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

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Poverty Reduction Strategy Papers—Progress in Implementation

Prepared by the Staffs of the IMF and World Bank

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I. INTRODUCTION

1. **Two years have passed since the Poverty Reduction Strategy Paper (PRSP) approach was launched in September 1999. The early experience has been encouraging;** the PRSP approach is beginning to take hold in many countries. Some 36 countries have prepared interim strategies. Five countries have completed their first full PRSP and are shifting their focus towards implementation. The Bank, Fund, and a growing number of other development partners have intensified their efforts to support countries in formulating their strategies and to use the PRSP as a basis for their own assistance.

2. **Over the next six months, Bank and Fund staff will be undertaking a comprehensive review of experience to date with the PRSP approach.** The review will consider both the process and content of poverty reduction strategies, drawing on inputs from PRSP countries, civil society, and external partners. **In light of the upcoming review, this report is limited to reporting progress in the implementation of the PRSP approach since the Spring 2001 Meetings.** A parallel report by the Bank on progress in implementing the Comprehensive Development Framework has been produced.¹ Part II of the present report briefly discusses the status and quality of I-PRSPs, full PRSPs, and annual PRSP progress reports discussed by the Boards since end-March 2001. Part III summarizes efforts by the international community, including the Bank and Fund, to operationalize the PRSP approach. Part IV reports on progress of development partners in assisting countries. The plans for the PRSP review are outlined in Part V. Part VI concludes the report.

II. CURRENT STATUS OF I-PRSPs, FULL PRSPs, AND ANNUAL PRSP PROGRESS REPORTS

3. An important lesson that has emerged over the last year—confirmed by recent experience—is that **the initial country timetables for developing full PRSPs are proving to be ambitious.** Specifically, countries and their development partners have underestimated the time needed to develop an inclusive participatory process and undertake the necessary analytical work for preparing their national strategies. **In addition, some PRSP timetables have been affected by delays in implementing key policies.** Many countries are expected to take longer than twelve months after their I-PRSPs to finalize their full PRSPs (see Table 1). The Boards of the World Bank and IMF, as well as other development partners, have continued to stress that the quality of PRSPs should not be sacrificed to the speed of preparation, and have encouraged countries to take the necessary time required to develop effective strategies.

¹ *Comprehensive Development Framework, Meeting the Promise? Early Experience and Emerging Issues*, August 2001.

A. I-PRSPs

4. **Between end-March and end-August 2001, the Executive Boards of the Bank and Fund considered four I-PRSPs (see Box 1). All have been developed by East Asian and FSU countries** (i.e., Armenia, Azerbaijan, Lao PDR, and Vietnam), continuing the broadening of the approach beyond Africa that was reported in the Spring. These are all countries where state development planning had played a central role in the organization of economic activity, but where significant progress has been made towards establishing a market-based system. The governments have embraced the PRSP approach with considerable commitment and ownership. For example, Vietnam's I-PRSP was prepared as part of the government's overall strategic planning exercise. Several of the I-PRSPs are strong in a number of aspects. They generally include sound assessments of poverty and of the challenges to poverty reduction. Some countries have taken this opportunity to reexamine the effectiveness of their existing social protection systems, while others have elaborated sector strategies that are consistent with their overall policy framework.

5. However, these countries also face significant challenges as they move forward in developing their full strategies. As with other I-PRSP countries, a major issue is their limited experience with broad based participatory processes, especially in involving civil society in policy discussions. **While the Boards have recognized that participation may be limited in interim strategies, they have stressed the importance of expanding the role played by these organizations, and particularly representatives of the poor, in the development of full PRSPs. They have also emphasized that participation should not undermine Parliaments and other locally elected bodies.** In these countries, explicit milestones that indicate progress in the participatory process still need to be established. In some cases, wider consultation may entail significant revisions to these interim strategies.

6. Other aspects of recent interim strategies that need strengthening were also evident in earlier I-PRSPs. The *poverty diagnostics* of the I-PRSPs prepared by the FSU countries view poverty in very broad terms. This reflects the profound decline in living standards since 1990, which has affected a large proportion of the population. As in earlier I-PRSPs, more work is needed to ensure sufficient *prioritization of public policy actions* and resource allocation (Lao PDR, Azerbaijan, and Armenia). As reported to the Boards of the Bank and Fund in the joint staff assessments of the I-PRSPs, general policy intentions need to be translated into specific measures (Lao PDR), and tighter links need to be established between priority policy measures and performance targets (Azerbaijan and Vietnam); there are weaknesses in the overall *policy content* of interim strategies, including insufficient attention to market reforms (Azerbaijan), to governance (Azerbaijan and Lao PDR), and to gender (Armenia); and several I-PRSPs have only preliminary *poverty monitoring and evaluation* plans, with significant work needed to develop appropriate indicators (Azerbaijan and Armenia).

Box 1: Status of I-PRSPs and PRSPs Discussed by Bank and Fund Boards Between mid-March 2001 and end-August 2001

Of the four I-PRSPs and one full PRSP discussed by the Boards between end-March 2001 and end-August 2001, two were from East Asia, two from Europe and Central Asia, and one from Latin America and the Caribbean. This brings the total number of I-PRSPs to 36 and full PRSPs to 5 since the launch of the PRSP approach.

Region/Country	I-PRSP/PRSP	Bank Board Date for I-PRSP/PRSP	Fund Board Date for I-PRSP/PRSP
<i>Europe and Central Asia</i>			
Armenia	I-PRSP	May 22, 2001	May 14, 2001
Azerbaijan	I-PRSP	July 5, 2001	July 2, 2001
<i>Latin America and Caribbean</i>			
Bolivia	PRSP	June 5, 2001	June 8, 2001
<i>East Asia and the Pacific</i>			
Lao PDR	I-PRSP	April 24, 2001	April 23, 2001
Vietnam	I-PRSP	April 12, 2001	April 6, 2001

B. Full PRSPs

7. One full PRSP (Bolivia) has been reviewed by the Boards of the IMF and the World Bank since the last progress report (see Box 1).

8. **Bolivia's** poverty reduction strategy (or EBRP²) is based on policies to promote stable growth and actions targeted to the poor. It emphasizes targeting excluded groups and increasing the effectiveness of public institutions. The EBRP has four strategic components: expanding opportunities for employment and income, especially in the rural sector; developing individuals' capacities through greater access to, and higher quality of, primary education and preventative health care; increasing protection of the poor; and promoting social participation through deepening decentralization. Particular strengths of the strategy reflect prior experience with both poverty reduction programs and a process of national dialogue which predated the PRSP initiative. They include the commitment to monitoring mechanisms (formalized through the national dialogue law), and the integration of sectoral and other policies for poverty reduction in a consistent macroeconomic framework.

² *Estrategia Boliviana de Reduccion de la Pobreza*, Government of Bolivia, March 2001.

9. The content of Bolivia's strategy in many ways goes beyond what can be expected in a typical PRSP in terms of the depth of analysis and detail provided. Nevertheless, the JSA and comments from the Executive Boards identify a number of areas for additional work, intended to assist the government as it further develops the strategy. These recommendations include the need to: improve the prioritization of policy actions; link poverty diagnosis with the effectiveness of past interventions; improve analysis of the sources of growth; and increase attention to the investment environment and its links to public sector administration and governance. Weaknesses in implementation were also identified as a critical impediment to moving from strategy to action. In addition, some civil society groups have expressed concern about the degree to which they were able effectively to participate in the process.

C. Annual PRSP Progress Reports

10. The success of the PRSP approach depends on sustained implementation of the underlying policies and programs, as well as adaptation of these strategies in response to careful monitoring and evaluation of their impact. Therefore, **subsequent to their first full PRSP, countries are expected to prepare annual progress reports and to update their full PRSPs every three years.** Annual progress reports are instruments by which a government can report—both to its own citizenry and to its development partners—on achievements and challenges in implementing its poverty reduction strategy. As with I-PRSPs and full PRSPs, annual progress reports will be assessed jointly by the staffs of the Bank and the Fund and discussed by their Executive Boards.

11. **Uganda** presented the first annual PRSP progress report to the Executive Boards in March 2001. It provided a good basis for evaluating the implementation of the government's poverty reduction strategy (the Poverty Eradication Action Plan (PEAP)) and provides an early example of good practice for such efforts. In many respects, it **exceeds expectations of the breadth and depth of coverage of annual progress reports.** Prepared through a participatory process involving government officials, civil society representatives, and donors, the report highlights new information on poverty trends, reviews progress and problems in implementing the PRSP, and identifies remedial actions. While noting that progress on the key pillars of the PEAP has been uneven, the report concludes that, overall, the strategy is on track and its implementation has resulted in significant declines in poverty, as evidenced by new household survey data. At the same time, however, inequality has risen, in particular between rural and urban areas and between the north and rest of the country, largely as a result of regional conflict.

12. The JSA of the PRSP progress report and comments from the Executive Boards of the Fund and the Bank commended the Ugandan authorities for progress in implementing the strategy, for drawing on new data, providing a candid discussion of performance to date, identifying remedial measures, and addressing the issues raised in the JSA of the 2000 PRSP. Moreover, the Boards lauded the report for stressing the importance of modifying the country strategy to deal with rising income and regional inequality. The Boards noted, however, some areas where additional work is needed, including further analysis to understand the causes of poverty trends in order to strengthen the overall strategy.

III. PROGRESS IN OPERATIONALIZING THE PRSP APPROACH

13. Over the past six months, all stakeholders in the PRSP approach have been actively engaged in **supporting the transition from the process of strategy preparation to greater focus on the content and implementation of poverty reduction strategies**. For the Bank and Fund, this has proceeded along two broad tracks. First, the Bank and Fund have facilitated the PRSP approach through developing guidelines for the Bank-Fund joint staff assessment of PRSP preparation status reports, undertaking a range of learning activities both in-country and for staff, improving access to information, and moving forward with a Multi-Donor Trust Fund for capacity building. Second, the Bank and Fund have made progress in strengthening their country assistance in the areas of poverty and social impact analysis and the tracking of poverty reducing spending. Both are crucial for reinforcing the links between public actions and poverty outcomes. Progress has also continued in aligning the institutions' financial instruments to support the PRSP approach, through the streamlining of structural conditionality in the PRGF and the commencement of PRSC operations.

A. Facilitating the PRSP Approach: Bank and Fund Support

Guidance on PRSP Preparation Status Reports

14. **Annual PRSP preparation status reports and annual progress reports for full PRSPs play an important role in monitoring and adapting poverty reduction strategies.** They also provide a basis for annual reviews of PRGF arrangements, for new CASs or CAS Updates, for the series of operations within PRSC programs and, in most HIPC cases, for reaching the Completion Point.

15. Countries that are still working toward the completion of their first full PRSP, would be expected, at the time of an annual review of a PRGF arrangement, to present a brief report to both Boards on their progress in developing their strategy in a "PRSP preparation status report".^{3 4} As several countries will be preparing such reports, it is timely that the Bank and Fund clarify the basis on which they will assess these reports, and provide guidance to staff on the associated JSA. Both the **PRSP preparation status report** and JSA should be short and simple documents so that their preparation does not distract from the efforts devoted to development of the PRSP itself. As indicated in the guidelines in Annex 1, the status report should set out what has been accomplished during the preceding year with respect to the work program set forth in the I-PRSP. It should also briefly highlight any important achievements with respect to the policy measures and programs in the I-PRSP. Finally, the report should provide an updated timetable for completion of the full PRSP. **Guidelines for the JSAs of annual progress reports for full PRSPs are under development.**

³ *Poverty Reduction Strategy Paper—Progress in Implementation*, SecM 2000-487 (8/15/00) and EBS/00/167 (8/14/00).

⁴ These reports were previously termed "I-PRSP progress reports."

Multi-donor Trust Fund

16. The **Bank is developing a new Trust Fund to support capacity building in PRSP countries**, based on an initial contribution from the Netherlands. The Trust Fund is intended to be a multi-donor facility, with financing of up to \$15 million a year. Countries will be able to access financial support for capacity building in any aspect of the PRSP process which they judge to be a priority, such as poverty diagnostics, poverty and social impact analysis of reforms, public expenditure management or institutionalizing participatory processes. Both governments and local NGOs will be eligible to apply. In order to ensure good donor collaboration in the application process, proposals for funding will be assessed locally by a committee comprising the government, and local representatives of the Bank, UN, IMF, and contributing donors. Support from this facility will be additional to that provided by the Bank and the Fund through existing mechanisms.

Learning Events and Information Resources

17. **The World Bank Institute's Attacking Poverty Program (APP)** was established in early 2001 with the objective of building the capacity of national PRSP country teams and other stakeholders, to enable them to successfully prepare, implement, and monitor the PRSP. The APP is conceived as a broad coalition, drawing together Bank experts and key external players in the development community. The program has a horizon of three years.

18. To date, the APP has offered more than 45 learning activities, over half of which were for African audiences. For example, through the African Development Debates, members of country PRSP teams and other stakeholders were brought together to discuss poverty reduction strategies at the national and regional levels. Consolidation of the activities in Africa is currently the main focus of the program. The APP will be extended to other regions through June 2002.

19. **The PRSP Sourcebook** serves as a resource to assist countries in the development of poverty reduction strategies by bringing together information on international best practices with regard to poverty reduction policies. It is intended to be selectively used as a compendium of information on possible approaches and does not provide a policy blueprint. The Sourcebook has been recently substantially revised based on feedback from PRSP

country users, partners, Bank and Fund staff, including the addition of new chapters on the role of markets, setting development targets and costing, and inequality and social welfare.⁵

20. **Bank-Fund PRSP Learning Events:** at the *global* level, a learning event on participation in PRSPs, jointly sponsored by the Bank, the UK, and Switzerland, was held in Washington, DC in April 2001. This brought together around 160 participants from PRSP countries, NGOs, and donor agencies. The discussions stressed the complexity of participation, in particular that it could not be defined as a simple division of government and other stakeholders; the need for governments to facilitate rather than direct the process; the value of more intra-governmental collaboration; and the importance of supporting the long-term objective of institutionalizing participation.

21. At the *regional* level, the Bank, in partnership with other institutions, held two technical workshops on Civic Engagement and Participation in PRSPs for governments, civil society, and other stakeholders in Georgia (June) and Ethiopia (July). Four countries took part in the Georgia event and eight in Ethiopia. The main objectives were to train participants in the tools and methods for stakeholder participation in poverty reduction strategies and to share experiences on participation. The Bank and Fund co-hosted (with the African Development Bank) a major **forum in Senegal on Poverty Reduction Strategies in September focusing on PRSP implementation.**⁶ The forum considered best practices and recent lessons learned in the development of PRSPs and promoted an exchange of experience among country teams. **Two regional workshops are planned for East Asian countries and for the Commonwealth of Independent States (CIS)** before the end of 2001. The outcome of these discussions will provide useful input to the PRSP review.

22. At the *country* level, PRSP workshops have been held for Albania (April), Cambodia (April), Madagascar (May), Guinea (July), and Yemen (July). These were well attended and produced useful recommendations. For example, the Guinea workshop resulted in concrete proposals for increasing accountability and fighting corruption. Within the Bank and Fund, pre-mission clinics have supported learning for staff working with PRSP countries. Four clinics for staff have been held in 2001, and at least another six are planned by the end of the year. Several seminars for Fund staff have been held on PRSP issues such as poverty and social impact analysis, streamlining conditionality, and tracking of poverty reducing expenditures.

⁵ The Sourcebook continues to be available on the Bank website (<http://www.worldbank.org/poverty/strategies/sourctoc.htm>), in CD format, and by request (prsp_sourcebook@worldbank.org). A published version should be available in October 2001.

⁶ A similar event in Cote d'Ivoire (June 2000) focused on the preparation of poverty reduction strategies.

B. Progress in Aligning Bank and Fund Assistance with Country Strategies

Poverty and Social Impact Analysis

23. **A critical objective of the PRSP process is the integration of poverty and social impact analysis⁷ (PSIA) in countries' Poverty Reduction Strategies.** PSIA consists of the analysis—ex ante, during implementation, and ex post—of the positive and negative impacts of country policies on the well-being of the poor and other groups. Central to the concept of PSIA is an understanding of the growth, poverty, and distributional impact of public actions. PSIA will help countries to assess policy alternatives before reforms are implemented and, based on monitoring and evaluation, to reformulate policies as necessary. It will also be useful in informing and facilitating public debate on policy choice.

(i) Country-led Efforts

24. Increasing country ownership of policy choice calls for informed national debate and discussion of the poverty and social outcomes and trade-offs that underlie that choice. **Ideally, countries should undertake PSIA as part of their early PRSP preparation, so as to inform the choice of policy mix.** Some countries have already begun to undertake and use such analyses. For example, in Uganda, analysis of data from participatory poverty assessments and household surveys showed that cash crop farmers had benefited considerably from agricultural liberalization whereas food crop farmers (mainly women) had received only marginal gains. As a result, Uganda is introducing a “Plan for the Modernization of Agriculture” designed to transform the entire rural sector.

25. For most low-income countries, **undertaking PSIA based on extensive household surveys and time-series data will be not be easy due to data and capacity limitations.** A recent limited review by Bank and Fund staff of 12 PRSP countries⁸ found that few at present had sufficiently comprehensive and consistent household survey data or adequate analytic capacity to assess the impact of policies over time. That said, some impacts can be determined using other sources, such as one-off household surveys, participatory poverty assessments, and other in-country studies and user surveys. The review also found that, in some countries, there was scope to make greater use of data and analytic capacity within government and civil society.

26. In addition to data and capacity limitations, **countries face significant methodological and analytical challenges to conducting PSIA.** These include: ascertaining the appropriate counterfactual; developing models that are simple enough to be tractable, given the limited data availability; designing analytical methods capable of capturing key

⁷ Sometimes termed “Social Impact Analysis (SIA).”

⁸ Albania, Burkina Faso, Cameroon, Georgia, Guinea, Mauritania, Mongolia, Mozambique, Pakistan, Vietnam, Uganda, and Zambia.

relationships; and combining qualitative and quantitative data to enhance the understanding of the impacts of policy.

27. Most countries will, therefore, need significant assistance from development partners, including the Bank and Fund, to strengthen data and analytic capacity and to develop new methods. **This is a long-term endeavor, and it will be important to be realistic about how quickly progress can be made. Countries will need to be selective in the reforms that are analyzed, and in the short term rely on simpler techniques that do not overstretch their capacity or data.** The Bank has a substantial program in place to support countries' efforts. In the areas of data collection and analysis, the Bank is providing assistance through its country-specific projects and loans. In addition, global and regional programs, such as PARIS21 and the Regional Program to Improve the Measurement of Living Conditions (MECOVI) in Latin America—which the Bank supports with a host of other partners—and the World Bank Institute's Attacking Poverty Program aim to strengthen systems and capacity for data collection and analysis. The Fund's General Data Dissemination System is also supporting statistical capacity building. Other partners supporting work in this area include the UK Department for International Development (DfID), which has offered to assist several countries in their PSIA efforts.

28. **The Bank is also actively helping countries fill gaps in PSIA through its programs of analytical and technical assistance.** These are designed to help countries improve the use of existing data in order to explain the impact and trade-offs of policies. For example, the Bank is assisting Vietnam to analyze the potential impacts of trade liberalization, Chad to conduct ex ante analysis of cotton sector reform, and Albania to assess the impact of pension reform. During the coming year, Bank staff will intensify analytical support to a set of PRSP countries, with a view to assisting countries in undertaking PSIA for priority reforms, while also building their capacity. The 'country cases' will be used to identify and disseminate best practices for wider application. These activities will inform the revision of Bank guidelines for poverty analysis intended to strengthen further Bank support to country efforts in PSIA.

29. **In the short term, the Bank's focus will be to assist countries to analyze the impact of individual reform measures with likely significant poverty and social impacts,** such as a major privatization, liberalization of import tariffs or domestic prices, or expenditure and revenue policy changes. These reforms are found in many PRSPs, and there is a variety of tools available to analyze their impacts. The Bank has undertaken PSIA of this type, including analysis of privatization of the state copper company in Zambia, and of state enterprise reform in Vietnam. Going forward, the Bank will aim to ensure that these analyses are undertaken more systematically and that they have a bearing on the policy debate.

30. **Over the longer term, the Bank will seek to help countries analyze the impact of their broader reform agenda.** DfID are also keen to support work in this area. This is a significantly more challenging avenue of work, as the tools of analysis are much less well developed, the methodological issues are less tractable, and there is a lack of consensus

among practitioners as to the likely impacts. Progress in this area will, therefore, likely be more measured.

31. In the area of methodology, the Bank and Fund are working with partners in academia and other development institutions to **develop new tools for PSIA and to address methodological challenges**. Progress to date in developing tools to assess the poverty and social impact of macroeconomic policies was discussed in a recent Bank-Fund workshop, involving outside practitioners.⁹ New technical approaches, such as micro-simulation techniques, in conjunction with other methods, have the potential to be useful, but they require substantial data and some analytical issues remain unresolved. Various models for analyzing the poverty impact of macroeconomic policy changes have been tested in Burkina Faso, Mauritania, Madagascar, and Zambia; and new tools to assess the effect of public expenditure on growth and poverty have been applied in Tanzania and Zambia. The Bank plans to develop a “toolkit” of PSIA methods, including quantitative and qualitative techniques, which can be applied in countries of varying capacity and data, and will be co-hosting a workshop on the subject with DfID in 2002.

(ii) PSIA in Future Bank and Fund Supported Programs

32. In addition to supporting country capacity to undertake PSIA, the **Bank and Fund will work to integrate PSIA more fully into the programs that the institutions support**. This will be a long-term effort, given the country constraints identified above. Past practice in incorporating PSIA in the design of Bank and Fund operations has varied. The Bank-Fund review mentioned above found that there is scope to undertake PSIA more systematically, and to reflect the analyses more explicitly in Bank and Fund documents and in program design.

33. For the Bank’s part, interim guidelines for the PRSC call for **ex-ante analysis of the social and poverty reduction impact of the Bank-supported reform program** (see Annex 2). The first PRSCs—for Vietnam and Uganda—both reflect analysis undertaken by the respective governments in preparing their poverty reduction strategies, as well as by the Bank. Where ex-ante analysis identifies weaknesses that would likely impede the effective implementation of the country’s poverty reduction strategy, the CAS would typically specify how the Bank’s assistance program would help address such weaknesses, including through the PRSC or other Bank supported operations. Drawing on the poverty and social impact analysis underpinning the PRSP, and (as appropriate) on additional work supplementing this analysis, the PRSC documentation would describe the likely poverty and social impact of the policy and institutional reforms supported by the Bank (and of the associated macroeconomic policies); the alternative reforms considered; and the measures the authorities are taking to enhance positive and mitigate any adverse impacts. It would also lay out in detail the

⁹ Micro-Macro Linkages: Tools, Surveys and Models for Monitoring and Designing Poverty Reduction Strategies, July 3, 2001.

country's arrangements and benchmarks for monitoring progress in achieving the poverty reduction objectives supported by the PRSC, and the regular reporting that is part of Bank preparation and supervision work.

34. Guidelines for the Bank's Country Assistance Strategy call for an analysis of macroeconomic and structural policies and a discussion of the social, political economy, and institutional factors, including for capacity building, that need to be considered while formulating the Bank Group's strategy. The CAS also assesses the adequacy and vintage of the stock of knowledge from Bank ESW and other country and development partners' work, including in the area of PSIA, and indicates how the Bank's non-lending program will address any gaps. **The Bank will also consider how PSIA can be reflected in its non-PRSC adjustment lending to low-income countries** as part of the recently launched process of revising its Operational Directive (OD 8.60) on *Adjustment Lending Policy*, and its conversion into Operational Policy/Bank Procedures.

35. For the Fund's part, **all PRGF reports are expected to include a description of the PSIA being carried out in the country and a summary of the Fund staff's discussions with the authorities of the poverty and social impact of key reform measures, and indicate how these have affected the policy choices and the design of any accompanying countervailing measures.** Examples to this end would be the most recent PRGF staff reports on Guinea and The Gambia, which included a description of a dialogue with the authorities and/or civil society on the likely channels through which key policies contained in the PRGF-supported program could impact on poverty. The Fund staff will endeavor to base its policy discussions on, and include in its reports, more rigorous PSIA analyses carried out by the authorities themselves, the World Bank, and other partners in the context of developing the country's poverty reduction strategy. **The Bank will normally be expected to take the lead in assisting PRSP countries in carrying out PSIA in line with its role as 'lead agency' (vis-à-vis the Fund)** in supporting countries' social and structural agenda. This reflects the improved division of labor between the two institutions (see paragraphs 38 and 39 below) by which the Bank will provide support to the PRSP process through both its lending and non-lending programs, as set out in the CAS. Bank-Fund coordination of support for PSIA should take place early in the development of the CAS.

Tracking of Poverty Reducing Expenditures

36. Following a preliminary review of 25 HIPC's in February, the Executive Boards concluded that **strengthening public expenditure management (PEM) systems to track poverty reducing spending is an urgent priority.** They requested that staff work with national governments to review their preliminary assessments of the strength of these systems, identify key weaknesses and map out action plans to address the deficiencies over the short and medium term. Over the past six months, staff have discussed the findings of the assessments with countries, and have broadly confirmed their initial conclusions. **Country-**

owned action plans to improve PEM have been developed with seven countries.¹⁰ These identify additional assistance required to upgrade PEM systems, after taking account of ongoing support and countries' absorptive capacity. In the case of Zambia and Honduras, the action plan includes improvements to budget classification of poverty-reducing spending and expanded use of tracking surveys. A major issue in Burkina Faso and Zambia is the need to capture fully foreign-financed capital expenditure in the budget and fiscal reporting system. Benin and Burkina Faso face additional challenges in tracking poverty-reducing spending at the subnational level.

37. Further Bank and Fund missions are planned, with the **objective of developing action plans for all 25 HIPCs by the end of the year.** These will serve as the main input to a **Bank-Fund** report to the two Boards by the end of 2001. This report will focus on the steps required to address weaknesses in the PEM system over the short to medium term and on the assistance that has been provided and that will be required. Given the importance of improving national public expenditure management systems for the success of the PRSP approach, it is expected that PRSPs will include both short- and medium-term corrective measures drawing on the action plans. These measures, as identified in the PRSPs, would be incorporated into the Fund's PRGF programs via appropriate conditionality for improved accountability in public resource management. Similarly, they would be supported through Bank operations, as for example in the recently approved PRSC for Uganda which focuses on improving the delivery of public services, including through reform of public financial management and procurement.

Bank-Fund Coordination in Program Design and Conditionality

38. Experience in Bank-Fund collaboration and streamlining of conditionality was reviewed by the Executive Boards during their recent consideration of a joint staff paper on Bank-Fund Collaboration in Program Conditionality.¹¹ Directors reaffirmed the three principles for collaboration set out in the 1998 agreement between Bank and Fund managements—clarity about responsibilities, early and effective coordination, and separate accountability. **To support a clear delineation of responsibilities for particular areas of policy, Directors agreed that it would be useful to adopt the practice of identifying one institution as the “lead agency” for each area of policy, but cautioned that this should not undermine country ownership.** They also specified that future Board documents should systematically set out the lead agency staff's view on relevant policy issues and conditionalities as an input into Board discussions. Early and systematic information sharing between the Bank and the Fund, drawing on the views/expertise of the lead agency in its areas of responsibility, was considered to be essential to benefit from the complementary

¹⁰ Benin, Burkina Faso, The Gambia, Honduras, Mozambique, Nicaragua, and Zambia.

¹¹ *Streamlining Structural Conditionality—Review of Initial Experience*, SM/01/219 and SecM 2001-0461 (7/12/01).

areas of expertise of the two institutions. In the case of low-income countries, Board members noted that Bank and Fund country teams should exchange views early during the PRSP process on key macroeconomic, structural and social issues facing a country, and on options for policy reforms, including sequencing.

39. Directors stressed the purpose of streamlining conditionality was to **make Bank and Fund program conditions more selective, focused, and effective**. Conditionality in macroeconomic and closely related structural areas (within the Fund's areas of responsibility) will be applied under the PRGF arrangement, while conditionality in structural and social policy areas (within the Bank's areas of responsibility) will be applied under the PRSC or other Bank operations.¹² Exceptions would normally be made only in cases in which a structural measure falling within the Bank's area of responsibility has a direct and critical impact on macroeconomic stability. In such cases, responsibility for advice to the governments on designing the measure and for monitoring and evaluating performance would rest with the Bank, with the Fund staff basing their own assessment on that of the Bank.

40. It was recognized that **Bank and Fund responsibilities will overlap in some areas of public expenditure management, financial sector reform, poverty and social impact analysis, and governance**. With regard to PEM issues, the Fund will normally focus on budget classification, internal control and reporting systems, and fiscal data quality, while IDA will focus normally on the medium-term development of institutions of budget formulation, implementation, and monitoring (including medium-term expenditure frameworks, sector expenditure programs, and financial management, procurement and audit mechanisms), as well as analysis of the impact of public spending on poverty reduction. In other overlapping areas, case-by-case solutions will need to be agreed at the country level.

Progress with Poverty Reduction Support Credits

41. **The Bank has issued Interim Guidelines for Poverty Reduction Support Credits (PRSCs)** as a lending instrument to support countries' poverty reduction strategies and to complement the Fund's PRGF (see Annex 2). These interim guidelines will be revised, as necessary, in light of the early experience with PRSCs. A PRSC program will typically involve a series of two or three operations that together support an IDA country's medium-term policy and institutional reform program to help implement its poverty reduction strategy. PRSCs will support low-income countries with strong programs.¹³ **The first**

¹² There will be a gradual roll out of PRSCs. As a result, there will likely be several countries with PRGFs already in place that may not be ready for a PRSC. For these countries, conditionality in the Bank's areas of responsibility will be applied through other instruments, typically medium-term adjustment lending, as well as analytical/advisory support and technical assistance.

¹³ The criteria on which individual PRSC operations are to be based are set out in Annex 2.

PRSCs—for Uganda and for Vietnam—have been approved by the Bank Board.¹⁴ Each credit was designed to support the priority reforms established in the countries' nationally-owned poverty reduction strategies. In the case of Uganda, where structural and social policy reforms are generally well advanced, the PRSC focuses on improvements in public sector management and service delivery in education, health, and water. In Vietnam, where significant progress has been achieved in the delivery of social services, the PRSC is supporting reforms of state-owned enterprises, the banking system, and the incentive regime designed to accelerate economic growth. The PRSC pipeline is gradually building up in line with progress on PRSPs, and the next operation (expected for Burkina Faso) is scheduled for Bank Board consideration before the end of 2001.

IV. DEVELOPMENT PARTNERS: DONOR SUPPORT, OUTREACH AND FEEDBACK

42. During the last six months, development partners have been intensifying their support to countries' poverty reduction efforts. To stimulate and deepen collaboration amongst partners, the Bank and Fund have continued to participate in external outreach activities (see list of events in Annex 3).

A. Donor Support and Aid Modalities

43. The full benefit of the PRSP approach hinges on the **willingness of development partners to use country strategies as the basis of their aid programming decisions**. Many donors including the UK, Netherlands, the EC, and the Nordic countries have committed to aligning their aid to PRSPs. **The challenge going forward is for donors to translate these intentions into new aid modalities**. Some progress has been made since the Spring Meetings on this front. The EC has agreed to channel grant finance to Burkina Faso, Benin, Mozambique, and Madagascar through its new "Poverty Reduction Support Grant," which will mirror the timing and conditions of the Bank's PRSC. Japan has agreed to allocate part of its PHRD (Policy and Human Resources Development) funds to support participatory processes in PRSP countries. In recognition of the practical obstacles that many donors still face in aligning their aid to the PRSP approach, the OECD's DAC is considering the institution of regular reviews of donor coordination in PRSP countries. Effective coordination with regional development banks is also important for strengthening international support for the PRSP approach.

¹⁴ Uganda Poverty Reduction Support Credit—IDA/P2 442—UG; and Vietnam Poverty Reduction Support—IDA/R200/0060.

B. Outreach and Feedback

44. *Strengthening collaboration with the UN system.* Bank and Fund staff have continued to work collaboratively with UN system colleagues engaged in supporting countries' poverty reduction efforts. Bank staff have participated in discussions with UN agencies on both the CDF and PRSP approaches. Also, the Bank and Fund are working with UN institutions and the OECD on appropriate mechanisms and institutional arrangements for monitoring progress towards the International Development Goals (IDGs). **Progress has been made on establishing a single set of development goals** that align the IDGs and the Millennium Declaration Goals, and establishing a common set of targets and indicators.¹⁵ The PRSP process has been accepted as the basis for country-level monitoring of progress toward achievement of these development goals, while global monitoring will require intense collaboration among all the various institutions—UN, World Bank, IMF, and OECD. Work has also been initiated by the UN and the OECD, with Bank and Fund support, to identify indicators to monitor the effectiveness of donor support in areas such as market access, debt relief and capacity building. In addition, Bank staff have recently held consultations with the ILO and UNDP on the on-going collaboration in the PRSP process, including the UNDP's co-sponsorship of the upcoming East Asia PRSP workshop, in which the Asian Development Bank is also expected to participate mentioned above.

45. *Collaboration with other donors.* Bank and Fund staff continued to participate in discussions with representatives of other multilateral and bilateral agencies on PRSP-related issues. At the May 2001 technical group meeting of the Strategic Partnership with Africa (SPA), the value of the PRSP process was reaffirmed and discussions focused on the extent to which PRSPs were sufficiently comprehensive, were reflected in HIPC or PRGF conditionality, and were being institutionalized within countries' policy making processes. **The need to assess and disseminate best practices by countries and donors in the PRSP process**—from elaboration of the PRSP to implementation and evaluation—was recognized. The SPA is also considering ways to improve aid coordination through a pilot program to harmonize donor procedures and conditions. Furthermore, several bilateral donors (including the Utstein group¹⁶) have expressed concern in recent discussion with Fund staff that **unrealistic expectations on the part of the international community as to the speed of implementation were out of step with country capacity.**

46. *Non-Governmental Organizations (NGOs).* NGOs have continued to provide, since the spring, important feedback on the PRSP framework and on individual country experiences. Several NGOs (e.g., Bread for the World, International Cooperation for Development and Solidarity (CIDSE), Caritas International, OXFAM, Christian Aid, and

¹⁵ It is proposed that these aligned goals be termed the Millennium Development Goals (MDGs).

¹⁶ Germany, Netherlands, Norway, and UK.

Eurodad) are now actively engaged in disseminating information and supporting in-country strategy development. Several northern NGOs are also helping build institutional capacity in southern civil society organizations. For example, Eurodad is embarking on a four-year “Share and Shift” program funded by the Dutch government. The aim is to draw on academic work, compile best practices regarding information dissemination and advocacy activities, and develop linkages with other civil society organizations in low-income countries.

47. While many NGOs have been supportive of the PRSP approach, **several reservations have been expressed about the quality of country ownership, participatory processes, and program implementation**. Some NGOs have questioned the extent of country ownership of poverty strategies, arguing that the Fund and the Bank still retain a strong influence over the policy content. With regard to participation, NGOs have called for: the Bank and Fund to be more active in encouraging participation, while respecting government leadership; greater civil society participation in the choice of macroeconomic and structural reforms; greater inclusion of local NGOs; and the link between the PRSP process and the HIPC Initiative not to undermine participatory processes. Issues that have been raised on program implementation include: the need for the Fund and Bank to move rapidly on the issue of poverty and social impact analysis; calls for the two institutions to provide more explicit rationale for their policy advice; the need to ensure that macroeconomic frameworks are flexible enough to integrate poverty reduction objectives; and the need for further efforts, including research, in designing pro-poor growth policies. These concerns will be considered in the PRSP review.

V. THE REVIEW OF THE PRSP APPROACH¹⁷

48. In December 1999, the **Bank and Fund Boards requested a review of the PRSP approach to be carried out by the end of 2001 with external participation, including contributions from member countries, international agencies, other aid providers, and civil society**.¹⁸ The review was launched in August 2001. Its output will be a joint paper for the Bank and Fund Executive Boards and for the Spring Meetings that will take stock of the experience to date compared to the original objectives of the PRSP approach and will

¹⁷ See *Review of the PRSP and the PRGF*, EBS/01/112 (7/6/01) and IDA/SecM2001-0465 (7/9/01) for more details on the approach for carrying out the joint review of the PRSP by Bank and Fund staff and the review of the PRGF by Fund staff.

¹⁸ Separately, the Fund Board called for a review of the Poverty Reduction and Growth Facility (PRGF). This will be done in conjunction with the PRSP review, also with external input, and will focus on the degree to which the “key features” or main principles underlying the facility have been reflected in new three-year arrangements and new annual programs under ongoing arrangements (see *Key Features of PRGF-Supported Programs*, SM/00/193 (8/17/00)).

propose to the Boards any desirable modifications in implementation based on this early experience.

49. **The primary focus of the review will be both the *content* and *process* of full PRSPs that have been completed by end-December 2001.** Consideration will be given to experience with Interim PRSPs mainly with respect to *process* questions (e.g., how well governments have taken the initiative to manage the PRSP process). As many I-PRSPs have been quite substantive in policy terms, issues of *content* will be reviewed where appropriate. The precise coverage of the report will reflect information available through 2001.

50. Issues that may be addressed on *content* include:

- the quality of PRSPs in terms of the core questions set forth in the guidelines for joint staff assessments of full PRSPs. These questions cover poverty diagnostics; targets; indicators and monitoring; and priority public actions.
- the poverty focus of the growth strategies underlying PRSPs; the coverage of governance issues; the poverty and social impact of public actions; and the extent to which policy measures have been prioritized and costed.
- how the strategies developed under the PRSP approach differ from earlier national strategies and plans.
- whether institutional capacity and available financing have constrained the development of effective strategies.
- how far the PRSP process might in future contribute to the attainment of the IDGs and other long-term development goals.
- assess the extent to which the push for implementation of the HIPC Initiative has affected the quality of initial I-PRSPs and PRSPs, and to the extent that it has, consider whether and how expectations for the content of PRSPs should be built into the approach.
- how far the effectiveness of PRSPs is affected by trade restrictions and by the level and allocation of existing aid flows.

51. With respect to *process*, the review will seek to address issues such as:

- whether low-income country governments have been leading the process of articulating their own long-term development visions and poverty reduction strategies as a basis for guiding their own policies and external assistance. Have PRSPs been adequately integrated with the countries' core processes for policy making, including medium-term expenditure frameworks?

- how governments have implemented participatory processes intended to improve the design of, and to build understanding and broad-based ownership for, a national strategy. How have these processes influenced the content and implementation of poverty reduction strategies. For example, has broad based participation led to difficulty in reaching consensus on key reforms? In light of experience, should JSAs provide a view on the quality of the participatory process? To what extent has the PRSP process improved coordination between different government ministries?
- whether external development partners have contributed to the PRSP process within countries and begun to align their assistance behind PRSPs. Has the PRSP approach led to improved coordination with governments? The review will also consider how well the Bank and Fund staff have been supportive of government leadership, participatory processes, and partnerships within the PRSP context, and assess improvements in Bank and Fund collaboration. Finally, it will consider to what extent have the Bank and Fund and other development partners provided sufficient support to countries for the diagnostic work required to prepare their PRSPs.

52. There will be five main inputs into the review. First, Bank and Fund staff are presently undertaking a **stocktaking of the evaluations and studies of the PRSP approach that have been carried out by external partners**. Second, the staff are also assembling the **main findings from various PRSP regional country fora** and country specific PRSP workshops as input into the review. Third, staff have launched—via the Bank and Fund external web sites—**a general call for contributions from governments, development partners, and other stakeholders (including civil society groups)** regarding their views of, and experience with, the PRSP approach. Fourth, various analytical exercises will be drawn upon, (including tracking the application of the CDF principles in I-PRSP/PRSP countries), and other papers on key content and process issues will be commissioned externally. Finally, with a view to bringing together key actors in the PRSP approach and to drawing from and building upon the various analyses and inputs highlighted above, **an international conference will be held in early January 2002**. Representatives from governments in PRSP countries, the Executive Boards and staffs of the Bank and Fund, international and multilateral organizations, bilateral aid agencies, and civil society would be invited.

53. **In preparing the Board paper, Bank and Fund staff will draw upon the conference proceedings as well as the other contributions highlighted above. The Board paper will present the views of the Bank and Fund staff regarding the experience to date with the PRSP approach, including proposals for any appropriate changes required in guidelines and modalities of implementation.**

VI. CONCLUSION

54. As noted at the beginning of this report, the PRSP approach is nearing its second anniversary, and the early experience has been encouraging. Many low-income countries have developed their interim PRSPs and an increasing number will soon be completing their first full PRSP. Their attention will now shift towards implementing these strategies.

Development partners, including the Bank and the Fund, will in turn need to intensify their efforts to assist low-income countries to implement their comprehensive poverty reduction strategies. The upcoming comprehensive review of the PRSP will provide an important opportunity to take stock of the experience to date with the PRSP approach and, as appropriate, to consider changes in the framework that may be required. The full participation of PRSP countries, international organizations, bilateral donors, and domestic and international stakeholders will be critical to the success of the review, and to strengthening the framework within which the international community can support effective country-owned strategies for poverty reduction.

Table 1. Possible Country Timelines for Interim Poverty Reduction Strategy Papers (I-PRSPs), Poverty Reduction Strategy Papers (PRSPs), Country Assistance Strategies (CAS), Poverty Reduction and Growth Facility (PRGF), and HIPC Decision and Completion Points in 2000 1/

(Possible Timing of Board Discussions as Estimated by Bank and Fund Staff in Consultation with the Country Authorities)

Country	Apr - Jun 2001	July-Sept 2001	Oct-Dec 2001	Jan-Mar 2002	Apr-June 2002
Angola	...	...	I,F	...	...
Albania	...	...	...	P,R,S	...
Armenia	I,F,S	R	...	...	...
Azerbaijan	I,F	...	R	...	S
Benin	...	R	P,C,S	...	...
Bolivia	P,C,S*,R	...	R	R	...
Bosnia and Herzegovina	...	...	I,S*	...	...
Burkina Faso	...	R	R,C,PP	...	R
Burundi	...	...	I,S	...	...
Cambodia	...	R	IP	R	P,S*
Cameroon	...	R	...	P,R,S	...
Central African Republic	...	...	F,P	...	...
Chad	D,R	...	P,R	...	R
Comoros	...	...	...	...	I
Congo, Democratic Republic of	...	...	...	I,F	...
Congo Republic of	...	...	...	F	I,R
Côte d'Ivoire	...	...	I	F	S*,D
Djibouti	...	...	I,R	...	...
East Timor	...	...	...	...	I
Eritrea	...	...	...	I,S*	...
Ethiopia	...	R	R,D	...	P,S
Gambia, The	...	R	R,F	P	S
Georgia	R	...	P	...	...
Ghana	R	...	P,R,D	...	R
Guinea	F	S*	P,R	...	...
Guinea-Bissau	...	...	R	...	P
Guyana 2/	R	R	R,P	C,S	...
Honduras	...	P,R	...	R	...
Indonesia	...	...	...	...	I
Kenya	...	...	R,S,P	...	...
Kyrgyz Republic	...	S	I,F	...	...
Lao, PDR	I,F	...	R	...	R,IP
Lesotho	...	R	S*	IP	P
Macedonia, FYR	...	...	P	S	...
Madagascar	...	...	...	P,R,S	...
Malawi	...	...	R	P,S	R
Mali	...	R	R,P,C	...	R
Mauritania	R	...	R	...	...
Moldova	R	...	...	R,P,S	...
Mongolia	...	I,F	...	R	...
Mozambique	...	R,C,P	...	...	R
Nepal	...	S	I,F	...	...
Nicaragua	...	P	...	...	R
Niger	...	R	R,S	P	...
Nigeria	...	I	...	...	...
Pakistan	S*	...	I,F,S	...	...
Rwanda	S	R	R,F,P	...	...
Sao Tomé and Príncipe	...	...	R	...	P,R
Senegal	...	R	...	R,C,P	F,S
Sierra Leone	...	I,F	R	...	R,S*
Sri Lanka	...	...	...	P,F	S
Tajikistan	R	R	P,R,S	...	...
Tanzania	...	R	C,PP	...	...
Togo	...	...	I,F	D	...
Uganda	...	...	F	...	PP
Vietnam	I	...	R	...	R,IP,P,S
Yemen, Republic of	R	...	R	F,P	R,S
Zambia	...	...	P	...	S

I -- Interim PRSP

P -- PRSP

IP--Interim PRSP Progress Report

PP--PRSP Progress Report

S -- Country Assistance Strategy

S*--Country Assistance Strategy Update

D -- HIPC decision point, enhanced Initiative

C -- HIPC completion point, enhanced or original Initiative

F -- New PRGF 3-year arrangement

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

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

2/ The first review of the program supported by the second annual arrangement under the PRGF required two missions, one in June and another in September. Board consideration of the review is scheduled for October and a mission to negotiate a new three-year arrangement would take place in November-December 2000.

Table 2
Status of I-PRSPs and Full PRSPs Discussed by Bank and Fund Board
Between December 1999 and August 2001

Region/Country	I-PRSP/PRSP	Bank Board Date for I-PRSP/PRSP	Fund Board Date for I-PRSP/PRSP
<i>Africa</i>			
Tanzania	I-PRSP PRSP	Apr 4, 00 Nov 30, 00	Mar 31, 00 Dec 1, 00
Sao Tome & Principe	I-PRSP	Apr 27, 00	Apr 28, 00
Uganda*	PRSP	May 2, 00	May 1, 00
Senegal*	I-PRSP	Jun 20, 00	Jun 21, 00
Burkina Faso*	PRSP	Jun 30, 00	Jul 10, 00
Benin*	I-PRSP	Jun 13, 00	Jul 17, 00
Chad*	I-PRSP	Jul 25, 00	Jul 25, 00
Kenya	I-PRSP	Aug 1, 00	Jul 27, 00
Zambia	I-PRSP	Aug 4, 00	Jul 26, 00
Ghana	I-PRSP	Aug 24, 00	Aug 22, 00
Mali*	I-PRSP	Sep 7, 00	Sep 6, 00
Cameroon*	I-PRSP	Oct 10, 00	Oct 11, 00
Guinea-Bissau*	I-PRSP	Dec 14, 00	Dec 15, 00
Gambia*	I-PRSP	Dec 14, 00	Dec 11, 00
Madagascar*	I-PRSP	Dec 19, 00	Dec 21, 00
Niger*	I-PRSP	Dec 20, 00	Dec 13, 00
Malawi*	I-PRSP	Dec 21, 00	Dec 21, 00
Rwanda*	I-PRSP	Dec 22, 00	Dec 20, 00
Guinea*	I-PRSP	Dec 22, 00	Dec 20, 00
C.A.R.	I-PRSP	Jan 18, 01	Jan 9, 01
Mauritania	PRSP	Feb 6, 01	Jan 26, 01
Lesotho	I-PRSP	Mar 6, 01	Mar 9, 01
Ethiopia	I-PRSP	Mar 20, 01	Mar 19, 01
Mozambique	I-PRSP	Apr 6, 00	Apr 7, 00
<i>Europe and Central Asia</i>			
Albania	I-PRSP	Jun 8, 00	Jun 9, 00
Tajikistan	I-PRSP	Oct 31, 00	Nov 3, 00
Macedonia, FYR	I-PRSP	Dec 14, 00	Dec 15, 00
Moldova	I-PRSP	Dec 19, 00	Dec 15, 00
Georgia	I-PRSP	Jan 11, 01	Jan 12, 01
Armenia	I-PRSP	May 22, 01	May 14, 01
Azerbaijan	I-PRSP	Jul 5, 01	July 2, 01

Table 2 (continued)

**Status of I-PRSPs and Full PRSPs Discussed by Bank and Fund Board
Between December 1999 and August 2001**

Region/Country	I-PRSP/PRSP	Bank Board Date for I-PRSP/PRSP	Fund Board Date for I-PRSP/PRSP
<i>Latin America and Caribbean</i>			
Bolivia*	I-PRSP	Jan 27, 00	Feb 4, 00
	PRSP	Jun 5, 01	Jun 8, 01
Honduras	I-PRSP	Jul 6, 00	Jun 30, 00
Guyana*	I-PRSP	Nov 16, 00	Nov 13, 00
Nicaragua*	I-PRSP	Dec 21, 00	Dec 18, 00
<i>East Asia and the Pacific</i>			
Vietnam	I-PRSP	Apr 12, 01	Apr 6, 01
Lao PDR	I-PRSP	Apr 24, 01	Apr 23, 01
Cambodia	I-PRSP	Jan 18, 01	Jan 5, 00
<i>Middle East and North Africa</i>			
Yemen	I-PRSP	Feb 27, 01	Feb 28, 01

*Accompanied by HIPC Decision Point document.

ANNEX 1

GUIDELINES FOR PRSP PREPARATION STATUS REPORTS AND ACCOMPANYING JSAS

If a country requests continued access to Fund concessional assistance, but has not completed its full PRSP within one year of its initial I-PRSP, it would be required to provide a report to the Boards of the Bank and the Fund indicating the progress that had been made in developing its full PRSP.¹ The guidelines set out below are intended to assist countries in the preparation of reports on status of PRSP preparation and staff with respect to the accompanying Joint Staff Assessments (JSA). The principle underlying these guidelines is that the administrative burden on both countries and Bank-Fund staff should be minimized, since priority attention should remain on finalizing the full PRSP.

The PRSP Preparation Status Report can be short (2-4 single-spaced pages), but should address the following key questions:

1. What has been the progress in developing the full PRSP with respect to the timetable and action plan set out in the I-PRSP? In this regard, it is expected that the report would highlight progress and major constraints in the areas to be assessed in the forthcoming full PRSP (i.e., participation; poverty diagnosis; targets, indicators, and monitoring; and priority public policies), bearing in mind the issues raised by the staff in the earlier JSA.
2. To what extent (if any) has the timetable, road map, and/or expected completion date for the full PRSP been revised?
3. What additional steps are the authorities taking, including seeking technical assistance, to complete the full PRSP in coordination with civil society and external partners?

The accompanying JSA of a PRSP Preparation Status Report should also be short (1-2 single-spaced page) documents which provide the staff's views of the authorities' report with respect to the three questions set out above. In particular, staff would be expected to comment on the feasibility of the revised timetable and action plan, and the extent to which issues raised in the JSA of the I-PRSP have been or are being addressed. If the authorities are seeking technical assistance to complete their PRSP, the JSA should take a position as to

¹ *Heavily Indebted Poor Countries Initiative and Poverty Reduction Strategy Papers—Progress Reports*, EBS/00/183 (8/30/00) and SEC/M2000-487 (8/15/00). Ordinarily, IDA adjustment lending would not take place in the absence of a PRGF, nor is an IDA country likely to move to a high case lending scenario without a PRSP in place.

whether this assistance is likely to be forthcoming and provide a likely schedule for its delivery.

If the staffs are satisfied that progress on the PRSP has been adequate overall, then the JSA would conclude with the following statement: “The staffs of the World Bank and IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.”

ANNEX 2

INTERIM GUIDELINES FOR POVERTY REDUCTION SUPPORT CREDITS

1. The Poverty Reduction Support Credit (PRSC) is a CAS-based development assistance instrument, supporting an IDA-eligible country's policy and institutional reform program to help implement its poverty reduction strategy. The PRSC is grounded in the principles of the Comprehensive Development Framework (CDF) and the international development goals.¹ Over time, it is expected to become an important vehicle of IDA financial support to low-income countries with strong programs, anchoring the Bank's overall support for their poverty reduction strategies. These interim guidelines will be kept under review and revised, as necessary, in light of the early experience with PRSCs.

2. **Context.** The Development Committee paper, *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries*, spelled out the process by which the Bank customizes its country support. As indicated there, the Bank starts with the country's own vision, with the Poverty Reduction Strategy Paper (PRSP) setting out the country's poverty reduction strategy and the priority public actions it expects to achieve its goals. Utilizing country-based economic and sector work (ESW), Bank and Fund staff provide a Joint Staff Assessment (JSA) of the adequacy of the PRSP—and of the country's commitment and capacity to implement it—as a strategy for achieving sustained growth and poverty reduction and making progress toward the international development goals. In turn, the PRSP and JSA feed into the Country Assistance Strategy (CAS) and PRSC processes, which will increasingly be synchronized.² It is expected that the PRSP/PRSC framework will allow donors to combine their efforts behind a single program, with consistent and harmonized monitoring and evaluation focusing on results at the project, program, and country levels.

3. **Features.** A PRSC program typically involves a series of two or three operations (individual PRSCs) that together support the country's medium-term development and reform

¹ See 2000, *A Better World for All: Progress towards the International Development Goals*, jointly issued by the IMF, Organization for Economic Co-operation and Development, the United Nations, and the World Bank Group (Washington, D.C.: International Monetary Fund, 2000), available at <http://www.paris21.org>.

² It is expected that, after July 1, 2002, IDA CASs presented to the Bank's Board would normally be based on a PRSP, which would provide the context for all IDA lending and non-lending activities. See *Poverty Reduction Strategy Papers (PRSPs) Progress in Implementation*, (SecM2000-0487), August 14, 2000, and *Poverty Reduction Strategy Papers (PRSPs) Progress in Implementation*, (DC/2000-18), September 7, 2000. After a transition period of initial build-up in the pipeline of PRSPs and PRSCs, it is expected that PRSCs would normally be finalized and presented to the Board together with or shortly after the consideration of the PRSP, JSA, and CAS.

program to implement its poverty reduction strategy.³ Its specific structure depends on country circumstances, including the objectives and nature of the country's reform program that it supports and the timing of the requirement for assistance.

- The medium-term program supported by a PRSC series (Medium-Term Program) principally draws from and elaborates on the country's PRSP and takes into account the JSA's analysis of the adequacy of that strategy. It is set out in the government's Letter of Development Policy (LDP) and multi-year matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks.⁴ The time horizon of the PRSC series ideally corresponds to the PRSP and CAS periods.
- A PRSC series may include single-tranche as well as multi-tranche operations.⁵ It is expected that single-tranche PRSCs may normally be appropriate for countries with a relatively strong track record of performance, whereas two-tranche operations may normally be appropriate for countries without an adequate track record, or where close monitoring is useful in the implementation of the program.
- Each individual PRSC in the series is made based on (a) the receipt of an acceptable LDP; (b) a satisfactory macroeconomic framework;⁶ (c) the up-front completion of a set of specific social and structural reform measures ("prior actions"), agreed at negotiations and set out in the LDP/multi-year matrix, and focused on priority actions that are critical for the success of the Medium-Term Program and are expected to have a substantial impact on sustainable growth and poverty reduction; and (d) on satisfactory progress in carrying out the Medium-Term Program, based on a review and assessment by staff, against the CAS triggers and the overall set of social and structural actions set out in the LDP/matrix. In this review and assessment, staff also

³ Throughout these Interim Guidelines, references to PRSP indicate that normally a full PRSP considered adequate in the Joint Staff Assessment will provide the basis for the Medium-Term Program supported by a PRSC series. However, during the transition period of initial build-up in the pipeline of PRSPs and PRSCs, an Interim Poverty Reduction Strategy Paper (I-PRSP) may provide the basis for a PRSC program in exceptional cases—if the I-PRSP describes an adequately developed and broadly framed country-owned poverty reduction strategy and this is set out in the Joint Staff Assessment. In this case, the Medium-Term Program may be updated or revised in the full PRSP, and the design of the series of PRSCs will also be reviewed and adjusted as appropriate.

⁴ Depending on the coverage and specificity of the PRSP, it may serve as the primary vehicle for setting out the substance of the country's Medium-Term Program for poverty reduction to be supported by the PRSC, and the government's LDP can become a short cover letter referring to the attached PRSP.

⁵ Floating tranches may be considered.

⁶ A satisfactory macroeconomic framework includes domestic and external debt sustainability.

consider the results-focused indicators and benchmarks for monitoring the overall implementation of the poverty reduction strategy set out in the LDP/matrix.

- To the extent practicable, individual PRSCs are normally phased in line with the borrowing government's annual budget and policy cycle. The documentation for each individual PRSC clearly indicates how that operation is linked with preceding or subsequent PRSCs in the series (if any)—including the prior actions that have been completed, and the prior actions expected to precede and the policy areas expected to be covered in subsequent PRSCs.⁷ The second and any subsequent PRSCs in the series build on the previous ones; their prior actions (and any tranche conditions) are formulated and agreed when they are negotiated, drawing on the Medium-Term Program set out in the preceding PRSC. They each include an updated LDP and multi-year matrix, which reflect the evolving Medium-Term Program and specify the agreed prior actions and any tranche conditions. In moving from one PRSC to the next in the series, if progress is found to lag behind expectations, a judgment is made on whether to adapt the Medium-Term Program, to reduce the amount of the subsequent PRSC operation, or to delay the next operation until further progress has been made.
- Some PRSCs may focus mainly on economy wide policy or institutional issues, such as broad public sector reform; they are governed by the operational policies for structural adjustment credits. Other PRSCs may cover policy or institutional issues in key sectors such as infrastructure, health, education, or rural development; they are governed by the operational policies for sectoral adjustment credits. All PRSC series are also governed by the Bank's guidelines on programmatic adjustment lending.⁸

4. ***CAS and ESW Underpinnings.*** Two ex-ante integrative analyses are key inputs to the CAS and are expected to underpin the development of a PRSC program in a country: (a) a cross-cutting assessment of the country's social, structural, and key sectoral development policies, which covers the policy reform and institutional development priorities for sustainable growth and poverty reduction—including for enhancing positive and mitigating adverse impacts that the reforms being supported may have on poor people and other vulnerable groups and on the environment; and (b) an assessment of the country's

⁷ For HIPC countries, the triggers for subsequent PRSCs would be consistent with both the CAS triggers and the triggers for the HIPC completion point, which is expected to follow one annual progress report on the implementation of the PRSP. (For the few retroactive HIPC countries, the completion point could be reached with the preparation of a full PRSP and thus could roughly coincide with a first PRSC.)

⁸ See Operational Directive (OD) 8.60, *Adjustment Lending*, December 1992. See also the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, June 5, 2000, and the Operational Memorandum *Guidelines for Programmatic Adjustment Loans/Credits*, February 11, 2000, which are available at <http://wbln0011.worldbank.org/Institutional/Manuals/OpManual.nsf>.

public financial accountability arrangements, which covers its public expenditure, procurement, and financial management systems. These two integrative analyses normally constitute core diagnostic Bank ESW, drawing as needed on poverty assessments, public expenditure reviews, country procurement and financial accountability reviews, environmental and social analysis, and other more in-depth work carried out by the Bank, clients, and other development partners. Other ESW (such as sector-based institutional analysis) may also underpin the PRSC as appropriate. Where possible, such integrative analyses and other ESW should be undertaken through a close working partnership with the country in order to further capacity-building goals and broad understanding and ownership. This knowledge informs the Bank's advice to the country in its preparation of the PRSP, and the Bank's assessment in the JSA. It also informs the development of reform actions in the PRSC from the underlying PRSP. For all IDA borrowers, the CAS assesses the adequacy and vintage of the stock of knowledge from Bank ESW and other country and development partners' work, indicating how any gaps are to be addressed. Building on the CAS, the President's Report for each PRSC explains how the program for filling identified gaps will feed into subsequent PRSCs. As part of the costing of CASs, adequate resources are expected to be identified to cover the costs to the Bank of any needed analytic work associated with PRSCs.

5. ***Social Impact.*** The PRSC relies on an ex-ante analysis of the social (including gender) and poverty reduction impact of the Bank-supported reform program, typically undertaken in the context of the preparation of the PRSP and reflected in the JSA, and informing the integrative assessment of the country's social, structural, and key sectoral development policies. Where the JSA, core ESW, or similar analyses identify weaknesses in this area that would likely impede the effective achievement of the country's poverty reduction strategy, the CAS would typically specify how the Bank's assistance program would help address such weaknesses, including through the PRSC or other Bank supported operations. Drawing on the social impact analysis underpinning the PRSP, and (as appropriate) on additional work supplementing this analysis, the PRSC documentation describes the likely social impact of the policy and institutional reforms supported by the Bank (and of the associated macroeconomic policies), the alternative reforms considered, and the measures the authorities are taking to enhance positive and mitigate adverse impacts. It also lays out in detail the country's arrangements and benchmarks for monitoring progress in achieving the poverty reduction objectives supported by the PRSC, and the regular reporting that is part of Bank preparation and supervision work.

6. ***Environmental Impact.*** The appropriate treatment of environmental issues in PRSCs depends on their coverage and focus. If the PRSC is a structural adjustment credit, the requirements of Operational Directive (OD) 8.60 apply.⁹ When relevant, staff review environmental policies and practices in the country, take account of any relevant findings and

⁹ See OD 8.60, *Adjustment Lending Policy*, op. cit., and the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, June 5, 2000.

recommendations of such reviews in the design of structural adjustment programs, and identify positive and negative linkages between the various reforms proposed and the environment. If there are negative linkages, staff devise specific measures as appropriate to counteract the possible negative effects, or explain how mitigation is otherwise being achieved. If the PRSC is a sectoral adjustment credit, the requirements of Operational Policy (OP) 4.01 also apply.¹⁰ In this case, the findings and any recommendations of the environmental assessment (EA) are reflected in the Medium-Term Program and in PRSC conditionality, if and as required by OP 4.01. As early as possible in the preparation process, a working group including the Quality Assurance and Compliance Unit of ESSD, LEG, OPCS, and PREM gives guidance on the classification of a proposed PRSC as a structural or sectoral adjustment credit and, where applicable, further EA actions. For all PRSCs, the relevant environmental work may, where possible, be done upstream, as part of the PRSP and CAS processes.

7. ***Fiduciary Assessment.*** As noted, the PRSC relies on an ex-ante fiduciary assessment of the country's public expenditure, procurement, and financial management systems. Such assessment is expected to normally focus on:¹¹ (a) the comprehensiveness and transparency of the budget, with an appropriate focus on poverty-focused public spending; (b) the adequacy and transparency of systems to guide and monitor budget implementation, including procurement; and (c) the adequacy and transparency of systems for monitoring, reporting on, and auditing public financial flows, including the adequacy of the arrangements for disbursement, reporting, and auditing of PRSC proceeds.¹² Where the public expenditure review, fiduciary assessment, other core ESW, or similar analyses identify weaknesses in these areas that would likely impede the effective achievement of the poverty reduction strategy supported by the PRSC, the Medium-Term Program incorporates specific measures to address such weaknesses, including where appropriate as prior actions or conditions of

¹⁰ See OP 4.01, *Environmental Assessment*, January 1999. See also the Operational Memorandum *Clarification of Current Bank Policy on Adjustment Lending*, op. cit.

¹¹ For a more detailed possible list of indicative public expenditure management and financial accountability issues and benchmarks that could be the subject of fiduciary diagnostic work preceding a PRSC, see *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries* (IDA/SecM2001-0052/1), March 28, 2001, Table 1.

¹² General procedures governing adjustment lending are covered in OD 8.60 *Adjustment Lending Policy*, op. cit., and in the Operational Memorandum *Simplifying Disbursement Procedures*, February 8, 1996. Given the fungibility of resources, these procedures focus on the borrower's overall use of foreign exchange and budget resources, more than on the specific use of Bank funds. Disbursements are delinked from specific imports, and are made against a negative list of ineligible expenditures, based on satisfactory implementation of the adjustment program, including compliance with tranche release conditions and the achievement of a satisfactory macroeconomic framework. The Bank also reserves the right to audit a borrower's deposit accounts in its central bank into which the proceeds of the loan or credit are disbursed.

tranche release of individual PRSCs, or as prior conditions for subsequent PRSCs in the series.

8. ***Relationship between PRSC and PRGF.*** Both the PRSC and the IMF's Poverty Reduction and Growth Facility (PRGF) provide support of the country's poverty reduction strategy articulated in the PRSP, and Bank and Fund staff closely coordinate in their preparation. The following principles have been agreed:

- Given the important complementarities between the macroeconomic and the structural and social issues, there is a presumption—but no guarantee—that, after a transition period of gradual build-up in the pipeline of PRSPs and PRSCs, the Bank will normally provide support through a PRSC when the Fund provides support through a PRGF arrangement.¹³ When there are both a PRGF and PRSC, to the extent practicable they are negotiated on the same timeframe and proceed in parallel, building on the PRSP and the JSA.
- The Bank regards the presence of an on-track PRGF arrangement as adequate evidence that the macroeconomic framework is appropriate. When a PRSC is under consideration or performance under a PRSC is being reviewed without a companion PRGF in place, Bank staff ascertain whether the Fund has any major outstanding concerns about the adequacy of the country's macroeconomic policies. Fund staff aim to communicate this assessment to the Bank in time to be reflected in Bank reporting to its Board.
- Similarly, the Fund regards the presence of an on-track PRSC as adequate evidence that the social and structural program is appropriate. When a PRGF is under consideration or performance under a PRGF is under review without a companion PRSC, Fund staff will consult with Bank staff to ascertain whether the Bank has major outstanding concerns about the adequacy of the country's poverty reduction strategy, the social impacts of the macroeconomic policies supported by the PRGF, or the country's performance in meeting structural and social conditions in the areas of competence of the Bank.¹⁴ Bank staff aim to communicate this assessment to the Fund in time to be reflected in Fund reporting to its Board.

¹³ Reflecting the often short-term nature of macroeconomic reforms and often long-term nature of social and structural reforms, it is expected that in a number of countries there will be a transition period in which a PRGF supporting an initial predominantly macroeconomic program will be in place, while a full structural and social program to be supported by a PRSC is still being developed. Similarly, it is expected that for some countries, after a PRGF has supported effective macroeconomic stabilization, future PRSCs may support continuing structural and social reforms without a parallel PRGF, but with continued IMF monitoring and technical assistance.

¹⁴ See IMF, *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues (SM/99/293)*, December 13, 1999. That paper states: "For social policies, most poverty-reducing measures, and other

(continued)

- The Bank-Fund Joint Implementation Committee provides a mechanism to coordinate Bank and Fund efforts in assisting countries with PRSPs, preparing JSAs, and coordinating/reconciling differences on PRSCs and PRGFs, as needed.

9. ***Management and Board Review.*** Proposed PRSCs are reviewed by the Bank-wide Operations Committee before appraisal.¹⁵ The Operations Committee reviews the social, environmental, and fiduciary aspects of a proposed PRSC and provides guidance to the task team on their treatment. For all proposed PRSCs scheduled before a first management review and Board discussion on the experience with PRSCs, a Technical Briefing will be held to inform the Board early on about the planned PRSC. The responsible Managing Director signs off on the final documentation prior to presentation to the Bank's Board of Executive Directors. Each individual credit in a PRSC series, like all other adjustment credits, is presented to the Board for its review under regular procedures.¹⁶

structural policies within the Bank's primary mandate, the Fund staff should ascertain whether the Bank staff has any major outstanding concerns about the adequacy of implementation before the Fund staff and management make their own assessment of whether to recommend Board approval of a PRGF arrangement or completion of a review. It is expected that the views of the Bank staff would be given heavy weight in the assessment of progress in these areas. Furthermore, the views of the Bank staff regarding the implementation of the elements of the PRSP within their mandate would be included in each PRGF staff report."

¹⁵ For guidelines on the Operations Committee, see http://opcs/oc/ocguidelines_operations.pdf.

¹⁶ Information on Board document processing can be found on the website of the Bank's Corporate Secretariat: <http://lnts022/html/corpsec.nsf/boardnav?opemnavigator&Subject=BoardOperations-Advice>.

ANNEX 3

IMF AND WORLD BANK OUTREACH EVENTS, APRIL 2001-SEPTEMBER 2001

Over the last six months, Fund and Bank staffs have participated in a number of outreach events in connection with the PRSP program. The main ones are listed below.

- Joint Bank-Fund NGO Briefing on PRSPs and social impact assessment, Spring Meetings, Washington, DC, April 2001.
- OECD Informal Group of Multilateral Secretariats on partnership initiatives that can contribute to the success of poverty reduction strategies, Paris, April 2001.
- DAC High Level Meeting, Paris, April 2001.
- Drop the Debt Seminar, Washington, DC, April 2001.
- World Bank conference, *Voices and Choices at the Macro Level*, April 2001.
- PRSP Seminar organized by UK Department for International Development (DFID) and the World Bank, Cartagena, Colombia, April 2002. Participants included representatives from government and civil society groups from Bolivia, Guyana, Honduras, and Nicaragua as well as bilateral donors and representatives from the IDB.
- UNDP and IMF/World Bank meetings on improving coordination on poverty assessment work, Washington, DC, April 2001.
- IMF consultations with senior delegations in the Nordic-Baltic countries, the Netherlands, Germany, and the United Kingdom, May 2001.
- Third United Nations Conference on the Least Developed Countries (LDC-III) Conference, Brussels, May 2001.
- Strategic Partnership with Africa, Technical Group Meetings, Washington, DC, May 2001.
- ILO workshop on *Social Dimensions of Economic Policy Reform in Developing Countries: The Role of IFIs*, Turin, Italy, May 2001.
- PRSP Regional Learning Event organized by the IMF's Joint Africa Institute in Abidjan, Cote d'Ivoire, Africa. Delegates were drawn from civil service, NGOs, and academia from 15 African Countries, May 2001.
- IMF Meeting with Washington-based NGO on PRSPs, Washington, DC, June 2001.
- Steering Committee Meeting on Debt Relief and Poverty Reduction, organized by Debt Relief International, London, UK, June 2001.
- World Development Movement Annual Conference on Debt and Poverty Reduction, Manchester, UK, June 2001.
- World Vision Consultations with the Fund and World Bank on PRSPs, Washington, DC, June 2001.
- World Bank workshop on *Civic Engagement and Participation in Poverty Reduction Strategies*, Tblisi, Georgia, June 2001. Participants included government officials and civil society representatives (including labor unions) from Armenia, Azerbaijan, Georgia, and Moldova.
- Follow up meetings between European Commission, IMF, and World Bank staff to operationalize collaboration in the PRSP approach, Washington, DC, June 2001.

- Development Debates on Poverty Reduction, World Bank Institute Video Conference, Washington, DC, June 2001. These debates aim to link development specialists from government, academic institutions, and NGOs in a range of countries with experts elsewhere to stimulate learning and explore different policy options.
- Consultation between IMF and staff from the World Labour Congress and the International Confederation of Free Trade Unions (ICFTU) on the PRSP approach, Brussels, June 2001.
- Meeting with Swiss Parliamentarians on low-income country issues, June 2001.
- Consultation between delegation from the International Confederation of Free Trade Unions (ICFTU) and IMF and World Bank staff on the PRSP approach and the HIPC Initiative, Washington, DC, July 2001.
- Workshop sponsored by the African Development Bank, the UNECA, and the World Bank on *Civic Engagement and Participation in the PRSPs*, Addis Ababa, Ethiopia, July 2001. Participants included government officials, civil society, local donors, and IFI staff from Angola, Ethiopia, The Gambia, Ghana, Lesotho, Malawi, Nigeria, and Zambia.
- WIDER Development Conference on Debt Relief, Helsinki, Finland, August 2001.
- PRSP Learning Event (IMF Institute and World Bank Institute), Dakar, Senegal, September 2001.