



Review of the PRSP Experience

An Issues Paper for the January 2002 Conference

January 7, 2002

This paper has been prepared by Bank-Fund staff to help provide a framework for discussion at the International Conference on Poverty Reduction Strategies to be held in Washington, D.C., during January 14-17, 2002. The paper reflects the intended spirit of the conference—an open-minded examination of the PRSP approach to date and a willingness to reflect on current understandings and guidelines with a view to building on the progress that has been achieved and enhancing the development impact of the approach.

Although the paper has been prepared by the staff of the Bank and the Fund, it reflects many of the ideas and issues raised by other stakeholders and partners involved in the PRSP approach. It is important to emphasize that the paper is not a staff assessment of the PRSP approach, but rather a framework for discussing key issues. This paper has not been reviewed by the Executive Directors of the Bank or the Fund.

This paper will be posted to the Bank and Fund external websites on which all related documentation about the PRSP Review and approach and the international conference is available at: <http://www.worldbank.org/poverty/strategies/review/index.htm>.

Following the conference, the Bank-Fund staff will prepare a joint paper for the Boards of the two institutions that will constitute the staff's analysis and recommendations for strengthening the PRSP approach. This issues paper is not a draft of the Board paper.

Executive Summary

This paper has been prepared by the staffs of the Bank and the Fund to provide a framework for discussion during the International Conference on Poverty Reduction Strategies in January, 2002. In this spirit, the paper describes issues that have arisen since the PRSP approach was approved two years ago, but does not put forward any specific recommendations. The discussions and the suggestions made at the conference will serve as important inputs to the Bank-Fund joint staff review of the PRSP Approach which will be submitted to the Executive Directors of the institutions in March 2002.

There is broad agreement among stakeholders that significant progress has been made over the past two years and that the PRSP process does hold promise for improving their efforts at reducing poverty and enhancing the effectiveness of external assistance. It is important to highlight, however, that the PRSP process is a dynamic one and that all actors are learning by doing, and the real challenge is implementation. At the same time, it is widely accepted that the PRSP approach is extremely challenging for countries and their development partners alike due to the difficulties of its objectives, as well as the tensions between them. As a reflection of these challenges, and with a view to enhancing the development impact of the approach, the following issues—ranging from how PRSPs are prepared, to what they contain and how they are used—have been raised and deserve careful consideration:

- Improving the participatory process
- Achieving an appropriate balance between speed and quality of first full PRSPs for HIPC countries
- Adapting to the special circumstances of conflict-affected countries
- Improving poverty diagnostics, targets and indicators, and monitoring and evaluation
- Clarifying the priority public actions in PRSPs
- Improving public expenditure programs and public expenditure management systems
- Improving the integration of PRSPs and other government decision-making processes
- Improving the alignment of donor assistance to PRSPs
- Ensuring the implementation and updating of PRSPs

In considering these issues, it is worth noting that the implementation of the PRSP approach is only in its early stages. Only eight full PRSPs have been completed and there is little evidence yet available on what impact these strategies are having on poverty outcomes. In this regard, it is important to be realistic about what progress can be reasonably expected. In

addressing these issues, it will be necessary to strike the right balance between pushing for more rapid achievement of PRSP objectives and ensuring that the approach is realistic in light of country constraints and the need for the process to be country driven. The general view of Bank and Fund staff is that, given the primary importance of country ownership, applying the PRSP approach continues to require flexibility. This means that both the process and the content of poverty reduction strategies can vary across countries in light of national circumstances and that broad measures that would set more specific or rigid guidelines should be considered with caution.

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Issues Paper for the January 2002 Conference

Part I: Introduction and Background

1. This paper aims to provide a framework for discussion during the International Conference on Poverty Reduction Strategies in January 14-17, 2002. The purpose of the conference is to review the achievements and challenges of the PRSP approach to date and to exchange views among governments, domestic stakeholders, and partners about how the development impact of the approach might be improved. The conference is one of the many sources of information for the review, which includes a series of regional workshops, as well as more than 35 detailed studies and written contributions by national authorities, multilateral agencies, NGOs, and by Bank and Fund staff (see Annex 1 and bibliography). The ideas and proposals generated during the conference, as well as from other contributions, will serve as important inputs to the preparation of a Bank-Fund joint staff review of the PRSP Experience and the IMF staff review of its Poverty Reduction and Growth Facility (PRGF). These reviews will be submitted to the Executive Directors of the institutions in March 2002 and to members of the International Monetary and Finance Committee and the Development Committee during the 2002 Spring Meetings.

The Review of the PRSP Approach: Background

2. In December 1999, the Boards of the IMF and the World Bank (hereafter “the Boards”) approved a new approach to the challenge of reducing poverty in low-income countries based on country-owned poverty reduction strategies that would serve as a framework for development assistance. It was recognized that this “PRSP approach” involved many new challenges and that all participants would need to learn-by-doing. With that in mind, the Boards requested the staffs to undertake a review of the PRSP approach by the end of 2001 which would draw on contributions from member countries, international agencies, other aid providers, and civil society. If the PRSP approach is to achieve its intended purpose as a means to help poor countries and their development partners strengthen the impact of their common efforts toward poverty reduction, then there needs to be a widely shared understanding about how to carry the approach forward.

3. The review of emerging experience will hopefully prove useful in identifying good practices and pointing to ways to improve the PRSP approach. Some caution may, however, be warranted about assessing results and making substantial changes in the approach on the basis of these first two years of experience. The objectives of the PRSP are ambitious and their realization will require years of sustained effort. Poverty reduction is a very difficult challenge, as the past record shows. The implementation of the PRSP approach is only in its early stages, with a limited number of countries that are already well advanced in the PRSP

process. Only 8 countries—Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Nicaragua, Tanzania, and Uganda—have completed full PRSPs, and about a dozen others are well advanced toward that goal. While 41 countries have completed Interim-PRSPs (I-PRSPs), these documents were intended to be prepared rather quickly and to summarize existing policies, and a participatory process for their preparation was encouraged but not required. Therefore, in assessing the experience to date, it is most relevant to focus on the experience with full PRSPs and on the progress in other countries since the preparation of their I-PRSPs. Little evidence is yet available on how well these strategies are being implemented, and what impacts they will have on the poor.

The Purpose and Structure of this Paper

4. The purpose of the paper is to provide a framework for discussion at the conference about priority issues that have been raised by the many stakeholders in the PRSP approach.¹ The paper reflects the intended spirit of the conference—an open-minded examination of the PRSP approach to date. As such, this paper describes issues but does not put forward conclusions or recommendations. During the conference, participants will be invited to comment on the validity of the paper’s description of each of the issues, raise other issues that are not covered in this paper, and present suggestions on ways in which the PRSP approach may be improved with respect to each issue. Intensifying existing efforts, including capacity building in-country, is a key long-term challenge. Suggestions for reform of the approach might involve revising expectations about the information to be included in the PRSP document and/or more specific guidelines on the process or content associated with PRSPs, although there are concerns over the latter approach (see paragraph 13). These suggestions will be taken into consideration when the Bank and Fund staff prepare the joint paper for the Boards of the two institutions.

5. Following a brief discussion in Part II of the objectives, achievements to date, and intrinsic difficulties and constraints of the PRSP approach, Part III of this paper summarizes key issues and poses general questions about how these might be addressed. Although the paper has been prepared by Bank and Fund staff, it draws heavily on the wealth of information and ideas that have been prepared by others about the PRSP process to date. For the sake of brevity, the paper does not present the underlying evidence for its analysis of the issues, which can be found in the background materials and country case studies that have been prepared and made available to the conference. However, citations of the source of many of the ideas in this paper are included as endnotes. The full range of background material and submissions, as well as related aspects of the review, can be found at: <http://www.worldbank.org/poverty/strategies/review/index.htm>.

¹ A number of the issues highlighted in this paper and country views are derived from a series of regional conferences held in the fall of 2001 in Africa, Latin America and the Caribbean, Central Asia, and East Asia. The composition of each of these fora was diverse: for example, in Dakar, while just over half of the 270 participants from PRSP countries were from government agencies, there was active representation from civil society organizations, the private sector, and parliamentarians present, and about 120 participants from donor agencies and multilateral and regional institutions also participated.

Part II: Overall Perspective

Achievements to Date

6. A review of the achievements and challenges during these first two years of implementation of the PRSP approach must be undertaken in light of its multiple objectives—all of which are directed toward the fundamental goal of reducing poverty in countries. These associated objectives are to: ensure country ownership of poverty reduction strategies; develop strategies that take a comprehensive, long-term perspective; focus on results that matter for the poor; and to build stronger partnerships between low-income countries and the international donor community. These goals reflect the principles of the Comprehensive Development Framework (CDF). For the countries eligible for the Enhanced HIPC Initiative, which constitute over half of the countries, pursuing these objectives is intended to ensure that debt relief, and aid more generally, will be provided in the context of a country-owned, poverty-focused strategy. These multiple objectives have also challenged the Bank and Fund to adjust their ways of working. In particular the principles of country ownership and flexibility imply that, rather than setting specific standards on the process and content of PRSPs, guidance has been limited to Bank and Fund staff assessment (or description, in the case of participation) in their Joint Staff Assessment (JSA) which accompanies the country document when it goes to the Boards.² In practice, the individual JSAs as well as the Board discussions to date have highlighted many of the issues that have been raised by other external stakeholders, such as data issues, costing of programs, and monitoring deficiencies, which are outlined below in this paper.

7. There is broad agreement among low-income countries and the donor community that the objectives of the PRSP approach are valid and that the PRSP process does in fact hold promise for improving joint efforts aimed at poverty reduction.¹ This view is common among countries, is held by most donors, and even by those NGO groups which are sharply critical in particular areas. In general, substantial efforts are being made by all stakeholders to make the approach work, and PRSPs are now moving from the design stage to the implementation phase in many countries. More specifically, there seems to be widespread agreement on four points:

- There is a strong sense of ownership among most governments of their poverty reduction strategies. At each of the regional workshops, government representatives, as well as many civil society organizations from diverse settings, voiced their commitment to this process and its objectives.

² The JSA presents a basic judgment about whether or not the strategy presented in the PRSP constitutes a sound basis for concessional assistance from the Fund and the Bank, as well as highlighting what staff see as key strengths and weaknesses in the strategy. A positive judgment does not imply that the staff agree with all of the analysis, targets, or the public actions set forth in the PRSP or that the staff consider the PRSP to present the best possible strategy for the country, since that is for the country to determine.

- In most countries that have completed or are well advanced toward a full PRSP, the participatory processes have created a more open dialogue within governments and with at least some parts of civil society than had previously existed.ⁱⁱ This has been true both in countries with more established traditions of consultation like Uganda and Bolivia, as well as others where this process is still relatively new like Rwanda and Tajikistan. Furthermore, some Civil Society Organizations (CSOs), through the PRSP process, are increasingly mobilized and gaining in capacity to participate in policy debates and in monitoring of PRSP implementation, and favorable “second round” effects may be anticipated.
- Issues related to poverty reduction have taken a more prominent place. In national policy debate, poverty reduction is also being understood more broadly, extending beyond social sector interventions,ⁱⁱⁱ with data collection, analysis, and monitoring becoming more systematic.
- The donor community as a whole has strongly embraced the principles of the PRSP approach, from major UN organizations like UNDP and WHO, to bilaterals, including Canada, Denmark, Germany, The Netherlands, Sweden, and the U.K. Donors are providing technical and financial support to countries in PRSP preparation and have indicated their intention to align their assistance programs to support PRSPs. The prospects are good that PRSPs will lead to stronger partnerships with countries and better donor coordination.

Furthermore, in each of the above four dimensions, there have been improvements as countries have moved from the I-PRSP stage to preparation and implementation of their first full PRSPs. This has been the case for countries with very different starting points, indicating that the PRSP process has been quite adaptable to different country circumstances.

8. It is important to emphasize that the PRSP process is an evolving one as countries, as well as partners, learn more about effective ways to address the challenges faced. This has always been envisioned as a long-term process, with the first full PRSP being subject to overall review and updating by the country every three years, and with regular monitoring and reporting on progress in the intervening years. As evidenced by the recent progress reports of Burkina Faso, Tanzania, and Uganda, these are also occasions to address gaps in the full PRSPs, with respect to, for example, key sectoral strategies. Since it is a process of learning-by-doing, upcoming first PRSPs, as well as the second generation of PRSPs will benefit from the lessons being learned in the initial rounds.

Challenges and Constraints

9. Despite the achievements noted above, a range of issues has been raised with respect to the PRSP approach. These tend to reflect the intrinsic difficulties of its objectives and underlying capacity constraints. Indeed, an overriding concern is that the PRSP approach is extremely demanding. Building domestic consensus that encompasses not only the various

parts of the government but also a wide range of domestic stakeholders is difficult. Developing a strategy that deals comprehensively with macroeconomic policy, structural and sectoral reforms, governance issues, social inclusion, and the medium-term public expenditure program is complex. And much is still unknown about what policies work best for some key aspects of poverty reduction, like how to promote pro-poor growth, and ensuring that quality services are accessible to the poor. Focusing on results requires developing institutional capacity for monitoring and evaluation. To put the task before PRSP countries into perspective, it is important to note that many middle-income and industrial countries are still grappling with these challenges. Better partnerships require governments to conduct intensive dialogue with donors, as well as openness and flexibility from partners. And pursuing all of these objectives with a view toward producing a first full PRSP within a one to two year period is a formidable challenge for any government. It has been recognized from the beginning that implementation of the PRSP approach is therefore a long-term challenge requiring continuous learning, sustained efforts at capacity building, and iterative improvements over the course of successive PRSPs. There will inevitably be significant variance among countries in the pace of progress. Finally, it is acknowledged that long-term success in poverty reduction will depend not only on effective implementation of the PRSP approach but also on the volumes and allocation of development aid and private capital flows, improved market access for low-income countries, and resolution of internal and external armed conflicts.

10. Other issues have arisen because of the inherent tensions among several valid objectives. For example, doing the analytical work to enhance the technical quality of a comprehensive, long-term strategy stretches existing national capacities and, if governments therefore rely on international technical assistance, this may undermine country ownership. Building country ownership entails intensive consultations among domestic stakeholders, and this competes with the time and attention that governments might give to strengthening partnerships with international donors. Partnerships that are forged by donors directly among themselves without government leadership may also detract from country ownership. And, taking more time to improve country ownership, comprehensiveness, results-orientation, and partnerships in PRSPs would delay bringing a strategy “on line” as a better framework for external assistance and debt relief. In short, trade-offs must be made among the multiple objectives, especially in the near term, and any assessment of the achievements of the PRSP approach requires assigning weights to each of the objectives.

11. The interaction among the principles of country ownership, partnerships, and results-orientation also gives rise to an issue that bears special mention: the potential tension between the principle of country ownership and the need for donors to be accountable for the effective use of their resources. The PRSP process is intended to give leadership to the country, allow participation of donors in PRSP preparation, encourage donor staff to be open-minded and responsive to home-grown solutions, and focus collective attention on an agreed set of results. Ideally, this will bring about a stronger convergence of views between the country and its donors and will simultaneously strengthen country ownership, partnerships, and results-orientation. However, inevitably there could be some remaining divergence in views about the right policies and about capacities for implementation. A

donor may then be torn between its desire to respect country ownership, on the one hand, and its responsibility to support only policies and programs that, in its best professional judgment, contribute effectively to results consistent with the donor's mandate, on the other.

12. At the regional fora convened to review recent experience with poverty reduction strategies, countries have emphasized a number of these challenges ranging from facilitating and managing effective participation, to identifying policies for pro-poor growth, restructuring relationships with the donor community, and building capacity. To summarize:

- While the value of broad-based participation is generally accepted, there is some disquiet among governments about how these participatory processes fit against existing institutional arrangements, in particular, parliaments and executives which are subject to electoral accountability.
- In terms of policy challenges, strong growth was recognized as key to poverty reduction. Countries, especially in Latin America, stressed that more attention needs to be spent on finding ways to encourage private investment and private sector growth, other than removing barriers and restrictions, and privatizations. There was a clear sense that better national policies alone were not sufficient and repeated calls (in Africa, and Latin America and the Caribbean for example) for access to developed country markets. This was considered a necessary prerequisite for growth and poverty reduction in PRSP countries.
- Both government and CSO representatives pointed to the tensions between the principle of country ownership and the tendency of donors to seek inclusion of their priorities and coverage of a wide range of issues (such as gender, AIDS, environment, governance, corruption, and rural development). They stressed that, for international assistance to be effective, donor practices have to shift to empower governments to act on their own country strategies. Country delegations, especially in Africa and Central and East Asia, insisted on harmonization and greater transparency of donor policies and procedures, and raised their significant concerns about the transaction costs in development assistance and the multiplicity of reporting requirements. At the same time, they agreed with donors that there was also a need for countries to articulate their policies more clearly and to take the lead on donor coordination.
- The cross-cutting theme of capacity building and utilization was prominent in each of the fora, and was particularly stressed in the African and Central Asian discussions. The lack of capacity, and the inability to use existing capacity effectively, remain important constraints. Several countries stressed the importance of an approach that progressively builds local capacity over time, rather than relying only on conventional technical assistance.

13. In light of the multiple objectives and the associated tensions, it is important to put forward a general perspective that can help in guiding the identification of responses to

specific issues identified below. In broad terms, a question that pervades discussion about how to improve the PRSP approach is how to strike the right balance between pushing for more rapid achievements of its objectives and ensuring that the approach is realistic in light of country constraints and the need for the process to be country driven. The desire to accelerate progress may generate proposals for more specific guidelines and requirements with respect to the participatory process and the content of PRSPs.⁴ Recognition of country constraints and country-driven processes may generate proposals designed to reduce the burden of the process on governments. These preferences need to be set against providing countries with adequate incentives, space, and assistance to make as much progress as feasible on developing strong home grown poverty reduction strategies. As a general proposition, the view of the Bank and Fund staff is that, given the primary importance of country ownership, the PRSP approach requires flexibility such that both the process and the content of poverty reduction strategies can vary across countries in light of national circumstances. Therefore, measures that would set more specific and rigid guidelines should be considered with caution.

Part III: Selected Issues

14. Taking into account the evidence from the various inputs to this review, nine key issues have arisen thus far, which fall roughly within three domains: how PRSPs are prepared, what PRSPs contain, and how PRSPs are used:⁵

A. How PRSPs are prepared

1. Improving the participatory process.
2. Achieving an appropriate balance between speed and quality of first full PRSPs for HIPC.
3. Adapting to the special circumstances of conflict-affected countries.

B. What PRSPs contain

4. Improving poverty diagnostics, targets and indicators, and monitoring and evaluation.
5. Clarifying the priority public actions in PRSPs.
6. Improving public expenditure programs and public expenditure management systems.

⁴ Note, however, the distinction between guidelines about the actual process and content of strategies and clearer expectations about information that should be provided in the PRSP about how countries have handled or intend to handle particular issues. The first sort of measure would likely compromise country ownership but the second category of measure preserves full country discretion about the substance but seeks to better inform the assessments of external partners and domestic stakeholders.

⁵ Specific issues do not fall neatly within one domain. For example, the issue of “speed versus quality” relates to both how PRSPs are prepared and what they contain. And the issue of how to adapt the PRSP process to the special circumstances of conflict-affected countries involves considerations of both content and process. Nevertheless, for ease of exposition, issues are placed only with the single domain that is most relevant.

C. How PRSPs are used

7. Improving the integration of PRSPs and other government decision-making processes.
8. Improving the alignment of donor assistance to PRSPs.
9. Ensuring the implementation and updating of PRSPs.

A. How PRSPs are Prepared

Issue #1: Improving the participatory process

15. The Bank and the Fund have required that governments prepare and monitor their PRSPs⁶ through a participatory process involving domestic stakeholders and external development partners. It was hoped that a participatory process would contribute to broader country ownership of the strategies, facilitate implementation, and strengthen governmental accountability. It was stressed that each government has the responsibility to design a participatory process that builds upon existing processes and is appropriate for the country's political and social context. Each PRSP document should include a description of the participatory process which the government has undertaken. The Boards instructed that, in the JSA of PRSPs, the staff should describe but not evaluate the participatory process, noting that judgments about the quality of participation should be the responsibility of the Boards.

16. Among countries that have completed their first full PRSPs and those which are well advanced in preparation, participation of domestic stakeholders has—in most countries—been valuable in several ways. Certainly, this was the dominant view among the delegations from Mauritania, Tanzania, and Uganda and many others at the regional conference in Dakar and also from the Latin American and Caribbean countries participating at the regional conference in Santa Cruz. It has very often led to an improved dialogue within the various parts of governments and between governments and domestic stakeholders and brought new participants into the policy dialogue.^{iv} By bringing in the views of civil society organizations, participation has often helped to improve the understanding of poverty.^v At the same time, the PRSP approach has established a presumption in favor of openness and transparency and broad based participation. There is evidence that civil society's efforts have affected PRSP content, particularly in drawing attention to problems of social exclusion and the impoverishing effects of bad governance. The participation process has also raised the profile of specific policy issues, leading to the elimination of school fees in Tanzania, for example. The credibility of governments' commitment to reform among the donor community has increased where there has been serious participation with stakeholders. Through these processes, both governments and civil society organizations have improved their capacities for analysis and for future dialogue.

⁶ Participation in the preparation of an I-PRSP was encouraged but not required.

17. Despite these encouraging developments, more could be done to improve upon and sustain the value-added of the participatory process. Criticisms by domestic stakeholders have been more often made for I-PRSPs which, as noted above, do not have minimum requirements for participation. For I-PRSPs, critics have noted weaknesses in the organization of the participatory process and in the quality of the dialogue. In particular, background documents have often not been made available on a timely basis or in local languages. There is often concern about the ad-hoc nature of the process—“institutionalization” of the participatory process such as Bolivia has done by law, is somewhat unusual.

18. For the limited number of full PRSPs to date, despite the significantly more open nature of the process relative to normal government processes, there are nonetheless criticisms in some cases, including:

- Inadequate participation by all relevant stakeholders. Specifically, concerns have often been expressed about inadequate engagement by parliaments,^{vi} sectoral ministries,^{vii} direct representatives of the poor themselves,^{viii} CSOs that are out of favor with the government,^{ix} stakeholders outside of capitals, local government officials, private sector representatives,^x trade unions, and women’s groups.
- Limited or unclear impact of participation. Specifically, critics sometimes have complained that governments only seek validation of their proposals, not true dialogue, and that the discussions are limited to a narrow set of issues related to targeted poverty reduction programs and exclude debate about structural reforms and macroeconomic policies.^{xi}
- Other concerns have been that CSOs often have weak capacity to participate effectively,^{xii} that the media is not used effectively to inform the broader public about the issues and the process, and that staff from the Bank, Fund, and other donors have not attended regularly and have thereby missed opportunities to exchange views with and learn about the proposals from domestic stakeholders. Concerns were raised that some CSOs may not represent the interests of the poor.^{xiii}

19. In this light, some NGOs have suggested the need for clear and strict guidelines or standards for participation (for example, on the role of parliaments) in order to ensure that the goals of broader country ownership and increased government accountability will be met.^{xiv} On the other hand, one message which emerged clearly from the regional PRSP forum in Dakar from many African governments is that the PRSP process should not involve “political conditionalities,” and that the donor community are ill-equipped to make judgments in this domain. Others have stressed that the circumstances among countries vary so greatly that global standards or guidelines in this domain are not desirable or feasible. In this regard, one option is to modify the JSA guidelines so as to establish clearer expectations about the information to be provided in the PRSP document about the participatory process. For

example, the document might be expected to include a description of the role of parliament or a summary of the views of non-government stakeholders.

20. Regarding the participation of donors in PRSP preparation, there was considerable uncertainty among donors in the first year or so. A number were concerned about their lack of engagement in the preparation of I-PRSPs. But, over time, as governments began to organize their participatory processes for full PRSPs, most donors, including UNDP, DFID, the EC, and the U.S., have indicated that they found useful opportunities to engage in PRSP preparation at the country level.^{xv} As noted in the Danish submission to the review, Bank-Fund staff have generally seemed to have played a constructive role, keeping a low profile and have not generally obstructed a country-led process. This has, in many cases, led to a stronger dialogue between the government and donors and a better foundation for donor coordination.^{xvi}

21. Despite this generally favorable trend in donor participation, some concerns remain. Some donors feel that the PRSP process has remained too dominated by the Bank and the Fund,^{xvii} in part because they do not engage jointly in the dialogue with the government during Bank and Fund missions. Furthermore, they argue that the prominent role of the Joint Bank-Fund Staff Assessment of PRSPs has drawn the government's attention away from the assessments by others.^{xviii} Reflecting this concern, the non-IFI donor group in Bolivia prepared a joint assessment of their own and presented it to the government. Finally, some are concerned about the lack of commonly-accepted modalities for formal donor consideration of PRSPs,^{xix} outside of representation on the Boards.

22. **In light of these concerns, the conference might consider what could be done to help improve the participation of domestic stakeholders as well as donors in PRSP preparation.** For example, with regard to domestic stakeholders, would it be appropriate to establish clearer guidelines for reporting on participation, such as on the role of parliaments or the views of non-government stakeholders? Do these or any other issues on the participation of domestic stakeholders, such as the timely availability of background information and draft PRSPs or criteria for selecting participants, warrant setting specific guidelines? With regard to external stakeholders, since it is up to governments to determine how to use their PRSPs, in many but not all cases, governments (such as Uganda) have presented draft PRSPs to donor roundtables or Consultative Group meetings before they were finalized. One option is to generalize this approach. Or the flexibility of independent donor and CSO assessments as currently practiced may be adequate.

Issue #2: Achieving an appropriate balance between speed and quality of the first full PRSPs for HIPC

23. From the beginning, it was recognized that it will take time to develop a full PRSP. The initial guidelines therefore envisaged a period of transition during which PRSPs would be developed without disrupting ongoing concessional assistance or debt relief under the Enhanced HIPC Initiative. During this transition period, prior to a HIPC Initiative Decision

Point,⁷ a Fund PRGF arrangement, or a Bank CAS, a country would be expected to produce an I-PRSP. The I-PRSP is limited to describing the country's existing understanding about the nature and causes of poverty, its macroeconomic and policy reform program, the proposed uses of any debt relief, and plans for preparation of a fully participatory PRSP. After preparing their I-PRSP, countries would normally be expected to complete a first full PRSP as the basis for continued PRGF support and for on-going IDA lending.⁸ Also, HIPC⁹ would be expected to complete a full PRSP and implement it successfully for one year as a condition for reaching the HIPC Completion Point, when debt relief becomes irrevocable.

24. Under these guidelines, 41 countries—including 23 HIPC—have completed I-PRSPs, eight (all HIPC) have completed their first full PRSPs, and many others have advanced significantly in their work toward that goal. On the positive side, it is an achievement that, within only two years, so many countries are now devoting significant efforts to the definition and implementation of better poverty reduction strategies. It might be argued that the set of incentives has been effective in generating momentum, recognizing that many I-PRSPs are just a first step and that the first full PRSPs will need to be improved over time. However, it could also be argued that the longer the delay in articulating a national poverty reduction strategy, the longer the period during which donors carry on business as usual, without attempting to align their support to country-owned strategies.

25. Nevertheless, one of most common criticisms of the PRSP approach to date is that the incentives have induced governments, especially among HIPC, to prepare their strategies too quickly and that this has compromised the quality of the strategies—in terms of both technical content and broad-based country ownership.¹⁰ Some donors, including through the Boards of the Bank and Fund, have generally advised governments to take more time in order to improve the quality of their strategies, and highlighted that interim debt relief, as well as on-going concessional assistance, can mitigate the financial incentives to reach the Completion Point. However, a number of HIPC governments and NGOs have urged the Bank and the Fund to change the incentive structure by delinking decisions under the Enhanced HIPC Initiative from the PRSPs so that there is no delay in making debt relief

⁷ HIPC would begin to receive interim debt relief after reaching the Decision Point.

⁸ As the PRSP process has unfolded since 1999, the Bank and the Fund adopted two additional guidelines that affect the incentives for completing the first full PRSPs. First, when it became clear that many countries with PRGF arrangements would not complete their PRSPs within one year of the I-PRSP, the Fund and Bank agreed that, at the time of the annual review of the PRGF arrangements, governments would need to present only a simple status report on PRSP preparation. Second, the Bank clarified that, after July 1, 2002, CASs for IDA countries would normally be based on a PRSP.

⁹ This rule applied only to the “non-retroactive” countries which had not reached a Decision or Completion Point under the original HIPC Initiative. By contrast, the “retroactive” countries would reach the Completion Point upon completion of a full PRSP, without a one-year implementation period.

¹⁰ A contrary criticism is that, for non-HIPC countries, there are *not* sufficient incentives to induce a government to come to closure on its first PRSP and that, for them, and HIPC after Completion Points, there will not be sufficient incentives to pursue its implementation and subsequent revisions. This potential problem could be addressed by creating domestic support for the PRSP process, which depends on the extent to which broad-based participation is fostered, the PRSP is integrated with other government decision-making, and by ensuring that donors are willing and able to align their support to PRSPs as discussed elsewhere in this paper.

irrevocable.^{xxi} They argue that this will provide adequate time to prepare quality PRSPs. Others, including some donors, NGOs and CSOs worry that such delinking would reduce the likelihood that debt relief would be well used and might excessively weaken the incentive to complete and begin implementing a PRSP.

26. In response to the specific issue about the incentives facing HIPC, the conference might consider whether there are ways of improving on the current framework for ensuring that debt relief is linked to effective poverty reduction. For example, is it appropriate to focus on improving quality of participatory processes and content of PRSPs, even if completion points are delayed? Would some flexibility on the one-year requirement be appropriate in the likely small number of cases where countries have made significant progress in implementing their poverty reduction strategies and in fulfilling other completion point triggers, and where the financial costs of delay are significant.

Issue #3: Adapting to the special circumstances of conflict-affected countries

27. The initial guidelines recognized that the PRSP process will need to be adapted to the circumstances of each country and explicitly recognized that countries affected by conflict were not likely to be able to prepare PRSPs as quickly as others. Apart from this intended flexibility, the guidelines and reference materials such as the PRSP Sourcebook have given almost no attention to the special problems of conflict-affected countries and fail to acknowledge that poverty reduction is likely to be impossible in the absence of peace.

28. In fact, a significant number of low-income countries have recently emerged from or remain burdened by internal or external military conflicts. Among these countries, Mozambique has completed its first full PRSP, and several, including Armenia, Cambodia, Ethiopia, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan, have already completed I-PRSPs and are continuing work on preparing full PRSPs. It appears that in these cases the PRSP process has been adapted flexibly to the special circumstances of these countries. In a few cases, most notably Rwanda, it seems that the PRSP process has even been a useful catalyst for new dialogue among groups that had previously not communicated regarding economic policy options and poverty reduction strategies.^{xxii} In this way, the PRSP and the associated participatory process could, given appropriate country leadership, become a useful instrument for helping countries recover from conflict.

29. Conflict-affected countries clearly face special problems both in terms of organizing a participatory process and in terms of particular issues such as resettling internally displaced persons, de-mining, demobilization and reintegration of ex-combatants. Poverty reduction strategies might become better instruments for future conflict prevention if their design in conflict-prone countries could explicitly address some of the underlying causes of conflict. Recognizing these needs and opportunities, efforts are underway to strengthen the network of interested donors, governments, and NGOs to regularly exchange information and ideas about implementing the PRSP approach in conflict-affected countries and to identify good practice.

30. **The conference might consider what more ought to be done to adapt the PRSP approach so that it can be more useful to conflict-affected countries.** Beyond existing modes of support, should a specific program of technical assistance and advice to conflict affected countries preparing PRSPs be developed? Are the guidelines for PRSPs sufficiently flexible for post-conflict countries or are modifications needed to highlight the key issues that these countries might be expected to consider in their PRSPs?

B. What PRSPs Contain

Issue #4: Improving poverty diagnostics, targets and indicators, and monitoring and evaluation

31. Each PRSP is expected to include data on poverty and diagnostics about the causes of and trends in poverty, quantitative targets for poverty reduction and short-term indicators for monitoring progress toward those targets, and a description of the institutional arrangements for monitoring and evaluation (M&E), which may include participatory monitoring. These three components of a PRSP are, of course, interdependent.

32. The preparation of PRSPs to date has, in most countries, involved useful steps toward better poverty data and diagnostics, helped countries clarify their targets and indicators for poverty reduction, and increased attention to M&E. In Uganda, for example, one long-term target is to reduce the income poverty headcount to 10 percent by 2017, and the PRSP process introduced a discipline through which the government examined the consistency of that goal with the growth assumptions of its macroeconomic framework and carefully used the 2000 household survey to analyze progress. Donors have supported many of these efforts, including through the PARIS 21 Initiative (Partnership in Statistics for Development in the 21st Century) and GDDS (General Data Dissemination System), to build national institutional capacities for data collection and analysis. Most PRSP countries have used the process to pull together existing data sets and studies related to poverty into a more organized and accessible data base. The process has often improved communication and sharing of information among concerned agencies and groups and has generated a stronger sense of national responsibility for data collection and analysis. Many countries have identified and started to fill important gaps in their data about poverty and to strengthen the institutional arrangements for on-going data collection and analysis. For example, the Mauritanian and Tanzanian PRSPs candidly acknowledged the limits of existing data sources and set out plans for closing these gaps. In the course of its PRSP preparation, Ghana has been able to process and present to policymakers the results of a large-scale survey within a few months of fieldwork completion. With respect to targets, all the PRSPs have included short-term and longer-term targets for economic growth, for reductions in the number of poor, and for improvements in education and health. All of the PRSPs include some discussion of plans to improve M&E capacities, although these discussions are seldom detailed.

33. Despite this progress, and recognizing that some countries have been significantly stronger than others in this area, the process to date has also highlighted a number of weaknesses.¹¹

- *Data and Diagnostics.* Quantitative survey data such as the Living Standards Measurements Surveys are sometimes out-of-date and/or have not been sufficiently frequent and comparable to allow trend analysis. Sometimes there is limited or no information on the key factors affecting rural development, on the impact of poor governance on the poor, on natural resource and environmental factors that impact on the poor, on gender dimensions of poverty,^{xxiii} and on non-monetary dimensions of poverty (i.e., especially vulnerability and disempowerment). Even when timely, reliable, and relevant data are available, they are often not well used for either *ex ante* or *ex post* analysis of the impacts and effectiveness of policies or programs. In other words, PRSPs seldom contain good Poverty and Social Impact Analysis (PSIA).^{xxiv} Also, they usually do not indicate priority topics for future PSIA or needs for technical assistance to undertake such analyses.
- *Targets and Indicators:* Four issues have emerged. First, many PRSPs have set long-term targets that seem overly ambitious with respect to prior achievements or available resources. Making good judgments about the realism of long-term targets is problematic, partly due to the inherent difficulties in estimating the costs of achieving those targets. Second, although all of the PRSPs are clear about their targets for monetary poverty reduction and for education and health, few have developed a set of monitorable indicators for other non-monetary areas (such as rural development, governance, and natural resource management) or for insecurity and disempowerment, which are especially difficult to quantify and measure.^{xxv} Third, even when target outcomes are clearly identified, PRSPs often lack good indicators of intermediate processes which would help track the implementation of public programs.^{xxvi} Fourth, some observers have been disappointed that PRSPs have not uniformly and explicitly adopted the International Development Goals (IDGs) or the more recent Millennium Development Goals (MDGs). which some argue ought to be uniformly included in the PRSPs as national goals, while others stress the need for goals to be nationally set.^{xxvii}
- *Monitoring and Evaluation (M&E) Capacities:* The problems in data collection and analysis are often compounded by weaknesses in the national and local institutions for M&E.^{xxviii} These are partly due to weak demand for governments to be accountable for the effective use of public resources.^{xxix} Sustained improvements in M&E capacities within PRSP countries could contribute significantly to improving the effectiveness and efficiency of poverty reduction efforts over the medium to long term. Nevertheless, PRSPs sometimes do not include detailed plans for improving M&E capacity and do not indicate priority needs for additional external assistance for

¹¹ A number of these weaknesses also characterize the poverty reduction strategies of middle income countries.

capacity building. In other cases, it has been argued that the proposed M&E strategy might prove too complex and too ambitious.^{xxx}

34. **The conference might consider specific measures to improve data and diagnostics, targets and indicators in PRSPs, and to strengthen M&E capacity.** Can donor efforts to support these areas be enhanced and if so, what should be the priorities? What quality of poverty information should be expected in PRSPs and in monitoring of implementation? Are there any elements of the content of PRSPs in these areas which justify establishing specific guidelines, on aspects such as having recent baseline data or PSIA for certain measures? In what ways should the MDGs/IDGs influence the PRSP process at the country level?

Issue #5: Clarifying the priority public actions in PRSPs

35. A full PRSP is expected to include a set of priority public actions for poverty reduction. These public actions over a three-year horizon should be summarized in tables presenting the country's macroeconomic framework, the overall public expenditure program, and its allocation among key areas, and in a matrix of key policy actions and institutional reforms and target dates for their implementation. While noting that a good strategy should integrate institutional, structural, and sectoral interventions into a consistent macroeconomic framework, the guidelines for PRSPs do not indicate what these public actions should be because this will depend on the country's circumstances and choices. In particular, the guidelines do not mandate detailed treatment of any particular sector or cross-cutting issue. However, it is stressed that PRSPs should define a set of priorities for public action that: (a) are consistent with a comprehensive diagnosis of poverty; and (b) realistically take into account the country's opportunities and its financial and institutional capacity constraints. In addition, within each priority area, the PRSP should be as specific as possible about intended policy and institutional reforms and public expenditure programs.

36. The first set of full PRSPs are, in many respects, impressive documents that constitute an important step forward by each government in articulating priority public actions aimed at poverty reduction. Perhaps most importantly, the PRSPs represent a significant effort to bring together in a single document the full set of public actions that the country intends to pursue to reduce poverty. Considering the inherent complexity of the task and recognizing that there can be substantial improvements in future updates, the PRSPs to date are an achievement for the governments that have produced them.

37. One important aspect of priority public actions for poverty reduction is budget allocations for poverty spending. Recent Fund staff analysis has compared budget allocations between 1999 (pre-PRSP), with the projected expenditure levels for 2001/2002 for 23 low-income countries with active PRGF programs. The results clearly indicate that full PRSPs are associated with an increased emphasis on "pro poor spending".¹² For the first group of six

¹² Poverty-reducing spending is country-specific and follows the definition in the PRSP or the I-PRSP. Data are drawn from the PRSPs themselves or from other documents (such as staff reports or decision point documents).

countries with full PRSPs, the increase in "poverty reducing" spending is 25 percent larger than for the whole PRGF group over the period 1999-2000/1. Overall increases in such spending for the full PRSP countries, relative to 1999, has been substantial, on the order of 30 percent of the budget as a share of GDP (that is, poverty-reducing spending is projected to rise from 6.5 to 8.6 percent of GDP between 1999 (pre-PRGF) and 2001/2002). While these results are encouraging, it is important to bear in mind that these budgetary reallocations will only translate into improved poverty outcomes if there are corresponding improvements in budget execution, service delivery, and access for the poor.

38. Despite this promising progress, the Bank-Fund JSAs, other donors, domestic stakeholders, and various researchers have found that even though they are almost all uniformly much better than I-PRSPs, the full PRSPs to date often have some weaknesses with respect to the choice and the clarity of priority public actions.¹³ These weaknesses—which are certainly not equally evident in all PRSPs—fall into five categories:

- Weaknesses in deriving the priority public actions from a comprehensive diagnosis of poverty, including PSIA. This sometimes reflects gaps in the diagnosis and, in particular, inadequate diagnosis of cross-cutting issues that are usually important for poverty reduction—gender, environment and natural resource management, labor market issues, HIV/AIDS, infrastructure, and rural development.^{xxxii} In other cases, the PRSP may include relevant diagnosis but fail to include public actions that are responsive to the critical problems revealed by that diagnosis.
- Poor treatment of governance concerns.^{xxxiii} Several trends are emerging in how (both interim and full) PRSPs are approaching governance issues, including accountability, transparency, and the architecture of the state; inter-governmental relations and decentralization,^{xxxiii} public expenditure and revenue; the civil service; legal system; and service delivery. If public sector institutions—such as courts, tax collectors, financial management and procurement systems, local social service facilities, land registry offices, and the civil service—are dysfunctional and systematically deny good governance to the poor, and if there is no realistic, long-term strategy developed separately or through the PRSP process to deal with these issues, then the commitments made in a PRSP may be difficult to fulfill. While some PRSPs have integrated governance concerns well, most lack a systematic diagnosis of what the key governance issues are and their significance for poverty reduction.

Among poverty-reducing expenditure items that are common to the countries in the sample are primary health care spending, primary education spending, water and sanitation, and roads and rural development.

¹³ A separate line of criticism is that many of the priority public actions in PRSPs are simply wrong, i.e., not appropriate for the objective of poverty reduction. In particular, some domestic and international NGOs argue that PRSPs incorporate structural adjustment policies that, in their judgment, have consistently failed. In their view, this reflects the pressures on governments to conform to the policy expectations of the Bank and Fund and other donors. To some extent, these concerns might be addressed by improving the participatory process so that alternative policy proposals can be put forward, and by improving poverty diagnostics, especially PSIA.

- Lack of prioritization.^{xxxiv} In some cases, often the set of proposed policy and institutional reforms is overly ambitious and unsequenced. Sometimes the PRSP is not very clear about how the overall public expenditure program will be shifted in favor of priority objectives.¹⁴ Such lack of prioritization may reflect either an overly ambitious set of targets or difficulties in focusing on public actions that are clearly linked to targets. Often the weaknesses in prioritization reflect lack of clarity about the country's growth strategy and about ways to ensure that the poor benefit from growth.^{xxxv} However, the Bank and Fund and other partners are also still grappling with issues related to prioritization and how to best ensure pro-poor growth.
- Lack of realism in the projected macroeconomic program. Sometimes the PRSPs assume unrealistically high rates of growth of overall GDP, fiscal revenues, and/or exports. This may reflect weaknesses in the analysis of the likely sources of growth. In that event, the set of priorities may be unrealistic in light of likely fiscal resources, and projected targets for poverty reduction will likely prove too ambitious. Also, the programs sometimes do not analyze macroeconomic risks or alternative scenarios and do not present contingency plans to respond to economic shocks.
- Weaknesses in specificity about intended policy and institutional reforms within priority areas. Even when priority sectors and cross-cutting areas are clearly designated, the strategies in each sector or area are often not sufficiently detailed. To some extent, this may reflect weak capacities of sectoral ministries or the lack of an agency within government with clear responsibility to deal systematically with critically important cross-cutting issues such as governance.

39. **In light of the above, the conference might consider what might be done to improve the clarity of priority public actions in PRSPs.** In particular, how can the international community assist countries in improving the quality of their strategies in terms of better treatment of cross-cutting issues, improved prioritization and specificity of policies and programs and linking to the budget, as well as ensuring that the macroeconomic program and financing assumptions are realistic? Are there any cross-cutting issues which require specific guidelines?

Issue #6: Improving the clarity of public expenditure programs and upgrading systems for public expenditure management

40. The priority public actions in a PRSP need to include both policy reforms and a public expenditure program. The expenditure program needs to be consistent with the overall macroeconomic framework and preferably should be cast in the context of a medium-term expenditure framework (MTEF). Ideally, the data on the expenditure program should be

¹⁴ Because of its importance, the issue of improving the clarity of public expenditure programs and upgrading systems for public expenditure management is considered separately below. Ways in which donors might create better incentives for prioritization and specificity are considered below under the issue of improving donor alignment with PRSPs.

comprehensive in its coverage and should show the allocations among key areas. In addition, the JSA guidelines ask staff to assess plans to improve the transparency and accountability of public expenditure management (PEM) systems (including procurement and financial management) and overall budgetary procedures.

41. Current PEM systems in many countries are too weak to support a meaningful presentation of the overall public expenditure program in the PRSP. For HIPC's, these common weaknesses in current PEM systems have been confirmed most recently by a Fund-Bank study of their capacities to track poverty-reducing spending, including the use of debt relief funds. Most PRSP country governments do not yet have a comprehensive budget with meaningful functional classifications of expenditures, and, where functional classifications exist, they seldom provide sufficient detail about allocations to programs that are targeted toward poverty reduction. Budget information often excludes donor-financed projects (even when they are a large component of expenditures) and can exclude some central government agencies of sub-national governments. Budget execution often differs significantly from budget allocations. Auditing systems are extremely weak. And multi-year expenditure frameworks are the exception rather than the rule. However, despite the fact that measures to improve PEM systems have been built into Bank and Fund programs, PRSPs to date have sometimes included only broad references to the need to improve PEM systems but not specific measures or credible plans for doing so.

42. While recognizing that improvements in PEM systems will take time, the importance of improving PEM systems and presentation of the public expenditure program has been highlighted by both domestic stakeholders and donors,^{xxxvi} who regard these as essential for improving the overall effectiveness of development policies and programs and as an important entry point for improving governance in general. Considerable importance will need to be attached to developing detailed plans for improving PEM systems, such as those being developed by HIPC governments with Fund and Bank assistance.¹⁵ Also many donors have stressed the need for better PEM systems to increase accountability for external assistance, including debt relief, and as a basis for shifting from project-financing to program lending.

43. **In light of these issues, the conference might consider what can be done to strengthen and accelerate efforts to improve systems for public expenditure management and the quality and usefulness of public expenditure data in PRSPs.** Should a detailed plan for improving PEM systems, such as those being developed by HIPC's, be expected in PRSPs? Are donors giving adequate priority to supporting implementation of these plans? Should PRSPs be expected to explain the limitations of information about public expenditure in the country and how these will be addressed in the short and medium term?

¹⁵ See the Bank-Fund Board paper, "Action to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC's)," forthcoming.

C. How PRSPs are Used

Issue #7: Improving the integration of the PRSP and other governmental decision-making processes

44. It has been envisioned that a PRSP would present a country's overall strategy encompassing its policy reform agenda and public expenditure program over a three-year horizon and that the preparation and implementation of a PRSP would be well integrated with the government's overall decision-making processes. Clearly the nature of this integration has varied across countries depending on local institutional arrangements and practices. A general tendency has been an "upgrading" of poverty reduction policy, which has tended to shift to ministries of finance, to become more closely linked to central resource allocation decisions, and to be regarded as less exclusively the business of social sector or welfare line agencies. This, together with revived strategic thinking about the productive sectors and their link to poverty reduction goals, has been described as "one simple but definite gain from the PRSP initiative."^{xxxvii}

45. However, in some countries, the extent to which there has been integration with existing decision-making processes has been, at least at times, problematic, for several reasons.

- First, I-PRSP and PRSP timetables so far have been driven primarily by the desire to reach the decision and completion points for the Enhanced HIPC Initiative and/or to secure a Fund PRGF arrangement. They have not necessarily been well aligned, for example, to the country's budget decision making cycle.^{xxxviii} Problems of implementation also arise insofar as the PRSPs are running ahead of the budget reforms, medium-term expenditure frameworks, and civil service reforms needed to implement them.
- Second, in some countries, there has been uncertainty about how the PRSP exercise should be related to previously established government planning or strategy exercises.^{xxxix} In the best of circumstances, PRSPs are emerging from prior work on national strategies, such as Uganda's PEAP, Mozambique's PARPA, and Bolivia's EBRP. In general, countries have drawn substantially upon existing work and built on or around planning processes, although in some case there was lack of clarity and some frustration at the outset, as in, for example, Cambodia and Mali.^{xl}
- Third, PRSP preparation has sometimes been assigned to a committee led by the ministry of finance, with limited involvement of the broader government bureaucracy—and in particular with sectoral ministries. This increases the risk that PRSPs will not reflect—or affect—the actual decisions and behavior of government line agencies upon whom implementation depends.

46. Given the diversity of country circumstances and institutional arrangements, and the importance of country leadership, it is impossible to prescribe any specific approach for dealing with these issues. However, it may be possible to reassess the timing and linkage of PRSPs so as to enhance the likelihood of effective integration and mainstreaming with government processes.

47. **In light of these challenges, consideration might be given to what could be done to improve the integration of PRSPs and other governmental decision-making processes.** For example, should PRSPs be expected to explain how these documents relate to other government processes, in particular, the budget as well as other national development plans? Is it appropriate to expect sectoral ministries to be fully involved in PRSP preparation?

Issue #8: Improving the alignment of donor assistance to PRSPs

48. The PRSP process, as well as the document itself, is intended to promote stronger partnerships between countries and donors, and to improve donor coordination. Toward this end, it has been expected that governments will include donors in the participatory process during PRSP preparation. Following finalization, it could also serve as a unique reference document that not only the Bank and Fund but also other donors might use as they design their own assistance programs. In this way, it is hoped that donors will increasingly align their programs to the country's priorities, which in turn is recognized as being key to success of the overall PRSP approach.^{xli}

49. Although an operational definition may be subject to considerable debate, alignment could be defined to include four significant, albeit overlapping, dimensions.

- First, it means providing significant financial support and technical assistance only for the areas to which the PRSP has assigned priority (provided that these priorities are directed toward goals that are broadly within the mandates of the donors). Conversely, it means not pushing government's attention into areas which have been given low priority in the PRSP, thereby fragmenting the government's efforts and encouraging it to attempt to do too much.
- Second, it means establishing policy conditions for lending operations that are derived from, and consistent with, the policy measures set forth in the PRSP.
- Third, it means increasing aid allocations to countries which are effectively implementing PRSPs and achieving better results in terms of poverty reduction. Policy reform by itself is not enough, and will need to be matched by larger investments from external sources.
- Fourth, alignment can be taken to involve harmonization and simplification of donor policies, procedures, and practices so that development assistance is delivered in

ways consistent with national processes. Such alignment might also be expected to involve a shift toward program, rather than project, lending.

50. Progress is presently being made in each of the foregoing dimensions of alignment, although it is uneven across partners and countries. Since the PRSP approach was launched, both the Bank and the Fund have committed themselves to greater alignment in at least some of the senses outlined above. The Fund has indicated that all PRGF-supported programs would stem from, or be drawn from, the PRSP. The World Bank committed itself to use the PRSP as the context for its Country Assistance Strategy (CAS), incorporating the intermediate and outcome indicators of the PRSP as its own objectives and using actions specified in the PRSP as a basis for determining lending triggers. The World Bank has also indicated its intention to gradually increase its program lending to support PRSPs. For that purpose, Poverty Reduction Support Credits (PRSCs) have been introduced to support the institutional and policy reform agenda of PRSPs in countries with a strong program.

51. Since the launch of the approach, most other donors have also indicated strong support for alignment. According to their own responses to an SPA survey, most donors already have a general policy to take the PRSP into account when creating their country assistance strategies, and many have or soon expect to have some degree of concrete linkage between the PRSP and the relevant country strategy.^{xliii} Also, many donors have agreed in principle that budget support has important advantages as a means to support implementation of PRSPs, and some have expanded such lending in recent years, especially within the framework of Sector-Wide Approaches (SWAs).^{xliii}

52. Despite this broad consensus on the principles, it could be argued that significant changes in donor assistance programs should not yet be expected. Of the eight full PRSPs completed by December 2001, most have been formally presented only within recent months, and there has been little time to adjust donor programs, especially given that assistance programs almost always have substantial inertia and change rather gradually. This may reflect lags between the completion of PRSPs and the donors' reviews of their assistance programs, which often follow internal schedules. And, even looking ahead, there may not be many changes in response to the current PRSPs.¹⁶ These PRSPs (as well as most of the I-PRSPs) have reaffirmed many of the policy directions and programs already in place, and therefore, assuming that their assistance was already well aligned with these policies, donors have not yet been challenged to align their programs to new directions.^{xliv} Some PRSPs, not unreasonably, have taken the existing set of donor-financed activities as given and have focused only on possible incremental spending. Finally, until there is a track record of implementation, donors may have doubts about the depth of country ownership of the strategies and the capacities to implement them.^{xlv}

¹⁶ Some NGOs contend that alignment of donor strategies to the PRSPs will always be a trivial matter because the content of the strategies will necessarily be determined largely by the agendas and preferences of the donors, especially the Bank and the Fund. Their argument is that governments write into the PRSP what they already know the donors want to hear. Furthermore, they argue that this will be the case as long as the Bank and the Fund Boards must endorse the strategy as a condition for concessional assistance.

53. Notwithstanding these factors which lead to delays between PRSPs and observable changes in donor programs, some issues have already emerged about donor alignment to PRSPs. These include:

- Some governments are concerned about unchanged or overly demanding reporting requirements associated with lending operations that are intended to support the PRSP.^{xlvi} Indeed a key concern emerging from the ODI/SPA review is the “threat or actuality of process overload,” with the range of joint reviews involving national officials with the Bank and Fund, other multilaterals and bilateral agencies being regarded as “seriously out of hand.”^{xlvi} This raises the question about what steps might be taken so that the documentation for lending operations could be more easily derived from the PRSP or otherwise simplified.
- Some observers, including Eurodad, argue that lending conditionalities, especially in Fund PRGF programs¹⁷ and Bank policy-based lending (including the few PRSCs to date), are not fully consistent with the PRSPs.^{xlvi} In particular, they point out the inconsistencies between the specific triggers for reaching HIPC Completion Points and the priorities and targets within PRSPs.^{xlvi} Others point out that it may not always be possible for external parties to monitor such consistency.
- There may be some divergence in views between governments and donors about the pace at which program lending might be expanded. Some governments, particularly in Africa, have expressed disappointment about the slow pace at which donors are shifting toward programmatic lending, which they had hoped would become available quickly to cover any gaps in the financing of the PRSP. However, most donors believe that they should not expand programmatic support until there are sound systems for public financial management and for M&E since these are needed to improve accountability for the use of funds and for results.¹

54. In this context, there is a risk that governments in Africa and elsewhere, which have explicitly looked to donors to align themselves around the PRSP, and see the PRSP as the key instrument for gaining better control over external assistance, may see their efforts to more effectively address national poverty reduction goals as being thwarted by lack of donor alignment.^{li} There is also a risk that if the Bank and the Fund are not seen as genuinely aligning their programs with full PRSPs, that this could affect the pace and extent of donor alignment more generally.^{lii}

55. A separate, more general issue confronting countries as well as bilateral and multilateral partners is how various global initiatives to combat different dimensions of poverty mesh together. These include the MDGs, efforts to eradicate tuberculosis, address HIV-AIDs, promote immunization, and improve education outcomes. These important international efforts have underlying objectives which are consistent with the PRSP

¹⁷ For IMF lending, this issue will be examined through the on-going, parallel review of the PRGF experience.

approach, as these are applied at the country level. One question is how far activities and/or specific goals associated with these initiatives should be reflected in PRSPs.

56. **In response to these current and anticipated issues regarding external support, the conference might consider what donors and countries can do to improve the alignment of development assistance to PRSPs.** What is required for governments and donors to reach agreement that countries need only prepare a single country strategy document that includes the core content of a PRSP? Does the ongoing work on donor harmonization and simplification provide reasonable assurances that the burden on countries will be reduced, for example through joint analytical work and reporting requirements? How might donors improve the performance-based allocation of assistance in a way which explicitly takes into consideration the quality of PRSPs and the effectiveness of their implementation? To what extent does the adoption of the specific IDGs/MDGs run counter to the need to maintain country ownership?

Issue #9: Ensuring the implementation and updating of PRSPs

57. After a first PRSP has been completed, the attention of the country and the donors must, of course, turn to implementation of the strategy. Effective implementation is more likely when there is periodic monitoring and evaluation—checking on progress against indicators and on outcomes and analyzing what is working—and periodic revisions of the strategy in light of results from M&E and taking into account any changes in the country’s circumstances. With this in mind, the PRSP guidelines envision that governments—through a participatory process—would prepare annual implementation progress reports and then, every third year, a full revision of the PRSP.

58. Thus far, only three countries (Burkina Faso, Tanzania, and Uganda) have been implementing their PRSPs for at least one year and have prepared annual implementation progress reports. No country has yet faced the task of updating its full PRSP. Nevertheless, questions have already been raised about the guidelines and expectations for progress reports and periodic updating of strategies.

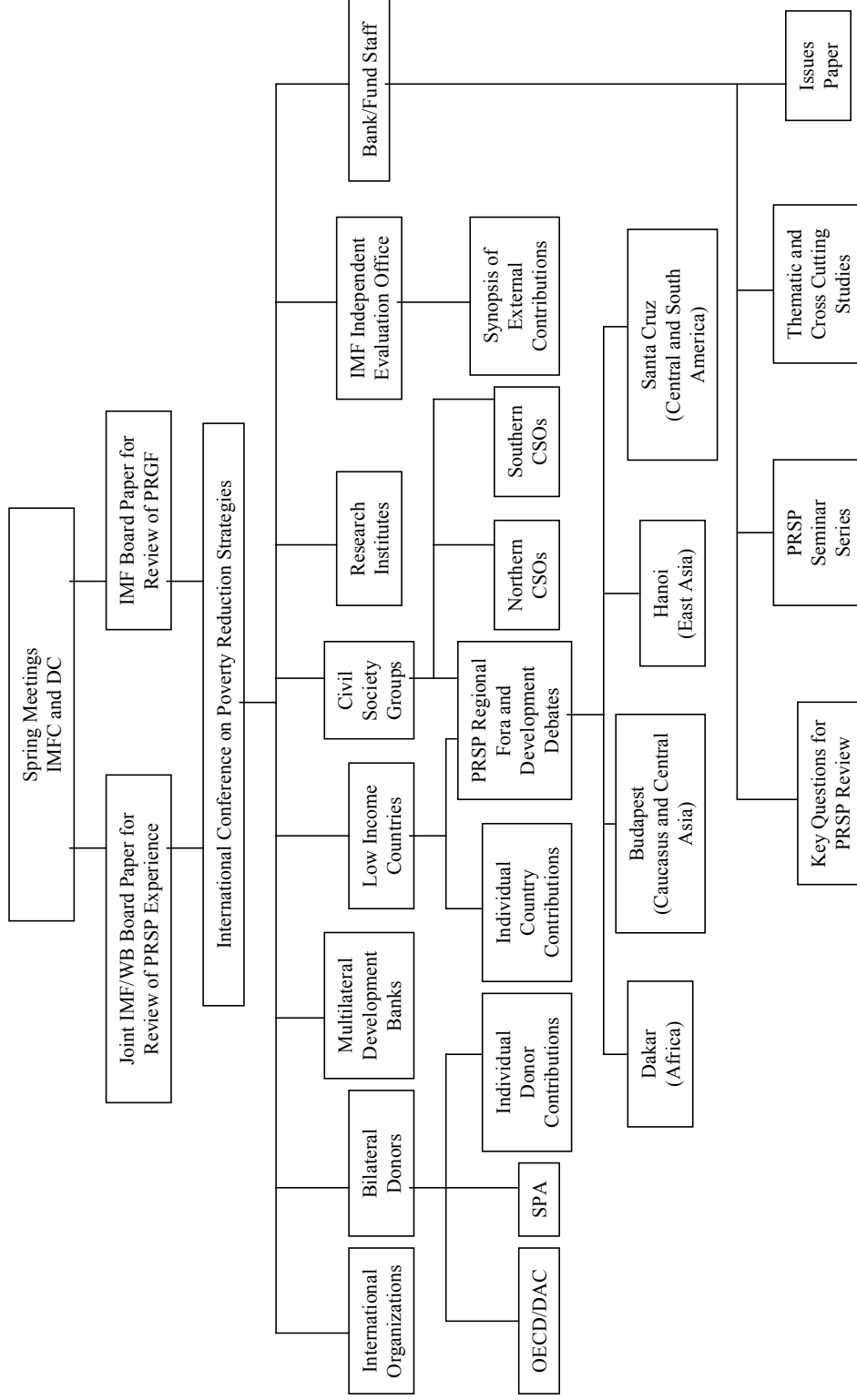
- First, as noted above, there is concern that requiring progress reports on an annual basis impose an excessive burden on governments and that this requirement seems purely for the sake of the donors, not the country. It is noted that donors have multiple, different reporting requirements—all of which take time and money to prepare. However, such difficulties should be weighed against the importance of remaining focused on implementation and short-term results, and the need for a government document to satisfy the fiduciary responsibilities of some donors.
- Second, questions have been raised about the appropriate frequency of updating of the PRSP, especially in light of governmental capacity constraints and national planning cycles, and in particular whether a three-year cycle is too short, or may be inappropriate in some circumstances.^{liii}

- Third, it is not yet clear how to link the PRSP process to the policy review and decision-making that normally occurs after a change in government.^{liv} A good participatory process should build broad-based country ownership for the strategy—possibly even encompassing opposition political parties—and the PRSP would therefore be an instrument for increasing continuity of policies between one government and the next. Madagascar seems to be a good recent example of this approach. However, a new government may well wish to change some of the public actions set forth in the PRSP by its predecessor. In this regard, there is no common understanding about how a new government should indicate its intentions with respect to an existing PRSP or ongoing PRSP process.
- Fourth, and analogous to the third, is that it is unclear how to ensure that the country's strategy remains relevant and feasible in the event of major changes in country circumstances—such as a large change in its terms of trade or a large-scale natural disaster which substantially affect the economic outlook for the country.^{lv}

59. **In response to these concerns, the conference might consider what can be done to ensure that implementation of the PRSP is effectively monitored and that country strategies remain relevant.** What are realistic expectations for annual progress reports? How can a balance be reached between revising strategies periodically and the reporting burden imposed by such updates? Would a change be warranted whereby annual progress reports were replaced by progress reports every two years to ensure adequate focus on implementation? Would a country-specific cycle for updating the full PRSP, which would not exceed five years, make sense? Should new governments be required to present a statement indicating their intentions with respect to an existing PRSP (or ongoing PRSP process) within a reasonable period of taking office?

Flow Diagram of Contribution to the Joint Staff Review of the PRSP Approach

Annex 1



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ⁱ Strategic Partnership with Africa (SPA), "PRSP Institutionalization Study: Final Report, Chapter 1: Overview of PRSP Processes and Monitoring," October 15, 2001, states (p. 1): "The PRSP initiative provides an opportunity for addressing some of the most notorious contradictions and dilemmas of development aid. It could be the solution, in particular, to the chronic tendency of much aid for poverty reduction to undermine the conditions of its own success, by weakening the capacities of governments and others to act for themselves."

ⁱⁱ See Rosemary McGee, et. al. "Assessing Participation in Poverty Reduction Strategy Papers: a Desk Based Synthesis of Experience in Sub-Saharan Africa," IDS Draft Report, October 2001.

ⁱⁱⁱ SPA, op cit, p. viii, says: "Already PRSPs have wrought significant changes, by bringing poverty reduction into the mainstream of the policy process, out of the social-sector ghetto and into the same institutional home as the budget and the management of public expenditures."

^{iv} Christian Aid Policy Briefing, "Ignoring the experts: Poor people's exclusion from poverty reduction strategies," October 2001, noted that "Rarely before has the role of civil society been formally legitimized in this way, or been accorded such high profile," noting that civil society organizations have "developed skills at a staggering rate."

^v As noted by DFID, PRSP Review/DFID Views on PRSP Process, December 19, 2001, p. 5.

^{vi} European Commission, "PRSP Review: Key Issues," stressed need to involve parliaments.

^{vii} According to the Asian Development Bank (AsDB), letter dated November 21, 2001, among East Asian countries ownership and participation has been largely confined to the ministries of finance and other central government agencies dealing with donor assistance. The submission by the Food and Agriculture Organization (FAO), November 30, 2001, p. 3 makes this point with respect to agriculture ministries.

^{viii} This criticism, as well as many of the other points in this paragraph, is stressed by Christian Aid Policy Briefing, "Ignoring the experts: Poor people's exclusion from poverty reduction strategies," October 2001.

^{ix} See Jubilee South, et. al., "The World Bank and the PRSP: Flawed Thinking and Failing Experiences," November 16, 2001, p. 5.

^x CDF Secretariat, World Bank, "Comprehensive Development Framework: Meeting the Promise? Early Experience and Emerging Issues," August 27, 2001, p. 3, indicates that there has been private sector participation in about one-third of the PRSP countries.

^{xi} UNIFEM Contribution to the World Bank and IMF PRSP Review, November 26, 2001, p. 3.

^{xii} Donor efforts to build CSO capacity are discussed in SPA, "Donor Engagement with National PRSP Processes," October 21, pp. 8-9.

^{xiii} As noted by McGee et. al., op. cit., pp. 13-14.

^{xiv} For example, see Alan Whaites, World Vision International, "PRSPs: Good News for the Poor?, 2000, p. 9, writes: "Without a willingness on the part of the Bank to evaluate the participatory process, the establishment of co-ordinating groups and steering committees could become simply a vehicle for the appointment of those found to be most malleable by the regime."

^{xv} SPA PRSP Process Task Team, "Donor Engagement with National PRSP Processes," ODI, Final Draft, October 2001, pp. 5-6.

^{xvi} However, the AsDB, op cit., indicates that coordination between the World Bank and itself has not been satisfactory in some countries.

^{xvii} SPA PRSP Process Task Team, "Donor Engagement..." op cit." pp. 20-22. Also see SPA, "PRSP Institutionalization Study," October 15, 2001, pp. ix, and EC, op cit., "PRSP Review: Key Issues," p. 5.

^{xviii} See "IDB [Inter-American Development Bank] Contribution to Review of the PRSP Approach," October 18, 2001.

^{xix} See SPA, "Donor Engagement..." October 21, p. 22.

^{xx} Many commentators have made this point. For example, see "IDB, op cit., EUROAD, op cit., Letter and Report from Chairman of the Development Assistance Committee (DAC), OECD, November 6, 2001. FAO, op cit., and Jubilee South, op. cit.

^{xxi} Catholic Relief Services, "Review of the Poverty Reduction Strategy Paper Initiative" Contribution to the PRSP Comprehensive Review," December 2001, p. 4.

^{xxii} F. Mutebi, S. Stone, and N. Thin "Institutionalising the PRSP Process in Rwanda" (Chapter 6 in SPA/ODI Institutionalisation Study.

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- ^{xxiii} United Nations Development Fund for Women (UNIFEM), "Contribution to the World Bank and IMF PRSP Review, November 26, 2001.
- ^{xxiv} OXFAM, "Making PRSPs Work: The Role of Poverty Assessments," April 2001, stresses the need for PSIA—led by the Bank and the Fund—as the key to improving pro-poor policies.
- ^{xxv} See David Booth and Henry Lucas, "Desk Study of Good Practice in the Development of PRSP Indicators and Monitoring Systems," Overseas Development Institute, Final Draft Report, October 31, 2001, p. 5.
- ^{xxvi} Booth and Lucas, "Desk Study....," ODI, op cit., p. 1. EC paper (p. 8) stressed need for a "few, measurable, timely indicators."
- ^{xxvii} UNDP, op cit.; Letter and Report from Chairman of the Development Assistance Committee (DAC), OECD, November 6, 2001.
- ^{xxviii} See, in particular, *ibid*.
- ^{xxix} Booth and Lucas, "Desk Study....," ODI, op cit., p. 22.
- ^{xxx} See Hamner, et. al., ODI Institutionalization Study on Tanzania, October 2001.
- ^{xxxi} See FAO, op cit., p. 4.
- ^{xxxii} See Kathryn Casson and Merilee Grindle: "Governance and Poverty Reduction Strategy Papers," DfID, 2001, and Eurodad, op cit., p. 8, argues that PRSP should be more comprehensive by inclusion of political matters.
- ^{xxxiii} This is emphasized in DAC, op cit.
- ^{xxxiv} EC, "PRSP Review: Key Issues" stresses need for more prioritization.
- ^{xxxv} See DFID, op cit., p. 3.
- ^{xxxvi} SPA, "PRSP Institutionalization Study," Oct. 15, 2001, p. ix, also notes: "The degree to which countries have advanced down the road of public management reform, especially with regard to public-expenditure management, makes a critical difference to the way the PRSP initiative is received, and the likely impacts in the immediate future."
- ^{xxxvii} ODI, op cit, May 2001, p. 4.
- ^{xxxviii} This is stressed in SPA, "Donor Engagement..." October 21, p. 20.
- ^{xxxix} See CDF Secretariat, op cit, August 2001, pp. 8-9.
- ^{xl} AsDB, op cit., is especially concerned that PRSP work in East Asia has not built upon national development plans.
- ^{xli} This point by the DAC, op cit.
- ^{xlii} SPA PRSP Process Task Team, "Donor Engagement with National PRSP Processes," ODI, Final Draft, October 2001, pp. 5-6. On EC policy, see EC, "PRSP Review: Key Issues," p. 3. SPA, "Donor Engagement....," October 21, p. 6, notes that "There is an indication from two donors (Canada and UK) that countries with strong PRSPs may benefit from greater resource allocation in future, but this is not formalized."
- ^{xliii} See SPA, "Donor Engagement..." October 21, pp. 11-14.
- ^{xliv} See the U.S. Government Accounting Office (GAO), "Few Changes Evident in Design of New Lending Programs for Poor Countries," May 2001.
- ^{xlv} See FAO, op cit., p. 9.
- ^{xlvi} Some donors share this concern. See SPA, "Donor Engagement..." October 21, p. 21.
- ^{xlvii} ODI, op cit, May 2001, p.8.
- ^{xlviii} EURODAD, op cit. Donors concerns are noted in SPA, "Donor Engagement..." October 21, p.21. See EC, p. 14.
- ^{xlix} SPA Task Team on Contractual Relationships and Selectivity, "Comparative Review of I-PRSP Targets and Conditionalities for HIPC Completion Point," Brussels, October 1, 2001.
- ^l SPA, "Donor Engagement..." October 21, pp. 12-13.
- ^{li} SPA, October 2001, op cit., notes "While national observers doubt that changes in the scale of external conditionality are on the immediate agenda, they are not highly conscious of the degree to which this matter lies in their own hands." p. viii.
- ^{lii} This point is raised by the DAC, op cit., as well as DFID, op cit., p. 2.
- ^{liii} As noted by UNDP, op cit.
- ^{liv} This issue was stressed by the "IDB op cit.
- ^{lv} FAO, op cit., p. 10.