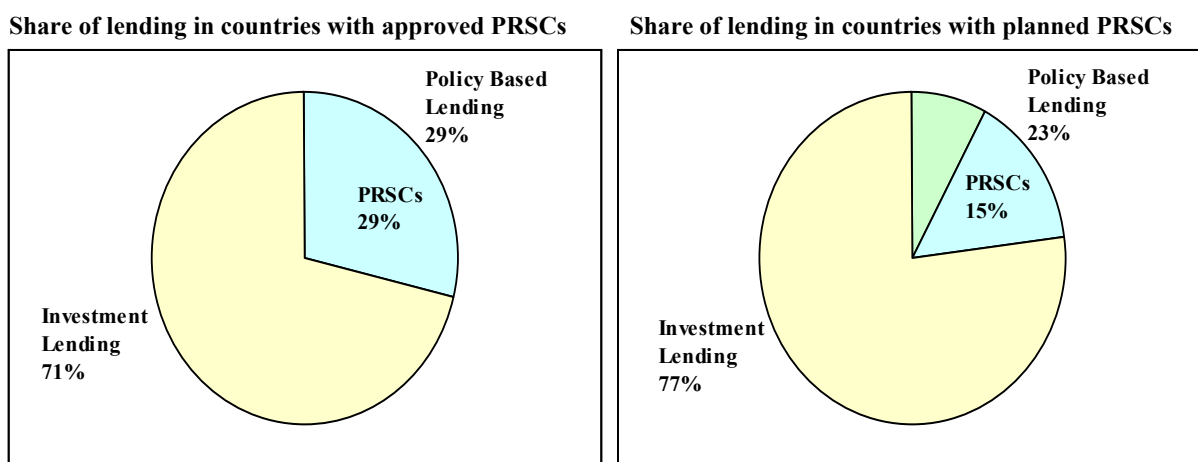
149. **Given the substantial capacity needs to implement PRSPs, which are noted in the respective JSAs, CAS programs are including a range of activities in this area, often with WBI.** The Ethiopia CAS includes a series of operations aimed at building institutional capacity in the public and private sectors. Likewise, the Albania CAS includes support for institutional strengthening and monitoring and evaluation, and describes activities aimed at building the capacity of parliament for engagement in the PRSP process.

### ***Poverty Reduction Support Credits***

150. **All CASs discuss the move toward PRSCs, including how the CAS program is laying 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. PRSCs constitute 100 percent of planned policy-based lending (i.e., PRSCs and other adjustment operations) for the six countries in which they are supporting PRSP implementation, and an average of 29 percent of the planned total lending program. A total of eleven PRSCs have been approved through the end of FY03, three of which are second phase operations, with third phase operations for Burkina Faso and Uganda expected early in FY04. In the 14 other CASs prepared in support of PRSPs, PRSCs are expected to account for an average of 65 percent of policy-based lending, and 15 percent of the total planned lending programs over the CAS periods (see Figure 4).



**Figure 4. Planned Lending Programs in CASs Supporting PRSPs**



151. **Preparatory work is underway to enable PRSCs to become an important vehicle of IDA support to low-income countries with strong programs.** Core diagnostic ESW and capacity building activities are underway in the cases of Kyrgyz Republic and Senegal to lay the foundation for PRSCs and, in support of completed core diagnostic ESW, capacity building activities are being implemented in Azerbaijan. In other cases, traditional adjustment lending will be used during the transition to PRSCs: Guinea, Nicaragua, and Niger CASs propose a more gradual transition to programmatic approaches, with PRSP implementation initially supported through adjustment operations aimed at improving fiduciary/PEM and governance—along with core diagnostic ESW—to lay the foundations for PRSCs.

**Box 10. Learning in PRSCs: the Case of Burkina Faso**

The Burkina Faso PRSC, which became the first PRSC series to reach its third stage, provides lessons both about early accomplishments and ongoing challenges. Among the key achievements, which can also be seen in the case of Uganda, are (i) solidified government ownership, because the PRSC has focused on the government’s budget and its MTEF to implement the PRSP; (ii) support to priority spending in the social sectors and PEM; and (iii) support to major cross-cutting reforms needed to improve social service delivery and the investment climate.

There are nonetheless several challenges going forward, including the need to improve sectoral dialogue, in particular in the health sector where there was no specific investment operation (except for the multi-sectoral HIV/AIDS project), which is now being addressed by health sector staff advancing the dialogue through discussions about the design of program budgets. More generally, government capacity to formulate and execute programs remains weak. This is being addressed jointly by the Bank and other agencies through a PER designed to improve budget processes; a project to strengthen civil service management; and statistical capacity building efforts.

Aligning support with the budget cycle remains a challenge. The time necessary for policy implementation and government credit approval has hampered this alignment. Disbursements came toward the end of the budget year, rather than at the beginning when the government had cash shortages that delayed investment spending. Future operations will have to follow a different calendar than past operations.

#### **D. Operational and Procedural Issues**

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

153. **Several I-PRSPs have been prepared by IDA-blend or non-PRGF eligible countries. In these cases, preparation of a JSA and formal Board consideration is not needed,** and the practice has been to continue to post I-PRSPs on the Bank and Fund external websites, and for the relevant Executive Director to circulate the I-PRSP to the Boards for information only. It nevertheless remains appropriate for the staffs, in the context of their regular dialogue with country authorities, to provide feedback on the I-PRSP. If subsequently a PRSP is needed for a lending decision, the Boards would consider, depending on how much time has elapsed, either the I-PRSP or a Preparation Status Report, or the full PRSP, with the accompanying JSA. 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, but typically on a lapse-of-time basis in the institution where no financial assistance is contemplated at the time, in keeping with the principle of joint consideration for concessional lending by one or the other institution.

154. **Regardless of the timing of operational Board discussions,<sup>77</sup> it is proposed that full PRSPs (and JSAs) would normally be considered by the Boards within three months<sup>78</sup> of their official transmission to the Bank/Fund.** Either institution could seek a delay in preparing the JSA and scheduling Board discussions of the PRSP/JSA, but not beyond four months of receiving the document. Too long a delay risks making material outdated and loss of national momentum, as was evident in a number of cases during 2002.<sup>79</sup> Consistent with their need for timely consideration, the practice has been to post full PRSPs on the Bank/Fund's external websites (and notify the Boards) upon formal receipt. Annual PRSP-PRs should be treated similarly in terms of both Board consideration and publication. Normally, in cases where no lending decision is expected within three months of the annual anniversary of the PRSP (or previous PRSP-PR), the authorities would still be expected to prepare and transmit a PRSP-PR, and the staffs should prepare a JSA.

155. **The original operational issues paper<sup>80</sup> spelled out that Board consideration of an I-PRSP, preparation status report, PRSP or PRSP-PR within the preceding twelve**

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<sup>77</sup> Typically this will be because the timing of receipt of a full PRSP does not coincide with the existing schedule of program reviews and Board meetings. It is also likely that cases will emerge where there is currently no operational need, in which event the appropriateness of this operational practice may need to be reconsidered.

<sup>78</sup> This is considered to be a reasonable time limit within which the accompanying JSA could be prepared.

<sup>79</sup> See IMF and World Bank (2002d), paragraph 61 and Table 2.

<sup>80</sup> See IMF and World Bank (1999).

**months is normally required for approval of a new PRGF arrangement or completion of reviews.** However, experience has shown that a strict interpretation of this ‘rule’ is not always practical and can distort incentives around the one year mark. For example, even where a full PRSP is only one or two months away from completion, a strict application of the policy would necessitate a separate PRSP preparation status report. It is also possible that aligning the PRSP process with national processes (in particular the budget cycle) may result in the annual progress report not being available according to this ‘rule.’ **Some limited flexibility around the twelve months is, therefore, desirable provided that the spirit of the policy is met, and that the delay until the government’s document is finalized will only be minor (not expected to exceed three months).**<sup>81</sup> However, a PRSP document would be needed for the subsequent concessional lending decision by the Boards.

156. The final operational issue relates to the need to promote awareness of the role and value of PRSP-PRs as a tool to operationalize and reorient strategies, in particular through the link to the annual budget cycle, although the capacity of each country to deliver fully fledged reports each year will vary. **Countries with active programs should be encouraged to present their progress reports as far as possible on an annual basis, together with IDA operations and any other decisions of the Board(s).** As noted above, continued PRSP implementation, as reflected in a satisfactory PRSP-PR, has been defined in all the recent CASs as a benchmark for the base case. This would be evidenced by a JSA for a PRSP-PR, which would typically be considered in the context of major lending operations and CAS progress reports for the country.

## V. CONCLUSION

157. 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.

158. 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 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.

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<sup>81</sup> This built-in flexibility was exercised recently in the case of Niger.

159. A series of critical challenges face low-income countries and the international community if the PRSP approach is to deliver on its promises. Efforts need to focus, in particular, on the following:

- Broadening and deepening participation, especially as PRSPs enter the implementation phase. Participatory processes must not, however, undermine democratic institutions and the important role of the legislature in the PRSP process needs to be reinforced;
- Bringing about improvements in public expenditure management and budgetary frameworks. This is essential both for PRSP implementation and to enable donor alignment. Effective capacity building efforts to manage aid by countries are crucial in this respect.
- Addressing prioritization and improving focus. This is important if PRSPs, while starting realistically from existing capacity and financial constraints, are to set out credible policies and financing requirements that over the longer term can alleviate existing constraints and lead to more ambitious outcomes, including the MDGs;
- Strengthening the analytical underpinnings, developing more realistic macroeconomic projections, and assessing key poverty and social impacts of PRSP policies. Efforts to look more closely at sources of growth and the trade agenda are also important in this respect.

160. 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 and provide adequate resources. Countries are encouraged to develop ways to illustrate the potential impact of improved policies, resource availability, and aid modalities on low-income countries' efforts towards meeting the MDGs, including through the use of alternative scenarios where appropriate.

161. 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 poverty and social impact analysis. The next progress report in September 2004 will review efforts by the Bank and the Fund to align their assistance and enable countries to successfully implement their PRSPs.

**ANNEX TABLE I. COMPLETED I-PRSPs, PREPARATION STATUS REPORTS,  
FULL PRSPs AND PRSP PROGRESS REPORTS  
(as of mid-July 2003)**

<i>7/18/2003</i>	<i>I-PRSP</i>	<i>PRSP-PSR</i>	<i>Full PRSP</i>		<i>PRSP-PR1</i>	<i>PRSP-PR2</i>
Country	Finalized	Finalized	Finalized	Supplement	Finalized	Finalized
Average						
Albania	May-00	-	Nov-01	May-02	May-03	-
Armenia, Republic of	Mar-01	Sep-02	-	-	-	-
Azerbaijan	May-01	-	Apr-03	-	-	-
Bangladesh	Mar-03	-	-	-	-	-
Benin	Jun-00	Oct-01	Dec-02	-	-	-
Bolivia	Jan-00	-	Mar-01	-	-	-
Bosnia-Herzegovina	Oct-02	-	-	-	-	-
Burkina Faso	-	-	May-00	-	Sep-01	Sep-02
Cambodia	Oct-00	Dec-01	Dec-02	-	-	-
Cameroon	Aug-00	Dec-01	Apr-03	-	-	-
Cape Verde	Jan-02	Apr-03	-	-	-	-
Central African Republic	Dec-00	-	-	-	-	-
Chad	Jul-00	Nov-01	Jun-03	-	-	-
Congo, Dem. Republic of	Mar-02	Jun-03	-	-	-	-
Cote d'Ivoire	Jan-02	-	-	-	-	-
Djibouti	Jun-01	Dec-02	-	-	-	-
Ethiopia	Nov-00	-	Jul-02	-	-	-
Gambia, The	Oct-00	Nov-01	Apr-02	-	-	-
Georgia	Nov-00	May-02	-	-	-	-
Ghana	Jun-00	Feb-02	Feb-03	-	-	-
Guinea	Oct-00	-	Jan-02	Jul-02	-	-
Guinea Bissau	Sep-00	-	-	-	-	-
Guyana	Oct-00	-	Nov-01	Apr-02	-	-
Honduras	Apr-00	-	Aug-01	-	-	-
Indonesia	Mar-03	-	-	-	-	-
Kenya	Jul-00	-	-	-	-	-
Kyrgyz Republic	Jun-01	-	Dec-02	-	-	-
Lao PDR	Mar-01	May-02	-	-	-	-
Lesotho	Dec-00	Jan-02/Dec-02	-	-	-	-
Macedonia FYR	Nov-00	-	-	-	-	-
Madagascar	Nov-00	Nov-02	-	-	-	-
Malawi	Aug-00	-	Apr-02	Jul-02	-	-
Mali	Jul-00	Nov-01	May-02	-	-	-
Mauritania	-	-	Dec-00	-	Mar-02	Jun-03
Moldova	Nov-00	Apr-02	-	-	-	-
Mongolia	Jun-01	-	Jul-03	-	-	-
Mozambique, Republic of	Feb-00	-	Apr-01	-	Feb-03	-
Nepal	-	-	May-03	-	-	-
Nicaragua	Aug-00	-	Jul-01	-	Nov-02	-
Niger	Oct-00	-	Jan-02	-	-	-
Pakistan	Nov-01	Jan-03	-	-	-	-
Rwanda	Nov-00	-	Jun-02	-	-	-
Sao Tome & Principe	Apr-00	-	-	-	-	-
Senegal	May-00	Dec-01	May-02	Dec-02	-	-
Serbia & Montenegro	Jun-02	-	-	-	-	-
Sierra Leone	Jun-01	Feb-03	-	-	-	-
Sri Lanka	-	-	Dec-02	-	-	-
Tajikistan, Republic of	Mar-00	-	Jun-02	-	-	-
Tanzania	Mar-00	-	Oct-00	-	Aug-01	Mar-03
Uganda	-	-	Mar-00	-	Mar-01	Mar-02
Vietnam	Mar-01	-	May-02	-	-	-
Yemen	Dec-00	-	May-02	-	-	-
Zambia	Jul-00	Sep-01	Mar-02	-	-	-

**ANNEX TABLE II. CASS PREPARED IN SUPPORT OF PRSPs**

<b>Country</b>	<b>Bank Board Discussion of PRSP</b>	<b>Bank Board Discussion Of CAS</b>
Uganda	May 2, 2000	November 16, 2000
Burkina Faso	June 30, 2000	November 30, 2000
Mauritania	February 6, 2001	June 18, 2002
Nicaragua	September 25, 2001	March 13, 2003
Honduras	October 11, 2001	June 24, 2003
Niger	February 7, 2002	January 14, 2003
Albania	June 20, 2002	June 20, 2002
Vietnam	July 2, 2002	September 3, 2002
The Gambia	July 18, 2002	March 6, 2003
Guinea	July 25, 2002	June 3, 2003
Yemen	August 1, 2002	September 5, 2002
Rwanda	August 8, 2002	December 5, 2002
Malawi	August 29, 2002	June 10, 2003
Guyana	September 19, 2002	September 19, 2002
Ethiopia	September 19, 2002	April 17, 2003
Tajikistan	December 5, 2002	February 27, 2003
Senegal	December 23, 2002	April 17, 2003
Kyrgyz Republic	February 27, 2003	May 15, 2003
Sri Lanka	April 1, 2003	April 1, 2003
Azerbaijan	May 27, 2003	May 27, 2003

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