

IMF Publication

Review of the Poverty Reduction Strategy Paper Approach - Early Experience with Interim PRSPs and Full PRSPs

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

**Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience
with Interim PRSPs and Full PRSPs**

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List of Acronyms

AAA	Analytical and Advisory Activities
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CSOs	Civil Society Organizations
DAC OECD	Development Assistance Committee Organization for Economic Cooperation and Development
DFID	Department for International Development (UK)
DHS	Demographic and Health Survey
EC	European Commission
ECA	Europe and Central Asia
ESW	Economic and Sector Work
FAO	Food and Agriculture Organization
HIPC	Heavily Indebted Poor Country
ICFTU	International Council of Free Trade Unions
I-PRSP	Interim Poverty Reduction Strategy Paper
IDA	International Development Association
IEO	Independent Evaluation Office (IMF)
IFIs	International Financial Institutions
JSA	Joint Staff Assessment
LAC	Latin American and Caribbean
LSMS	Living Standards Measurement Study
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MTEF	Medium-Term Expenditure Framework
NGOs	Nongovernmental Organizations
OED	Operations Evaluation Department (World Bank)
PEM	Public Expenditure Management
PER	Public Expenditure Review
PFP	Policy Framework Paper
PMHS	Permanent Multipurpose Household Survey
PRGF	Poverty Reduction and Growth Facility
PPA	Participatory Poverty Assessment
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
SME	Small and Medium Enterprises
SPA	Strategic Partnership with Africa
SWAps	Sector-Wide Approaches
UK	United Kingdom
UN	United Nations

UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
VAT	Value-Added Taxation
WBI	World Bank Institute
WHO	World Health Organization

I. INTRODUCTION

1. 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. The principles underlying the approach are that national poverty reduction strategies should be country-driven, results-oriented, comprehensive and long-term in perspective, and based on domestic and external partnerships in line with the principles underpinning the Comprehensive Development Framework (CDF) approach, of which the Poverty Reduction Strategy Paper (PRSP) is the operational expression in low-income countries.¹ At that time, Directors called for a joint assessment of implementation of this PRSP approach by end-2001 that would include contributions from member countries, international agencies, other aid providers, and civil society.

2. Much has been accomplished during the past two years, as ten countries have completed their first full PRSP and three countries have completed their first annual PRSP implementation progress reports. Some 42 countries have also completed their interim poverty reduction strategies (I-PRSPs) and seven countries have subsequently submitted their PRSP preparation status reports for consideration by the Boards. Although the pace of completing full PRSPs has been slower than initially expected, there is now sufficient basis to begin to apply the lessons of this emerging experience, recognizing that it is still in its early stages.

3. Among the achievements of the PRSP approach to date, which clearly vary across countries and regions depending, in part, on starting points and how advanced the process is, there seems to be widespread agreement on four points:
 - There is a **growing sense of ownership** among most governments of their poverty reduction strategies. At each of the regional workshops, as well as at the recent International Conference, government representatives as well as many civil society organizations (CSOs) from diverse settings voiced their commitment to this process and its objectives.

 - In most countries that have completed or are well advanced toward a full PRSP, the participatory processes have created a **more open dialogue** than had previously existed both within governments, and between government and parts of civil society. This has been true both in countries with well-established traditions of consultation

¹ For the latest report on CDF see Comprehensive Development Framework: Meeting the Promise? Early Experience and Emerging Issues, September 27, 2001, SecM2001-0529/1.

like Uganda, as well as others where this process is still relatively new, like Rwanda and Tajikistan. Furthermore, some CSOs are increasingly mobilized and have gained capacity to participate in the preparation and monitoring of the implementation of the PRSP, and favorable “second round” effects may be anticipated.

- **Issues related to poverty reduction have taken a more prominent place.** In policy debate, poverty reduction is now understood more broadly, extending beyond social sector interventions, 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 the UNDP and WHO, to bilaterals, including Canada, Denmark, France, Germany, the Netherlands, and the UK. Donors are participating actively with 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 these 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.

4. While the views of external development partners and domestic stakeholders regarding this early experience are varied, **low-income countries, development partners, and CSOs overall affirm that the PRSP approach is valuable.** The messages that have emerged especially strongly, including those emerging from the January 2002 international conference on the PRSP approach, which included representatives from 60 PRSP countries, are:

- The importance of **country ownership as a guiding principle**, and a corresponding recognition of the need for flexibility to allow for different country starting points;
- a recognition of the **need for realism** in setting goals and targets, and also in managing expectations, both domestically and internationally;
- a need to **improve prioritization** of policies and programs, again to ensure realism and to facilitate implementation;
- the **importance of an open and transparent PRSP process** and the desirability of consideration and **debate about alternative policy choices**; and
- **success in reducing poverty will require effort and commitment that is sustained over the long-term**, by countries and donors alike.

5. These themes run throughout this Review paper and have significantly influenced the staff's approach to recommendations, which do not involve any major modifications of the PRSP approach, but rather seek to allow flexibility while bringing attention to emerging good practice at the country level. This is a long-term process and quality will gradually have to improve over time.

6. There is substantial scope for countries to improve both the preparatory process and the content of their national strategies. In order to lay stronger foundations for the PRSP approach over the medium- to long-term, the Review suggests that good practice at the country level would give high priority in the near term to: (a) improving public expenditure management (PEM) systems; (b) putting greater emphasis on, and building capacities for, monitoring and evaluation; and (c) strengthening and institutionalizing participatory processes with respect to a broad range of domestic stakeholders and development partners.

7. There also remains substantial room for development partners to better align their development assistance behind these national strategies, both through improved coordination with government efforts and through changes in their own internal processes and behavior. Alignment is needed to provide incentives and support for countries to pursue the PRSP approach and to ensure that countries and donors are increasingly focused on improving the effects of policies on the poor. Two priorities for development partners, including the Bank and the Fund, are to: (1) ensure that alignment with PRSPs is not rhetorical or superficial but involves a serious attempt to reinforce the country's priorities and to use conditionality as a device to reinforce country-owned policies; and (2) support the use and development of national capacity, including an expansion of work on poverty and social impact analysis (PSIA) to inform pro-poor policy choices.

8. The joint staff review of the PRSP approach therefore focuses on countries' experiences to date in designing, implementing, and monitoring their PRSPs, recognizing that most countries are still at the early stages of the process. While this paper does not attempt to make specific recommendations or establish further guidelines on the PRSP process and content, there are nonetheless a number of "good practices" that are already evident in specific areas of country experience, and in the types of support and engagement of development partners (including the Bank and Fund). Throughout this paper, country cases and instances of good practice are highlighted, and these are summarized in bullet form at the end of each section. In reality, however, there are only a few cases where such practices are in place and the staff does not in any case expect that they could be generalized across all countries in the short- to medium-term. The idea is rather to provide useful illustrations and directions, which will be of varying relevance for different countries depending on specific circumstances.

9. In carrying out this review, the staffs have drawn on four main inputs, in addition to an assessment of the available literature on the topic:

- Country contributions, including individual country submissions and the main findings of four regional PRSP events for Africa, Central Asia, East Asia, and Latin America;
- external contributions from development partners and other stakeholders (including civil society groups);
- an International Conference on the PRSP approach, which brought together representatives from low-income countries, their external development partners, and representatives from civil society to discuss their views about how to strengthen the developmental impact of the approach; and
- Bank/Fund staff contributions, including *thematic reviews* of key aspects of the approach (i.e., participatory processes, content, and cross-cutting issues such as gender, environment, and conflict), and an *issues paper* for the International Conference.²

10. 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>. For the output of the Review, the staffs subsequently prepared two papers for consideration by the Board. The first is the “main findings” paper, which provides an overview of the key findings and recommendations that arose from the review. Second, this more extensive paper provides a fuller account of the experience to date and emerging good practices across the spectrum of PRSP-related issues.

11. This Review takes place at a time when the PRSP approach is still in its early stages of implementation, with only 10 countries having completed their full PRSPs. For that reason, its focus of necessity is primarily on the PRSP process and more tentatively on assessing the emerging content of PRSPs, rather than on the impacts on poverty outcomes and indicators. A subsequent major Review of the PRSP approach, which would be completed by early 2005, will assess the extent of progress much more fully. Specifically, it will need to examine changes in poverty outcomes. Such a focus will be possible provided that countries give sufficient attention to building up their monitoring and evaluation capacities so that changes in the indicators, including in PRSPs, can be tracked. Some of these indicators (like mortality rates and poverty incidence) relate to outcomes, while others (like primary school completion rates) pertain to intermediate indicators, and inputs (such as budgetary allocations to education, health or rural infrastructure). Therefore, if attention to poverty monitoring is growing as it currently appears to be, a rich information base should be available from a range of countries during the next three years to allow these questions about

² Studies include Participation, Poverty Analysis, Macroeconomics, Conflict-Affected Countries, Environment, Gender, Private Sector and Infrastructure, Rural Poverty, Governance, Education, Health, and Social Protection.

impact to be posed more precisely. Other aspects of the PRSP approach could be examined through the use of multistakeholder self-assessments undertaken by countries and evaluations of the extent to which donor programs are aligned around PRSPs.

12. This paper is structured as follows. It begins with a review of experience with Interim PRSPs (I-PRSPs), focusing on whether they have fulfilled the twin objectives of launching the process of strategy preparation without disrupting access to concessional finance and providing a road map for full PRSP development. The bulk of the paper is devoted to a review of the experience of the early PRSPs with respect to participatory processes, poverty diagnostics, targets and monitoring, and the key areas of priority public actions, including the macroeconomic frameworks, governance, and sectoral and structural policies. In this light, donor alignment, the circumstances of conflict-affected countries, and knowledge and capacity building needs are considered, followed by questions related to implementation and updating. The final section concludes.

II. EXPERIENCE IN IMPLEMENTING THE PRSP APPROACH

A. Interim Poverty Reduction Strategy Papers (I-PRSPs)

13. At the outset, the Boards recognized that preparing a full PRSP could take more than one year. In such cases, countries were requested to prepare an I-PRSP, which the Boards would consider together with a Joint Staff Assessment (JSA). I-PRSPs were intended to be short documents that described the country's current poverty situations and policies, and presented a plan for preparing a full PRSP. Over the course of 2001, it became clear that, despite initial expectations, many countries would not be able to complete their first full PRSP within one year of their I-PRSP. With a view to enabling the preparation of quality full PRSPs, the Fund Board agreed in September 2001 that requests for continued PRGF access could be made on the basis of PRSP Preparation Status Reports, which were expected to be very brief (2-4 pages) so as to minimize the administrative burden and to not pull resources away from finalization of the full PRSP.³

14. **As of January 2002, a total of 42 countries had completed I-PRSPs and transmitted them to the Boards for consideration** (Table 1). While most were from Africa, regional diversity is increasing.⁴ Furthermore, seven countries—mostly from Africa—have presented PRSP Preparation Status Reports to the Boards (Table 1). In all cases, I-PRSPs and Preparation Status Reports were accompanied by requests for access to resources under the

³ Status Reports were to indicate the progress in developing the full PRSP and any revisions, and note additional steps being taken—including seeking technical assistance—to complete the full PRSP. See Poverty Reduction Strategy Papers—Progress in Implementation, SM/01/268, 9/27/01 and Annex 1.

⁴ Africa (22), Europe and Central Asia (8), East Asia (4), Latin America (4), the Middle East (2), and South Asia (1).

Fund's PRGF, although not always at the same time.⁵ More than half of the I-PRSPs were submitted in conjunction with requests for reaching the Decision Point under the enhanced HIPC Initiative. I-PRSPs were intended to serve two objectives: first, to launch PRSP preparation without impeding access to Bank/Fund concessional resources and to interim debt relief prior to the completion of a country's PRSP; and second, to provide a forward-looking, time-bound roadmap for how a country intended to complete the preparation of its PRSP. I-PRSPs were expected to be prepared on the basis of *existing* knowledge and policies, and without substantial participation outside the government.

Taking stock of the I-PRSP experience

15. The requirements for an I-PRSP were deliberately minimal, although this was evidently not widely understood by all stakeholders. The I-PRSP was to describe the existing situation (with respect to poverty; the existing poverty reduction strategy and macroeconomic and policy framework) and set out a plan for developing the full PRSP (including the participatory processes; plans for identifying and developing appropriate policies, targets, and indicators; and a system for monitoring and evaluating implementation). Policy commitments and targets for the outer years were to be revised in the full PRSP.⁶ **The staffs consider that the I-PRSP has usefully launched a country-driven process of strategy development without causing undue delay in access to concessional resources and debt relief. The experience, however, with regard to the adequacy of I-PRSPs as roadmaps was much more varied.**

16. As of December 2001, 44 countries received disbursements under the Fund's PRGF⁷ and 22 countries reached their enhanced HIPC Initiative Decision Point (and received interim debt relief) prior to completing their first full PRSP. Some external commentators have expressed concern that, in order to qualify for interim debt relief, many countries prepared their I-PRSPs too hastily. In fact, **the push by many countries to reach their Decision Point at the earliest possible date came at the expense of the quality of some I-PRSPs' roadmaps, for example, participation plans (paragraph 21) and proposed institutional arrangements (paragraph 23).** The linkages between the HIPC Initiative and PRSPs with respect to completion points are considered further in paragraph 35.

⁵ Countries requesting access to the Fund's PRGF must have submitted either an I-PRSP, a PRSP Preparation Status Report, a full PRSP, or a PRSP Progress Report within the previous 12 months.

⁶ See Poverty Reduction Strategy Papers: Operational Issues, (SM/99/290, 12/10/99) and Poverty Reduction Strategy Paper—Progress in Implementation (EBS/00/167, 8/14/00).

⁷ Burkina Faso, Mauritania, and Uganda were well advanced in developing their national poverty reduction strategies and completed their first full PRSPs and reached their Decision Points without a self-standing I-PRSP.

**Table 1. Completed I-PRSPs, Preparation Status Reports, Full PRSPs
and PRSP Progress Reports by Region**

	Report Type	Board Meetings	
		IMF	World Bank
Africa Region (AFR)			
Benin	I-PRSP	17-Jul-00	13-Jul-00
	Preparation Status Report	5-Nov-01	3-Jan-02
Burkina Faso	Full PRSP	10-Jul-00	30-Jun-00
	PRSP Progress Report	30-Nov-01	20-Nov-01
Cameroon	I-PRSP	11-Oct-00	10-Oct-00
	Preparation Status Report	30-Jan-02	23-Jan-02
Central African Republic	I-PRSP	10-Jan-01	18-Jan-01
Chad	I-PRSP	25-Jul-00	25-Jul-00
	Preparation Status Report	16-Jan-02	14-Jan-02
Ethiopia	I-PRSP	20-Mar-01	20-Mar-01
Gambia	I-PRSP	11-Dec-00	14-Dec-00
	Preparation Status Report	5-Dec-01	3-Dec-01
Ghana	I-PRSP	22-Aug-00	24-Aug-00
Guinea	I-PRSP	20-Dec-00	22-Dec-00
Guinea Bissau	I-PRSP	15-Dec-00	14-Dec-00
Kenya	I-PRSP	7-Aug-00	1-Aug-00
Lesotho	I-PRSP	9-Mar-01	6-Mar-01
Madagascar	I-PRSP	21-Dec-00	19-Dec-00
Malawi	I-PRSP	21-Dec-00	21-Dec-00
Mali	I-PRSP	8-Sep-00	7-Sep-00
	Preparation Status Report	17-Dec-01	13-Dec-01
Mauritania	Full PRSP	26-Jan-01	6-Feb-01
Mozambique	I-PRSP	6-Apr-00	6-Apr-00
	Full PRSP	20-Sep-01	25-Sep-01
Niger	I-PRSP	13-Dec-00	20-Dec-00
	Full PRSP	8-Feb-02	07-Feb-02
Rwanda	I-PRSP	20-Dec-00	21-Dec-00
Sao Tome & Principe	I-PRSP	28-Apr-00	27-Apr-00
Senegal	I-PRSP	21-Jun-00	20-Jun-00
Sierra Leone	I-PRSP	20-Sep-01	25-Sep-01
Tanzania	I-PRSP	31-Mar-00	4-Apr-00
	Full PRSP	1-Dec-00	30-Nov-00
	PRSP Progress Report	21-Nov-01	27-Nov-01
Uganda	Full PRSP	1-May-00	2-May-00
	PRSP Progress Report	6-Apr-01	31-May-01
Zambia	I-PRSP	26-Jul-00	4-Aug-00
	Preparation Status Report	7-Nov-01	5-Nov-01
East Asia & South Pacific Region (EAP)			
Cambodia	I-PRSP	19-Jan-01	18-Jan-01
	Preparation Status Report	6-Feb-02	4-Feb-02
Lao	I-PRSP	23-Apr-01	24-Apr-01
Mongolia	I-PRSP	28-Sep-01	27-Sep-01
Vietnam	I-PRSP	6-Apr-01	12-Apr-01
Europe & Central Asia Regional Office (ECA)			
Albania	I-PRSP	9-Jun-00	8-Jun-00
	Full PRSP
Armenia	I-PRSP	21-May-01	22-May-01
Azerbaijan	I-PRSP	6-Jul-01	5-Jul-01
Bosnia-Herzegovina	I-PRSP
Georgia	I-PRSP	12-Jan-01	11-Jan-01
Kyrgyz Republic	I-PRSP	6-Dec-01	4-Dec-01
Macedonia FYR	I-PRSP	15-Dec-00	14-Dec-00
Moldova	I-PRSP	15-Dec-00	19-Dec-00
Tajikistan	I-PRSP	3-Nov-00	31-Oct-00
Middle East & North Africa (MENA)			
Djibouti	I-PRSP	30-Nov-01	27-Nov-01
Yemen	I-PRSP	28-Feb-01	27-Feb-01
South Asia (SAR)			
Pakistan	I-PRSP	7-Dec-01	4-Dec-01
Latin America & The Caribbean Region (LAC)			
Bolivia	I-PRSP	4-Feb-00	27-Jan-00
	Full PRSP	8-Jun-01	5-Jun-01
Guyana	I-PRSP	13-Nov-00	14-Nov-00
Honduras	I-PRSP	1-Jul-00	6-Jul-00
	Full PRSP	5-Oct-01	11-Oct-01
Nicaragua	I-PRSP	20-Dec-00	21-Dec-00
	Full PRSP	19-Sep-01	25-Sep-01

17. **In many cases, I-PRSPs exceeded expectations as countries prepared more comprehensive documents that were effectively preliminary drafts of the country's full PRSP** (e.g., Mongolia and Nicaragua). Others (e.g., Armenia, Cameroon, and Moldova) were relatively streamlined and observed more closely the basic requirements. I-PRSPs to date have averaged nearly 50 pages, despite the guidelines for short documents. While more extensive I-PRSPs may provide useful steps toward a fuller strategy, they took more time to prepare than originally envisioned.

18. **While I-PRSPs often included extensive discussions of the country's present strategy, not all I-PRSPs provided their existing medium-term macroeconomic frameworks.** For example, Ethiopia did not include a quantified macroeconomic framework, and the Central African Republic included only the first year of its macroeconomic framework. There has also been some criticism of the lack of prioritization of public actions in I-PRSPs, although that was not expected. Some I-PRSPs provided only a cursory treatment of their existing policy framework (Mali, for example, did not present a policy matrix).

19. **The preparation of I-PRSPs served a very useful purpose for countries in taking stock and sometimes in establishing a baseline against which they could measure progress in tackling poverty.** For many countries, **I-PRSPs facilitated a systematic review of the poverty situation** (Box 1). The quality of existing poverty analyses was constrained in many countries by serious data limitations—an aspect that some stakeholders and partners have criticized. However, I-PRSPs were not expected to develop new data resources but were to pull together the existing poverty data, identify the limitations, and propose a plan for addressing these gaps. In several instances, the I-PRSP process itself triggered new household surveys (e.g., Guinea) or plans to carry these out (e.g., Guinea-Bissau). Guinea-Bissau made a commitment to “undertake new surveys and update the poverty profile,” and the I-PRSP included an action plan to fill critical information gaps. Mongolia's I-PRSP included a full menu of data requirements that specified data gaps to be filled, the timing, the responsible agency, and possible donors. However, **many I-PRSPs were weak in specifying plans to fill data gaps and the associated technical assistance needs**, even where significant data constraints were identified (e.g., São Tomé and Príncipe, Senegal, and Sierra Leone).

20. **Most I-PRSPs involved some degree of consultation and participation, although this was often limited in scope.** In the guidelines for I-PRSPs, the Bank and the Fund encouraged, but did not require, a consultative process. Some external partners and domestic stakeholders have criticized the lack of broad-based public participation in developing I-PRSPs. Consultations on I-PRSPs were typically limited to central ministries, and the role of parliaments in preparing or approving I-PRSPs was unclear in many countries. However, a number of I-PRSPs (e.g., Mongolia and Tanzania) did involve more extensive consultations, including domestic NGOs and donors, and in others (e.g., Kenya, Madagascar, and Rwanda) the legislature formally approved the I-PRSPs. In many cases, these processes facilitated improved intra-governmental consultation mechanisms and encouraged improved coordination among various stakeholders.

21. **Plans for participatory processes for developing full PRSPs were generally not well-defined.** While all I-PRSPs outlined some plans for participatory processes for developing the full PRSP, these varied considerably in both quality and coverage. Many countries (e.g., Rwanda, São Tomé and Príncipe, and Senegal) included only broad commitments rather than details of the planned participatory processes. These included references to planned consultations, workshops, seminars, and some mention of sector-level participation from design through monitoring, but none delineated specifically what method

Box 1. Good Practices in I-PRSPs: Poverty Analysis and Policy Frameworks

Poverty Assessment and Analysis:

- Georgia's I-PRSP assessed poverty data and trends based on a system of ongoing household surveys. It noted that "poverty studies have been intensified and significant progress has been achieved, which enabled us to use internationally accepted definitions and objective means for assessing the current poverty rate in the country."
- Bolivia's I-PRSP included a comprehensive discussion of the patterns and sources of poverty, drawing on the pre-existing dialogue that commenced in 1997 and on *Proposals Against Poverty*.
- Ghana's poverty analysis was based on good and current poverty data and is linked to an earlier analysis, *Ghana—Vision 2020*, first prepared in 1995.
- Guinea-Bissau provided a descriptive and aggregated analysis of its poverty situation, while acknowledging that "poverty data are scarce and out of date."

Existing Policy and Macroeconomic Frameworks:

- Georgia's I-PRSP included an extensive discussion of the existing policy framework and policy strategy, supported by a detailed matrix of social and economic policies.
- The policy framework in the Honduran I-PRSP included a detailed and critical discussion of the government's strategy, and the macroeconomic stabilization and adjustment measures undertaken during the 1990s.
- Armenia's I-PRSP included a thorough description of the macroeconomic policy framework, including two macroeconomic scenarios for 2001-2003, a baseline and an optimistic scenario, and the policy assumptions underlying each.

would be employed by whom, where, and to what end. For example, plans to engage the private sector at par with CSOs were not well-articulated in I-PRSPs, nor did they include systematic plans to engage CSOs in debating public finance and macroeconomic choices. There were nonetheless several I-PRSP examples of good practice in outlining participatory plans for full PRSPs (Box 2).

22. **The shift away from Bank/Fund staff-authored policy framework papers (PFs) to country-authored I-PRSPs has been a major achievement, and governments have**

taken the lead in preparing their I-PRSPs.⁸ Almost all countries indicated a high level of political commitment. Although external consultants were hired in some countries (e.g., Central African Republic) to draft the I-PRSP, the authorities nonetheless appear to have directed the contents of these documents.

Box 2. Good Practices in I-PRSPs: Participatory Plans and Institutional Arrangements

Consultation and Participation:

- Mongolia's I-PRSP outlined a detailed participatory process based on "broader debate and extended public consultations" and "interactive actions with involvement of all stakeholders." A detailed timetable of meetings and likely participants was included.
- FYR Macedonia's I-PRSP outlined a three-part participatory plan that was "designed to allow stakeholders the opportunity to provide the government with feedback and suggestions on the PRS." Stakeholders will be consulted through conferences and workshops, focus groups, surveys, and community meetings; and public information campaigns on general and specific issues.
- The Honduran I-PRSP made specific proposals to increase participation in the formulation and implementation of the PRSP, including a schedule of meetings with civil society, government, and international organizations.

Institutional Arrangements:

- Mongolia established a "Coordinating Committee responsible for arranging the development of PRSP," made up of parliamentary representatives, ministries, and governmental and non-governmental organizations, and the donor community.
- Ghana assembled eight cross-sectoral planning groups "from a wide span of Ghanaian society," and a "national forum will be held to review these."
- Armenia established a PRSP Steering Committee (including officials, donors, and NGOs) under which a Working Group would handle daily coordination and implementation monitoring.

23. **The identification of appropriate institutional arrangements to facilitate the design, implementation, and monitoring of full PRSPs was mixed.** I-PRSPs also served to underscore the importance of inter-institutional cooperation and coordination. Many I-PRSPs (e.g., Bolivia) detailed the creation of interministerial steering committees and participatory technical working groups to coordinate the design and development of full PRSPs (Box 2). Yet, there were a few cases (including Moldova and Tajikistan) where the documents lacked details on institutional preparedness. Some external partners and domestic stakeholders raised criticisms about the lack of well-defined targets in I-PRSPs, but these documents were not

⁸ PFPs were the tripartite documents developed by the government, IMF, and the World Bank as the basis for IMF lending under the Enhanced Structural Adjustment Facility. For each of the ten full PRSP countries, there was a PFP in 1998 or 1999.

expected to specify indicators and targets, but rather to articulate a process by which these would be developed. Most I-PRSPs indicated an intention to monitor and evaluate poverty outcomes in a participatory manner, without providing specific details.

Prospective I-PRSPs

24. **There are a number of PRGF- and IDA-eligible (and blend) countries that have not prepared an I-PRSP.** These include several small island countries as well as large IDA-blend countries. There are also several conflict-affected countries, as well as countries that are presently in arrears to either of the two institutions, and/or that do not presently have a sufficient track record to gain access to PRGF resources.

25. Whether or not a country intends to seek access to Bank/Fund concessional resources, the staffs have been supportive of any country embarking on a national poverty reduction strategy. An I-PRSP type document may be a useful first step for allowing governments to think through planned approaches for developing a national strategy, as well as for seeking the engagement of national stakeholders and external partners. The Bank and Fund could provide assistance through ongoing policy dialogue and economic and sector work, as well as through surveillance and technical assistance activities.

26. It was initially proposed that I-PRSPs eventually be phased out, with the appropriate timing to be decided at a later date.⁹ There is, however, substantial uncertainty as to when many of the remaining low-income countries may need to access concessional Fund/Bank resources and thus be required to produce an I-PRSP/PRSP. For this reason, the staffs consider that it is premature to set a timetable on which I-PRSPs would be phased out.

PRSP Preparation Status Reports

27. Although limited, early experience with PRSP Preparation Status Reports points to five key findings, which are relevant to the highlighted good practice on I-PRSPs below. First, initial timetables in I-PRSPs often underestimated the time required to produce a fully participatory and quality PRSP. Second, delays are mainly attributable to participatory processes and/or technical activities requiring more time than originally estimated.¹⁰ Third, there may be a tendency for the revised timetables to still be overly ambitious, in view of the technical work required to complete the full PRSP. Fourth, Status Reports have often not discussed the remaining or additional technical assistance needs for completing the full PRSP. Finally, most Status Reports did not discuss explicitly how the weaknesses identified in the JSA or by Directors in assessing the I-PRSP have been, or are to be, addressed.

⁹ See Joint Bank/Fund Paper, Poverty Reduction Strategy Papers: Operational Issues, SM/99/290, 12/10/99.

¹⁰ In one case (Moldova), a change in government resulted in a hiatus until the new government was in a position to move forward with PRSP preparation.

28. The staffs would make several suggestions with a view to facilitating the preparation of I-PRSPs by the remaining countries.

Good practices for countries

- **Preparing an I-PRSP that focuses on establishing a good roadmap and realistic timetable** for preparation of the full PRSP, allowing country efforts to focus on developing a quality full PRSP. In some cases it may be appropriate for countries to go directly to a full PRSP; and
- while there is **no requirement for a participatory process in preparing an I-PRSP**, in light of the positive experiences that most countries have had, the participation of **key agencies, sectoral ministries, and CSOs** in I-PRSP preparation may be valuable.

Good practices for development partners (including the Bank and the Fund)

- **Encouraging countries to keep their I-PRSPs short and well focused;**
- during I-PRSP preparation, **clarifying expected support in preparing for the full PRSPs**, for example, data collection and analysis, financing participatory consultations, and sectoral strategy development; and
- **tempering expectations, especially for conflict-affected countries, given the diverse starting points and circumstances** of those countries yet to prepare I-PRSPs.

Actions by the Bank and the Fund

- **Retain the option for countries to prepare I-PRSPs** as the basis for access to Bank/Fund concessional assistance for countries not immediately in a position to prepare a full PRSP.

B. Poverty Reduction Strategy Papers (PRSPs)

Overview

29. **By January 2002, ten countries had finalized their first full PRSPs** (Table 1 above). These countries are Albania, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Nicaragua, Niger, Tanzania, and Uganda. This section of the paper reviews the experience of full PRSPs in terms of initial expectations and several overarching issues, including integration with government decision-making processes and the tension between speed and quality. It then reviews the participatory processes, followed by the content in terms of poverty diagnostics, targets and indicators, and the priority public actions which constitute the heart of each PRSP.

30. **The first full PRSPs, as expected, varied considerably in form and in content, reflecting each country's own starting point, capacities, and priorities.** Each of the documents included the four core elements proposed in the Joint Paper of December 1999.¹¹ These are: (a) a description of the participatory process used in preparing the PRSP; (b) a poverty diagnosis; (c) targets, indicators, and monitoring systems; and (d) priority public actions. However, the PRSPs varied considerably in the relative weight given to the treatment of the core elements and to key areas within these elements, and in the style and format of presentation. This was both expected and desirable. The observed diversity among the PRSPs appropriately reflected each country's different starting points in terms of available information and prior strategies, national capacities, priorities, and preferences in style. As stressed at the outset, "experimentation in the form of the PRSP is to be encouraged."¹² It is now possible to begin to take advantage of that flexibility by sharing experiences among the PRSP countries and development partners and by identifying good practices—without creating blueprints.

31. **The PRSPs have generally built on existing data and analyses and on prior strategies.** In preparing PRSPs, countries were encouraged to use existing national and sectoral strategies and available diagnostics and not to "start from scratch." It is clear that most countries have been able to do so, contrary to a common perception, that the PRSP has been an imposed framework incongruent with existing national plans. For example, in Mozambique, the government has built upon its Lines of Action for the Eradication of Absolute Poverty (1999) and Associated Action Plan (PARPA); in Tanzania, the 1997 National Poverty Eradication Strategy; and in Uganda, the 1997 Uganda Poverty Eradication Action Plan (PEAP). In Burkina Faso and Mauritania, the governments formed national commissions to coordinate efforts in poverty in 1998; and in Bolivia, "Proposals Against Poverty" were prepared in 1997. Both Honduras and Nicaragua developed their strategies taking into account their plans for reconstruction after Hurricane Mitch in 1999. Bolivia and Uganda had both been CDF pilot countries since early 1999. In preparing their strategies, all of the countries also built upon the policy measures that had been articulated in prior PFPs. Whether or not the PRSP process has generated adequate reexamination of prior strategies and policy reform programs, especially in terms of the likely impacts on poverty, is discussed further below.

32. **The PRSPs reflected considerable improvement in both process and content relative to their corresponding I-PRSPs.** In effect, the I-PRSPs defined the country's starting point, and the PRSP was expected to show progress relative to the starting point with respect to all of the core elements. Among the PRSPs thus far, that has certainly been the case. Overall, the evolution of the strategies—in terms of both process and content—demonstrates very clearly that the PRSP approach must be regarded as a dynamic process and

¹¹ See Joint Bank/Fund Paper, Poverty Reduction Strategy Papers: Operational Issues, SM/99/290, 12/10/99.

¹² See, Joint Bank/Fund Paper Poverty Reduction Strategy Papers: Operational Issues, p. 11.

that the strategies must be considered as a “rolling program.” For example, the Bolivian I-PRSP in January 2000, outlined five “component parts” of its proposed strategy, but without detail about what might be done within each part. By the time the full PRSP was completed in May 2001, analysis of recent household and other data had been completed, and a much more elaborate strategy, including action plans in all key areas, had been prepared based on an expanded national dialogue. In Mozambique, the I-PRSP dated March 2000 was already rather extensive, given the national PARPA, but the PRSP went further in clarifying priorities among government objectives, costing various programs, and putting forward its medium-term expenditure program. In the case of Nicaragua, the I-PRSP was already a very extensive document based on an extraordinarily rich information and knowledge base, but without consultation outside of the government. The full PRSP was then enriched and modified following an extensive set of nationwide consultations so that, as noted in the JSA, the final document places more emphasis than the I-PRSP on broad-based economic growth, rural development, social equity, transparency and better governance, and broad participation. As noted below, this dynamic process of improvement has continued after the first PRSP in the Annual Progress Report, as in the cases of Tanzania and Uganda.

33. PRSPs have received attention at the highest political level in almost all countries, and many of the PRSPs provide useful information about the institutional arrangements for preparation and for implementation. Typically, an inter-ministerial steering committee was established, reporting to the President’s or Prime Minister’s office and often chaired by the Minister of Finance. Usually, technical working groups were established, and many of these involved non-governmental participants. It was helpful when the PRSP document itself describes these institutional arrangements by which it has been prepared, reviewed, and approved by government. This informs both domestic stakeholders and external partners about the degree of involvement across the senior levels of the government and thereby can enhance the credibility of the strategy. It was also valuable when the PRSP document set out the institutional arrangements for monitoring implementation of the PRSP. Box 3 presents several examples of good practice in reporting fully on the institutional arrangements for both PRSP preparation and for monitoring implementation.

34. In some cases, the linkages among PRSPs and existing governmental plans and decision-making processes—especially budget formulation—were clarified in the document, and this ought to become common practice. Ideally, as a comprehensive strategy document, a PRSP will provide a reference point and framework for a wide variety of governmental decisions about budgets, policy measures, and institutional reforms. In order to serve this purpose, its relationship to other strategic documents and planning exercises—most important, the annual process of budget formulation—should be clear to all within the government as well as to non-governmental stakeholders and external partners.

Box 3. PRSP Institutional Arrangements: Mauritania, Honduras, and Niger

Mauritania's PRSP (page 3) provides a good example of a clear explanation of the institutional arrangements for the preparation, review, and approval of a PRSP within the government. The PRSP explained that "Supervision of the production and validation of the PRSP is the responsibility of the Inter-Ministerial Poverty Reduction Committee, presided over by the Prime Minister. The Committee's work is coordinated by the Ministry of Economic Affairs and Development (MAED), in consultation with the Commissioner for Human Rights, Poverty Reduction, and Social Action." The document went on to briefly explain the roles and membership of a Consultative Committee, including representatives of civil society, a Donors Committee, and a technical coordination committee. Finally, it noted that "At the conclusion of the preparation process, the Strategy Paper will be submitted to the Parliament for approval."

The Honduran PRSP (pages 107-113) was particularly good at presenting the institutional arrangements for implementing and monitoring its strategy. It stated that leadership in implementing the strategy resides in the Executive Branch through the Social Cabinet, which is coordinated by the President of the Republic. The document detailed the legal basis and the composition of the Social Cabinet. It further explained that "The organization structure for the implementation and follow-up of the PRS combines a variety of government institutions, grassroots organizations, municipalities, NGOs, private-sector groups and donors, each with its own operational procedures." The document included an organizational chart summarizing the relationships among these groups and explains in some detail the composition and functions of each.

The Niger's PRSP (pages 11-17) offered a comprehensive view of the participatory institutional framework established to prepare the PRSP. At the national level, the Steering Committee was chaired by the Prime Minister, with representatives of government, donors, and civil society. The Permanent Secretariat, the working and coordinating body of the entire PRSP process, was anchored in the Executive Office of the Prime Minister, demonstrating a high level of commitment from the government. In addition, there were also Regional and Sub-Regional Steering Committees to disseminate the PRSP process and organize inputs into the participatory process. To address sectoral and cross-cutting issues, there were also 11 thematic groups covering the key areas of development concern. Each thematic group was comprised of the experts in their respective fields, drawn from all levels of their profession (sector ministries, private sector, civil society, universities, rural organizations, political parties, and development partners). Importantly, the National Assembly was involved from the beginning of the process, and the members participated in the thematic groups. The final PRSP document was approved by the Cabinet of Ministers and submitted to the National Assembly for information and discussion.

**Box 4. Linkages Between PRSPs and Governmental Decision-Making Processes:
Mozambique and Uganda**

In the Mozambican PRSP, considerable detail was provided (pp. 8-9) about how the PRSP—which is known as the Action Plan for the Reduction of Absolute Poverty (known nationally as PARPA)—is related to the overall “public planning system” and, in particular, how it fits into the budget processes of the government. The PARPA was described as an instrument for medium-term programming which was developed interactively with sectoral and provincial strategic plans and with the medium-term fiscal framework and triennial public investment program. The PARPA provided the basis for annual operational plans, which were developed interactively with the annual state budget.

The Ugandan PRSP (p. 19) was particularly good at clarifying the links between the strategy and budget implementation: “Those aspects of the PEAP [the Poverty Eradication Action Plan] which have implications for public expenditure will be implemented through the medium-term expenditure framework. This framework is presented to the Cabinet as part of the annual Budget Framework Paper, covering three fiscal years... the medium-term objectives [of the MTEF] need to be consistent with the longer-term objectives defined by the PEAP; so the PEAP will be used to guide allocations of expenditures. The sectoral implications of the PEAP are reflected in the design of sectoral strategies which in turn guide the expenditure allocations made each year under the MTEF. The MTEF is intended to guide all public expenditure including the use of resources committed by donors.”

Some—but not all—of the existing PRSPs documents provided relevant information about these matters. Box 4 provides some examples of good practice in this regard. On the other hand, among some of the countries that are still preparing full PRSPs, there has been some uncertainty about how the PRSP should be related to traditional development plans or similar documents. That relationship can be determined only by the government concerned based on its own circumstances. As a general proposition, a PRSP document ought to be fully consistent with, and complementary to, any operative development plan. To the extent that an existing operative plan covers all of the core elements expected in a PRSP document, that plan—or a summary of it—can constitute the PRSP, as had happened in the cases noted in paragraph 31. Otherwise, the PRSP document might summarize the plan and add any of the core elements of a PRSP that might be missing (e.g., poverty diagnostics, targets and indicators, and a description of the country’s participatory process). In any case, the PRSP document itself ought to include information that makes clear how it relates to other strategies or plans.

35. **The pace at which countries have completed full PRSPs has been much slower than originally expected, and the question of “speed versus quality” has been one of the most debated issues about the PRSP approach.** In late 1999, it was projected that most of the countries eligible for concessional assistance from the Bank and the Fund could prepare their first full PRSPs within two years. In fact, the pace was slower, reflecting several factors: the inherent complexity of the task of preparing PRSPs in a participatory manner and the capacity constraints that countries face in doing so; and, beginning in late-2000, the clear message from the Boards and a range of development partners urging countries to take adequate time to focus on quality of the full PRSPs. Despite this slower-than-anticipated

pace, one of the most common criticisms of the PRSP approach has been that the incentives provided by the approach have induced governments, especially among HIPC, to prepare their strategies too quickly and that this has unduly compromised the quality of the strategies—in terms of both technical content and broad-based country ownership. For most HIPC, interim debt relief was broadly in line with the amount of relief that they would have received had they advanced to their Completion Points, and there is therefore no need to rush completion of the PRSPs compromising the quality of the strategies. In the case of four countries (Chad, the Gambia, Mauritania, and Niger), however, it was significantly lower because some larger creditors did not provide interim debt relief. A question that has attracted some attention is whether or not to eliminate or change the current requirement that a full PRSP should be satisfactorily implemented for one year in order to reach the Completion Point, at which debt relief becomes irrevocable.¹³ The dominant expressed view at the International Conference was that such “delinking” of the HIPC Completion Point from implementation of a full PRSP would reduce the likelihood that debt relief will be well used for poverty reduction, and might also excessively weaken the incentive for countries to complete and begin implementing poverty reduction strategies.

Participatory process

36. **The open and participatory nature of the PRSP process is regarded by many as its defining characteristic and the most significant achievement of the PRSP approach.** The underlying rationale for participation is its association with greater accountability and transparency, and it is a link to establishing substantial and broad-based country ownership. While the Bank and the Fund have required that governments prepare and monitor their PRSPs through a participatory process of its own design, no minimum elements have been prescribed, and the accompanying JSA describes, rather than evaluates, the participatory process.

37. **The PRSP approach has established a presumption in favor of openness and transparency and broad-based participation.** 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.¹⁴ By including the views of CSOs, broad-based participation has often helped to improve the understanding of poverty.¹⁵ In a

¹³ For the “retroactive” countries that had achieved Decision Points under the original HIPC Initiative framework, which include Benin, Bolivia, Burkina Faso, Guyana, Mali, Mozambique, Senegal, and Uganda, completion of the full PRSP—not one year of implementation—is a trigger for the Completion Point. The requirement for “non-retroactive” countries, which include Honduras, Mauritania, Nicaragua, Tanzania, and others is completion of the full PRSP and one year’s satisfactory implementation thereof.

¹⁴ Christian Aid, “Responses to Key Questions for the Review,” (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.”

¹⁵ As noted by DFID, December 2001.

range of countries, including Albania and Kenya for example, the idea and practice of opening government processes to citizens has been received positively. Among the countries that have completed their first full PRSPs, as well as for those well advanced in preparation, participation of domestic stakeholders has—in most countries—been valuable. Certainly, this was the dominant view at the International Conference, in the written submissions received, and among the staff.

38. **While there has generally been a substantial opening up, some concerns have been expressed about inadequate engagement by certain groups or institutions seen as key to successful poverty reduction efforts.** In some countries, not all sectoral ministries¹⁶ have been fully involved. More generally, engagement of direct representatives of the poor themselves has not been common.¹⁷ Such groups include parliaments;¹⁸ CSOs that are out of favor with the government;¹⁹ stakeholders outside of capitals, local government officials and private sector representatives;²⁰ trade unions;²¹ and women's groups.²²

39. **Sectoral ministries generally are less fully involved than core ministries, such as the Ministry of Finance or the Ministry of Planning.** This can have adverse repercussions both on the realism and quality of the design of the sectoral strategies, as well as on the likelihood of implementation. In practice, social sector ministries tend to be more engaged than, say, ministries of rural development or transport.

40. **The role of parliaments in the PRSP process has generally been limited, although individual parliamentarians have been involved in some countries.** Real and effective country ownership requires recognition of and adequate space for domestic political processes, as part of the participatory mechanism in each country. Involving parliaments in the participation can often provide a means to achieve this aim and to lay the ground for such participation to become an enduring element of the process. In principle, the involvement of parliaments could take place at several levels—including legislative, oversight, and representation of constituency interests. In Burkina Faso and Mauritania, their parliaments

¹⁶ According to the Asian Development Bank, 2001, among East Asian countries ownership and participation has been largely confined to the ministries of finance and other central agencies dealing with donor assistance. Food and Agriculture Organization, 2001, (p. 3) makes this point with respect to agriculture ministries. Germany (BMZ) 2001 also makes this point. WHO cites low involvement of Health Ministries.

¹⁷ This criticism, as well as many of the other points in this paragraph, is stressed by Christian Aid, 2001b.

¹⁸ European Commission, 2001a, and Action Aid, 2002, stressed need to involve parliaments.

¹⁹ See Jubilee South, 2001, (p. 5). Although there are country examples: Kenya is among several countries where a range of CSOs were involved.

²⁰ CDF Secretariat, World Bank, 2001, (p. 3) indicates that there has been private-sector participation in about one-third of the PRSP countries.

²¹ ICFTU, "Submission to IMF/WB Review of the PRSP Approach," November 2001.

²² UNIFEM, "Contribution to PRSP Review," November 2001.

approved the PRSPs. In Honduras and Nicaragua, individual members of parliament have played important roles during consultations. In Mozambique, progress in implementation of the PRSP is to be documented in an annual poverty report for presentation to the parliament along with the budget. To date, however, the potential oversight function seems to have been less developed in the PRSP context than the legislative and representative roles. The limited involvement of parliaments has been an expressed concern of other recent World Bank reports, such as those on the CDF, and of a number of development partners—including the Utstein group of bilateral donors (UK, Netherlands, Germany, and Norway) and the EC—as well as of individual members of parliament themselves, as reflected in Box 5.

41. **In most countries, bringing CSOs into the process has improved with time.** After a sometimes rocky start in some countries, dissemination strategies have improved over time with increasing use of newspaper advertisements, television, the internet, brochures, etc. The scale of participation associated with PRSPs has been large—often dozens of consultations with hundreds of participants, conveying a sense of rich diversity in representation—from local civil society advocacy groups, trade unions,²³ and the private sector to religious and youth organizations, the media, and donors. It should be recognized that the participatory process can become sensitive and politicized—as for example in Albania—where representation in a technical working group was disputed. In Bolivia, important coalitions of NGOs and churches led a parallel consultative process with miners, indigenous people, and small producers, only merging with the formal PRSP process much later.

42. **In some cases, there have been constraints to deepening and widening the process to all constituents to meet their expectations.** The actual impact of participation has appeared to some participants and observers to have been limited or unclear. Specifically, critics sometimes have complained that governments seek only 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.²⁴ Weak CSO capacity can be problematic, especially with respect to more technical policy analyses. A separate concern that has been raised is that some CSOs may not represent the interests of the poor.²⁵ An additional problem for those seeking to manage the PRSP process, expressed by a number of PRSP country representatives at the International Conference, is that the process of participation itself generates additional proposals and tends to compound rather than resolve the problem of prioritization.

²³ For detailed discussions of trade union involvement with PRSPs, see ICFTU, “Submission to IMF/WB Review of the PRSP Approach,” November 2001.

²⁴ For example, UNIFEM, 2001, (p. 3).

²⁵ As noted by Hughes, Levene and McGee, October 2001 (pp. 13-14).

Box 5. Parliaments and the PRSP Process

In a joint declaration in Dakar in September 2001 by African members of parliament involved in the PRSP forum, representatives stressed that “[p]arliament must not be marginalized in the formulation and implementation of poverty reduction strategies.” Examples of this marginalization are common. Uganda, for instance, has been especially energetic in assuring civil society participation in PRSP development and monitoring, but formal parliamentary review of plans and progress has been neglected. In contrast, the Burkina Faso PRSP was presented to parliament for ratification prior to its official transmission to the Bank and Fund. And, in Mauritania, parliamentarians were members of the PRSP working parties and of the committee monitoring the PRSP process, a debate was held in parliament with NGOs, other civil society organizations and development partners, and parliament approved the PRSP.

Parliaments will be involved in the PRS, if only ex-post, because they have the constitutional mandate in most countries to approve government budgets and monitor government actions. The question remains, is this sufficient? The Utstein group of bilateral donors have urged that the PRSP process reinforce the representative and electoral processes in low-income countries. In this regard, the World Bank and the UNDP, in collaboration with the Parliamentary Centre (Canada) and the National Democratic Institute, have launched a pilot program designed to assist parliaments to better understand the PRSP process and to determine themselves how they can best ensure high performance of the government. Late last year, a pilot workshop for parliamentarians was held in Ghana, which already has resulted in closer parliamentary-civil society interactions on the PRSP and a greater focus by parliament on the budgetary issues relating to the poverty reduction.

43. **In a number of cases, there has been feedback from government to the participants on what suggestions have and have not been incorporated.** Not providing such feedback has created frustration among those involved in the participatory process. Good practice cases are those in which PRSP teams have sought to organize the viewpoints of participants and later append them to the PRSP document—as in the case of Mozambique, for example, in the forms of a “Matrix of Demands of the Sectors of Society Consulted;” proceedings of plenary sessions and CSO recommendations for economic policies as in Nicaragua; and CSO inputs channeled through the formally established Civil Society Advisory Groups as in Albania.

44. **There is some 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. CSO inputs have typically influenced the sectoral agenda of health, nutrition, and education, and widened the definition and multi-dimensional understanding of poverty. In Tanzania, as a direct result of citizen lobbying, primary school fees were abolished, higher priority was attached to community-driven development projects, and employment schemes were created for the poor. Mauritania is another example of lively and open policy debate stimulated by the PRSP process (Box 6). The macroeconomic policy and structural reform agenda—for example, trade liberalization and privatization—are, however, sometimes not even on the table for discussion. Even countries like Uganda that have a rich history of macro-level participation do not indicate that civic inputs have substantially shaped the direction of ongoing fiscal and agricultural reforms.

Box 6. Civil Society Influencing Strategy Priorities: Mauritania

Even though Mauritania does not have a tradition of participation or a strong civil society, the PRSP process has led to a more open policy debate. At these discussions, civil society raised a number of priority issues which were reflected in the PRSP. These included the need for a clearer diagnosis of the links between governance and poverty, a stronger emphasis on judicial reform, the development of a national education program; and the decentralization of health services. The PRSP document itself includes a box about “the position of civil society” and the government’s responses. With the PRSP process having created an enabling environment for participation, the government is now committed to involving civil society and other stakeholders more substantively. At the same time, civil society has gained in credibility and experience from its involvement in the PRSP.

45. **While many new civil society networks have emerged, further capacity building is required in order to sustain the quality of engagement.** Alliances and networks of NGOs once formed, have adapted to new challenges. In Honduras, a civil society consortium formed in the aftermath of the 1998 hurricane mobilized its members and facilitated national PRSP consultations. Civic capacity differs radically across countries, however. In Albania, for example, the government-NGO interface was facilitated by an international NGO.

46. **In some countries, there may be a risk of “participation fatigue.”** Where participation is being undertaken an *ad hoc* and fragmented manner, or only to meet external demands, the process is not sustainable. The major challenge is to move away from *ad hoc* forms of consultation to more institutionalized forms of collaboration and dialogue with national stakeholders.

47. **Institutionalization in order to facilitate ongoing participation is at an early stage.**²⁶ Where introduced, appropriate legal and institutional frameworks have been welcomed by CSOs. The creation of the National Council for Social and Economic Planning (NCSEP) in Nicaragua to facilitate consultations actually pre-dated the PRSP, but served its purposes well. A dormant Citizen Participation Law was activated in Bolivia, and in Mauritania, a legal framework for CSO participation has been designed, and a program to “professionalize” them is also in place. Box 7 illustrates ongoing institutionalization in the case of Bolivia.

48. **The participation of development partners in the PRSP process has been growing over time.** This suggests that the uncertainty about their role among donors in the first year or so, and frustration among some about their lack of engagement in the preparation of I-PRSPs, have been overcome. Over time, as governments began to organize their

²⁶ Eberlei (2001) makes this point (p. 3).

participatory processes for full PRSPs, most donors, including the UNDP, DFID, the EC, France, and the US,²⁷ have indicated that they found useful opportunities to engage in PRSP preparation at the country level.²⁸ Bank-Fund staff generally seemed to have played a constructive role, kept a low profile, and generally have not obstructed a country-led process.²⁹ This has, in many cases, led to a stronger dialogue between the government and donors and to a better foundation for donor coordination.

49. **Despite this generally favorable trend in donor participation, some concerns remain. While Bank-Fund staff have usefully enabled country leadership, some donors have felt marginalized because of the limited donor involvement in dialogue between the government and the Bank and the Fund during missions.**³⁰ Furthermore, they argue that the prominent role of the JSA has drawn the government's attention away from the assessments by others.³¹ Reflecting this concern, the non-IFI donor group in Bolivia prepared a joint assessment of their own and presented it to the government. On the other hand, in many cases, the comments of Fund and Bank staff on early drafts and those of donors are often exchanged informally, and the latter's views feed into the eventual JSA. Finally, some are concerned about the lack of commonly-accepted modalities for formal donor consideration of PRSPs,³² outside of representation on the Boards.

50. In this light, a number of suggestions have been made to improve the quality of participation. Some NGOs and donors have recommended establishing minimum standards, which would, for example, mandate the involvement of parliaments or certain civil society groups. However, most participants at the International Conference and preceding regional fora came out strongly against a more prescriptive approach, arguing that it would override country ownership and place the task of assessing participation with donors, who were ill-equipped to make such judgments. There was also concern about the feasibility of global standards in view of the wide variation in country circumstances. Staffs agree that the participatory process should not be prescribed, and that the JSA is not the appropriate vehicle for conveying donor or CSO assessments of the process. In order to improve the quality of participation, there are a number of areas of good practice which might be considered:

²⁷ USAID mentioned that most field missions are actively engaged in the PRSP process. USAID presentation on PRSPs, (January 16, 2002).

²⁸ SPA, 2001 (pp. 5-6).

²⁹ See, for example Denmark (Danida), 2001a; however, the Asian Development Bank, op cit., indicates that coordination between the World Bank and itself has not been satisfactory in some countries.

³⁰ SPA, 2001 pp. 20-22. Also see EC, op cit., p. 5.

³¹ See Inter-American Development Bank, 2001.

³² See SPA, op cit., p. 22.

Box 7. Institutionalizing Participation: Bolivia

In Bolivia, the PRSP approach has helped to institutionalize efforts at more open policy debate underway since the ending of military dictatorship and the beginning of a multi-party democracy in 1982. An important milestone leading up to the PRSP process was the 1995 Popular Participation Law, which legally recognized civil society groups and devolved to newly created municipal (local) governments' responsibility for various public services, including local roads. This was followed by the first "National Dialogue" in 1997, whose purpose was to develop a plan for the use of debt relief from the initial HIPC Initiative. The Dialogue produced the 'Proposals Against Poverty' strategy built around four pillars—promotion of growth, social development, institutional reform and the fight against drugs. However, the strategy was never fully implemented and the associated participatory process did not become institutionalized as civil society groups grew frustrated that government had failed to deliver on its promises.

The government instituted a second National Dialogue in April 2000 to develop the full poverty reduction strategy. The first discussions took place in municipal round tables and only after these were concluded was debate moved up to the departmental (regional) and national levels. The agenda for the Dialogue focused on determining the groups in greatest need of support, the key actions for poverty reduction, and the control and use of HIPC debt relief. Alongside the National Dialogue were a number of independent initiatives to promote popular participation. The Dialogue eventually merged with the largest of these, led by the Catholic Church (under the Jubilee 2000 umbrella). The topics covered in this Dialogue were wide ranging, encompassing economic, social, and political agendas, the latter including proposed constitutional changes that are relevant for good governance and the fight against corruption.

Following the Second National Dialogue, the government took further steps to institutionalize participation. The most important is the new National Dialogue Law, passed in 2001, which sets the legal framework through which the results of the National Dialogue are to be implemented. It stipulates that dialogues should take place every three years, and that HIPC debt relief should be disbursed through the municipalities. The PRSP called for local oversight committees drawn from civil society to monitor anti-poverty reduction spending programs; and a role for the Catholic Church in organizing the monitoring by oversight committees. In addition, the government intends to decentralize further, including in the areas of health and education.

Despite the strengths of the National Dialogue, the process has not been without weaknesses. There were criticisms that the voices of the most vulnerable (e.g., women and indigenous groups) were neglected, and that the agenda for debate was too rigidly defined. There was also significant dissatisfaction among some civil society groups who believed that debate was hijacked by local elites.

Good practices for countries

- **Sustaining key aspects of participation**, including information sharing and openness of decision-making and debate about alternative policy choices, so that dialogue with non-governmental stakeholders can be routinely conducted by governmental institutions;
- **linking to and building on existing processes and institutions, including the involvement of parliaments, cabinets, and sectoral ministries in PRSP preparation** at appropriate stages;

- **involving all significant stakeholder groups** in the participatory process, such as civil society, including the private sector, and donors, and making particular efforts to reach out to traditionally marginalized groups;
- **improving mechanisms for feedback** to local participants in the PRSP process, as well as **reporting in PRSPs concerns expressed by key stakeholders**;
- **making PRSPs and related information available and understandable**, to local civil society; and
- **presenting draft PRSPs to donor round tables or Consultative Group meetings** before transmission to the Bank and Fund Boards.

Good practices for development partners (including the Bank and Fund)

- **Providing timely and constructive feedback to PRSP teams**, both early in the process and when the PRSP is completed, but resisting extensive comments on drafts that could undermine ownership; and
- **supporting capacity building of civil society** to engage substantively in the process.

Actions by the Bank and Fund

- **Make the whole country team operationally relevant to the PRSP**, with dialogue on the PRSP being undertaken on most missions, not only “PRSP missions”;
- **provide advance notice of mission timing and purpose** to stakeholders and other development partners; and
- **indicate in JSAs whether staff have received views from civil society and/or donors on a country’s PRSP**, including views on the participatory process.

Poverty diagnostics, targets and indicators, and monitoring and evaluation

51. It is widely recognized that generating good poverty diagnostics, selecting appropriate targets and indicators, and generating capacity for monitoring progress in poverty reduction over time are key elements of the PRSP approach. Each PRSP is expected to include analyses 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. Each of these elements is also novel with respect to both the PFPs that formerly provided the policy parameters of IFI assistance, and also (with some exceptions) the type of national planning engaged in by developing countries prior to the adoption of the PRSP approach.

52. **The preparation of PRSPs to date has been marked by useful steps toward better poverty data and diagnostics. It has also helped countries to clarify their targets and indicators for poverty reduction, and has increased attention to M&E.** Despite this progress, the process to date has also highlighted a number of weaknesses, some of which also characterize the poverty reduction strategies of middle income countries. This section reviews the extent of progress and remaining challenges in each of these areas—namely, poverty diagnostics; targets and indicators; and monitoring—and concludes by highlighting good practices, from full PRSPs as well as advanced I-PRSPs. The definition of poverty used encompasses non-monetary (education and health status, for example) as well as monetary dimensions.

Poverty diagnostics

53. Thorough and comprehensive poverty diagnostics form the PRSP's foundation. This first requires an adequate information base, that is, the availability of representative and reliable quantitative and qualitative household data. This permits careful construction of poverty measures and a micro analysis of the determinants of poverty, its gender dimensions, its regional dimensions, and so on. To inform the formulation of future poverty reducing policies, the growth and distributional impact of past policies and programs should also be assessed. This includes questions regarding the effect of macroeconomic and structural policies on poverty and inequality, as well as the efficiency and distributional aspects of service delivery.

54. **All the countries that have completed PRSPs so far have drawn on nationally representative household surveys from which income/consumption poverty estimates were derived, although in some cases these data were out-of-date.** The timeliness varied greatly—from very recent in Bolivia and Honduras, to quite dated in Tanzania (which used the 1991/92 Household Budget Survey). The poverty information base is more recent in Latin America, relative to the six African PRSPs to date.³³ These quantitative surveys, while quite informative in many respects, sometimes have limited or no data on, for example, critical factors affecting rural development or the impact of poor governance on the poor, on natural resource and environmental factors that affect the poor, on intra-household allocation of resources,³⁴ and on vulnerability and lack of empowerment. In many cases, the PRSPs have complemented income poverty measures with Demographic and Health Surveys (DHS) in

³³ Both Uganda and Tanzania were in the midst of implementing large living standards surveys at the time of their PRSPs. Uganda was able (as a result of a concerted data cleaning and analysis effort) to use the 2000 Uganda National Household Survey (UNHS) in its PRSP Progress Report (March 2001). Tanzania's PRSP Progress Report was able to draw from the 1999 DHS and an incomplete sample of the 2000 Household Budget Survey.

³⁴ United Nations Development Fund for Women (UNIFEM), 2001.

order to measure other dimensions of welfare directly. These have also been used to supplement data where income or consumption surveys are out-of-date.

55. Several PRSPs were exceptionally well informed by recent participatory poverty studies, which collected and analyzed information on subjective aspects of well-being.³⁵

The current work in Uganda to link qualitative and quantitative studies represents a major development. The Nicaraguan PRSP was also informed by a recent Qualitative Poverty Study, and Burkina Faso reported the findings of its 1998 participatory survey, describing how poor people themselves perceive poverty. Both the PRSPs for Mozambique and Tanzania used somewhat dated participatory poverty data from studies in 1995, although Mozambique will soon have access to participatory assessments from 2001. The Vietnam I-PRSP drew upon participatory poverty assessments (PPAs) to highlight the issue of unregistered migrants who are beginning to form an underclass in urban areas and who are ignored in the official statistics. It also drew on the PPAs to highlight issues of participation and voice and the need to improve the two-way flow of information between poor people and policymakers, allowing poor people to contribute to policymaking and to be informed about policy decisions that affect their lives.

56. Some countries have produced robust measures of poverty and changes in poverty over time, but in others the survey data have not always been sufficiently frequent and comparable to allow trend analysis. Honduras and Uganda represent good practice in drawing on a series of survey data, while Burkina Faso, Mauritania, and Nicaragua each had two survey points. The Uganda PRSP drew on the most thorough empirical assessment of income/consumption poverty and its recent dynamics, with careful comparisons of all six surveys available confirming a distinct downward trend in consumption poverty. In LAC, the most robust measurements would appear to be from Nicaragua, whose PRSP made use of two Living Standards Measurement Study (LSMS) surveys (1993 and 1998) that showed a small decline in poverty over time. The Vietnam I-PRSP is also based on robust data from two Vietnam Living Standards Survey (VLSS) undertaken in 1993 and 1998 that showed a dramatic decline in poverty during these five years. In some other cases, the adjustments made for the seasonal timing of the different surveys, or for price variation, were less clear. **An issue, which seems to be common across all the PRSPs to date, is the desirability of deeper discussion of the *poverty line* used, and the extent of societal consensus around that threshold.** Most PRSPs looked at trends over time and indicators of human development.

57. Most PRSP countries have, as part of the PRSP process, pulled together existing data sets and studies related to poverty into a more organized and accessible database. This has often improved communication and sharing of information among concerned agencies and groups, and has generated a stronger sense of national responsibility for data

³⁵ Robb, 2002.

collection and analysis. Many countries have also identified and started to fill important gaps in their data about poverty and inequality, and have begun to strengthen the institutional arrangements for ongoing data collection and analysis, as discussed below under the heading of monitoring. 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. **In short, the PRSPs appear to have provided substantial impetus to improve the poverty information and knowledge base, and the information base is likely to improve markedly as governments complete future rounds of currently planned surveys and expand the use of participatory tools.**

58. **The way that data are used is more important than their availability: all the PRSPs presented poverty profiles, sought to explain the key correlates of poverty, and discuss its microeconomic determinants.** Some (e.g., Honduras) drew from econometric analysis of poverty covariates, but others relied on less rigorous approaches. However, for some countries, limited sample size meant that poverty estimates and trends could not be sufficiently specific for most practical policy purposes.

59. **All PRSPs have found that regional disparities and geographical constraints are determinants of persistent poverty, as are economic activity and demographic characteristics of the household.** The PRSPs in Burkina Faso, Mauritania, Nicaragua, and Tanzania provided poverty maps, and Nicaragua developed poverty maps at the municipal level, using the 1998 LSMS and the 1995 Census. On the other hand, disaggregation in Bolivia and Honduras was limited to rural versus urban location. Most African PRSPs disaggregated poverty on human development data by socio economic grouping (the exception was Tanzania). The Latin American PRSPs also disaggregated poverty/income data by groups—or at least discussed which groups are likely to be poorer. The Honduras PRSP contained the most informative disaggregations of poverty, reporting higher income poverty rates among women, children, and the elderly, and noting that certain ethnic groups and the disabled are more likely to be in poverty. It also cited econometric analysis of the implications of earning by sector of employment, relative to agriculture (but without disaggregation of poverty/income by type of economic activity *within* agriculture). Among the African PRSPs, the Burkina Faso document is perhaps the most detailed in its microeconomic diagnosis of poverty. It explored in some depth the reasons why agricultural productivity and farm incomes are low (low levels of education, technology, access to land, markets, and infrastructure).

60. **Most PRSPs did discuss how past economic reforms have affected growth and poverty, but few offered quantitative empirical evidence of the links between past policies and poverty outcomes.** All the PRSPs covered in this Review placed accelerated economic growth at the heart of the strategy. Only some (including Honduras, Mauritania, and Uganda) analyzed historical relationships among growth, household economic

well-being, and poverty. For instance, the Honduras PRSP examined the links between its adjustment and stabilization policies in the 1990s and poverty, on trends in social expenditures, and the performance of social sectors in terms of coverage and human development indicators.

61. **There are some good examples of distributional analysis of policies and programs in PRSPs.** Burkina, for example, conducted a systematic quantitative analysis of the performance of basic services as obstacles to improved health outcomes of the poor; and Nicaragua cites inadequate physical access to health facilities. Honduras and Nicaragua sought to draw lessons from past experience with targeted transfers (from social investment type funds), and Honduras utilized the results of benefit incidence analysis in the health sector. Mauritania looked at the impact of public spending programs targeted to the poor; while Mozambique's emphasis on decentralization followed an analysis of the geographical and related constraints and disparities. While several PRSPs examined the impact of past rural policies (Nicaragua on the privatization of the state grain marketing company and Mozambique on cashew policies), the scope of the discussion was limited.

62. **More generally, despite the significant advances in poverty data and analysis in PRSPs relative to pre-existing government strategies and policy frameworks, analysis of the impact of the policy actions on the lives of the poor appears to have been limited.**³⁶ PRSPs often listed policy actions—often related to ongoing government programs—which had no clear connection to the poverty diagnosis. This gap is what some observers have referred to as the “missing middle” in PRSPs: the diagnostic results about who is poor and why they are poor were not systematically applied to determine priority public actions, their sequencing, and the design of ameliorative programs or policies where reforms have significantly negative effects on some groups of the poor. The reasons for this gap have to do with capacity constraints at the country level and the inherent technical difficulties of undertaking systematic and comprehensive analyses of the impact of the government's poverty reduction strategy. Despite recent analytical advances in this area, the data and capacity needs are still formidable, and serious methodological issues remain unresolved. Nevertheless, as noted by civil society groups (Save the Children UK, World Development Movement, and OXFAM) as well as donors like DFID, and as was reiterated by participants at the January 2002 International Conference, there is a need for the Bank, the Fund, and other external partners to assist countries in being more systematic in undertaking PSIA of major policy changes, such as agricultural pricing reforms or energy price liberalization, which are important in accelerating growth but are also likely to have significant distributional impacts. However, given the data and methodological issues that remain, it needs to be recognized that progress in this area will necessarily be gradual. For progress to be made, a combination of country, donor, and civil society efforts will be required both in applying existing techniques more systematically to major policy reforms and in undertaking

³⁶ World Vision (2001) cites dissatisfaction with the limited and late planning of social impact assessments.

research to improve the applicability of the analytical techniques over time. Box 8 describes ongoing work on PSIA, which is being supported by the Bank and other development partners, while the capacity building agenda at the national level, as well as for staff, is covered in Section E below.

63. Four challenges for countries and their partners, including the Bank and Fund, emerged from this review of the poverty diagnostics in the full PRSPs to date.

- **First, poverty reduction strategies would benefit from more policy relevant groupings of households, particularly for the rural population.** For example, a “food-crop farmers” category is too large and heterogeneous to be useful for practical purposes. A serious oversight in several African PRSPs is of the role that gender inequality plays in constraining agricultural growth and rural poverty reduction. At the other extreme, some smaller (in numerical terms) groups—such as the handicapped, the homeless, and street children—can be missed from the analysis altogether, either because of the survey sampling frame, or because they are simply too few in number to be picked up by a national random sample. Either way, there is an obvious need for the PRSP process to ensure that knowledge about such groups is generated in the poverty information strategy.
- **Second, the PRSPs should pay more attention to the *transmission mechanisms linking the different socioeconomic groups to the growth and development process.***³⁷ For example, understanding why food farmers in Uganda apparently are now benefiting from growth is a central issue for the poverty reduction strategy: it is important to understand, for instance, whether the main transmission mechanism for poverty reduction in this context is a tighter labor market or the increase in the demand for food, and/or better access to basic education and health services. While the Honduras PRSP, for example, has some discussion of the reasons why growth may not be bringing about effective poverty reduction (e.g., low productivity of agricultural workers, and insufficient openness to the international market), PRSPs in general had little coverage of transmission mechanisms. Yet, it is central to the formulation of effective poverty reduction strategies, and especially those anchored to accelerated economic growth.

³⁷ See Njinkeu, 2001.

Box 8. Poverty and Social Impact Analysis: Tools and Emerging Experience

A number of economic and sociological tools already exist to undertake PSIA in countries. Depending on countries' capacity and data availability, appropriate tools may range from stakeholder analysis and participatory and user surveys to quantified modeling and simulations on the poverty and social impacts of macroeconomic and sectoral policy changes. Combined analytical techniques can be particularly useful. The World Bank is presently compiling a synthesis of existing analytical approaches and tools, and work is ongoing at the Bank, in collaboration with other partners, to extend and further develop tools to analyze the poverty and social impacts of reforms.

PSIA approaches and tools are currently being applied in several country cases. In Vietnam, the government initiated ex ante PSIA of the employment effects of state enterprise reform, documented in the I-PRSP and supported by the PRSC. As a result of this analysis, the government put in place a safety net to assist those losing their jobs. In Chad, analysis of various scenarios and options for privatizing the state cotton enterprise are being assessed concurrently with stakeholder analysis and qualitative surveys among these stakeholders, while a quantitative survey is to be put into place to monitor the impacts of eventual reforms on indicators considered critical by analysts and stakeholders. A quantitative survey is to be put into place to monitor the impacts of eventual reforms on indicators considered critical by analysts and stakeholders. In order to enable PSIA to be undertaken more systematically in the future, a number of challenges need to be addressed with the support of partners. These challenges range from data and technical analytical capacity, to institutional capacity linking analysis to policy process, development and choice of appropriate tools and techniques.

- Third, and relatedly, **PRSPs tend to be descriptive and would benefit from further investigation of causal relationships.** This is technically difficult, and has often been a frequent shortcoming of other analyses (e.g., Bank staff poverty assessments). The Honduras PRSP is perhaps good practice in this regard, as the PRSP explored the labor market (productivity, occupational shares, employment, and wage trends, female and child labor force participation), income distribution, and access to factors of production in rural areas, human capital, population and environment, and the effect of Hurricane Mitch. Multivariate methods were invoked to identify the relationships among poverty and household demographic characteristics, education levels, employment patterns, and geography.
- Fourth, **both the ex post assessment of past policies drawing on history, and the ex ante PSIA of policy interventions, are priorities that deserve to be considerably strengthened as PRSPs are updated.** As with delineating the causes of poverty, such analyses of the ex ante and ex post impacts of policies on growth and on distributional outcomes is challenging and progress in undertaking these is likely to be gradual. At the outset, the focus should be on assisting countries to apply existing techniques more systematically while improving the availability of reliable and timely data and expanding research to customize the analytical techniques to the needs of low-income countries.

Targets and indicators

64. Targets have been introduced in the PRSP with two key objectives: to initiate a process of prioritization and to foster a culture of accountability among the different actors involved in the policymaking process. Targets also help mobilize resources for the overall goal of reducing poverty. In order to achieve these objectives, it is essential that the chosen targets be realistic. They might lose their potential in terms of incentives if they were unattainable from the start. Experience suggests that, in many current PRSPs and I-PRSPs, this may be the case: their targets tend to be too optimistic, and the cost of reaching them tends to be underestimated.

65. **Many PRSPs set long-term targets that seem overly ambitious relative to prior achievements and/or likely available resources.** Making good judgments about the realism of long-term targets is obviously problematic, partly due to the inherent difficulties in estimating the costs of achieving those targets. At the recent International Conference, there was a lively discussion around the appropriate link between the Millennium Development Goals (MDGs) and the PRSP targets. Several participants argued that mandating adoption of these targets in the PRSPs would be in conflict with the desire to generate country ownership. Others argued that the MDGs have been endorsed by 146 heads of state, so they are not being “imposed” by the IFIs. There was agreement that the MDGs provided a good framework for guiding the discussion on targets, and it was acknowledged that there must be sufficient room to adapt them to the local conditions (i.e., to make them “homegrown”) and to include national targets in areas (for example, rural development and governance) not covered by the MDGs. Box 9 provides a practical example from Vietnam of how this can be undertaken.

66. Target costing is a way to help ensure realism and to assist in prioritization both within and across sectors. This is not a straightforward task where accurate data on unit costs and the costs of expanding or improving services are not readily available. There are, nonetheless, emerging good practices in this area, including Honduras, as well as the case of education in Guinea (Box 10).

67. **A more general point, around which there is consensus internationally and which is also illustrated in the Vietnam case, is that the process used at the national level to set targets is important.** It provides a unique occasion for setting priorities for resource allocation not only by technicians, but especially by the population at large. Targets will be credible in mobilizing resources only if they have gathered broad support. Mere adoption of the MDGs may prevent such an in-country discussion about priorities in resource allocation, despite the fact that they have been agreed on by heads of state.

Box 9. Localizing the Millennium Development Goals: Vietnam

The Comprehensive Poverty Reduction and Growth Strategy (as the PRSP is called in Vietnam) is looking across existing national plans and strategies and identify priority areas for action in promoting poverty reduction over the medium-term. Central to this task is the identification of clear *outcome targets* which explain the changes that the government seeks to generate over five- and ten-year time frames, and *intermediate indicators*, which can be tracked and monitored regularly (annually or biannually) to assess progress towards the targets.

While Vietnam has been defining its national development strategies, international commitment to eradicating poverty has intensified, as manifested in the MDGs. Although the MDGs are consistent with the direction in which Vietnam wants to go, the exact targets are, in many cases, not the most appropriate ones for Vietnam. For example, the poverty goal, which states that countries should aim to halve poverty between 1990-2015 is one that Vietnam has *already* achieved and it therefore needs to set a new, more ambitious goal. During the preparation of the CPRGS, therefore, several adjustments are being made to “localize the MDGs.” Some of the ways that the “Vietnam Development Targets” (VDTs) differ from the MDGs are as follows:

- The target period for the VDTs coincides with the period of Vietnam’s Development Strategy (2001-2010) rather than of the MDGs, which are typically for 1990-2015;
- the VDTs focus more on disadvantaged groups, such as women and ethnic minorities, than do the MDGs; and
- the VDTs are broader in coverage and include targets for governance, vulnerability, and improving access to basic infrastructure, rather than focusing exclusively on social sectors as the MDGs do.

68. **The other key challenges illustrated by experience to date is that even when target outcomes are clearly identified, PRSPs often lack good indicators of intermediate processes that would help track the implementation of public programs.**³⁸ This will affect the regular progress reports on PRSP implementation, which are expected to be produced on an annual basis. A key objective of the PRSP approach is to deliver a **quick feedback** on results that can be easily **attributed** to specific actions. Poverty monitoring—in the sense of measurement of final outcomes—cannot normally provide that.

³⁸ Booth and Lucas, May 2001, p. 1. The EC, 2001 (p. 8) stressed the need for a “few, measurable, timely indicators.”

Box 10. Simulating and Costing Education Targets: Guinea

Targets for the education sector in Guinea were chosen based on a policy simulation model which allowed the Ministry of Education (MOE) and the Ministry of Finance (MOF) to estimate the costs and budgetary implications of several policy scenarios aimed at increasing school enrollment. It also permitted the MOE and the MOF to test various policy options to improve the overall efficiency of utilization of resources (human and financial) allocated to the education sector. Together these different policy scenarios allowed the MOE to develop technically and fiscally sustainable targets for the Guinean education sector. The simulation model will further help implement and monitor the twelve-year education plan (2001-2013).

Similar simulations models (SimSIP_Cost), presented in the sourcebook chapter on setting Development Targets and Costing, have now been developed to calculate the cost of other sector investment programs, such as health and infrastructure. Total resources available to the social sectors are derived from assumptions about the projected rate of growth of the gross domestic product, the projected shares of the social sectors within the government budget and of the subsectors (education, health, infrastructure) within the overall social sector budget. These resources are supplemented with other domestic resources (cost recovery, for example), the availability of HIPC resources, and donors' funds. The difference between the size of projected resources and expenditures determine the amount of financial gap for the sector. It will prove to be a powerful tool to help governments prioritize. For example, it can be simulated by how much primary school enrollment will have to decrease in order to finance the expansion of sanitary provisions with a certain amount.

69. **The choice of indicators for PRSP monitoring needs to be linked to the content of the strategy.** There are several examples of emerging good practice in this area (Box 11). At the level of intermediate outputs and outcomes, the indicators included in PRSPs and I-PRSPs are often not linked to the policy choices in the strategy. This mainly reflects the fact that, as strategies, most current PRSPs have a “missing middle” in the sense described above in paragraphs 62-63. A separate but related problem is the unreliability of official administrative data. A recent external review by the Overseas Development Institute of African PRSPs and I-PRSPs concluded that the indicators actually selected are the result of bringing together those already agreed for ongoing, often donor-supported activities, without being integrated by an overall rationale. At the same time, although all of the PRSPs are clear about indicators and 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. This is not altogether surprising in the short-term, but is an area for development in the medium-term.

Box 11. Monitoring and Evaluation: A New Approach in Bolivia

Bolivia is establishing a system to monitor the progress made in implementing the set of policies and actions set out in the PRSP, as well as to review the aspects explaining the achievement of the objectives, using qualitative and quantitative information. It will be implemented at both the national and municipal levels.

In terms of topics to be covered, these range from sector issues (opportunities, capabilities, protection and participation), crosscutting issues (gender, development with identity and the environment), to institutional and financial issues. There is a substantial focus on the allocation and performance of public spending, from both internal and external sources, with links to agencies responsible for fiscal programming, budgeting and audits, and public investment and external financing. The review of progress at the sectoral level will be based on selected intermediate indicators, and using a baseline drawn from the 2001 census. The results will be used for causal analysis to link inputs to outcomes, as well as for selected evaluations.

Monitoring and Evaluation Capacity

70. Monitoring of progress towards poverty reduction in all its different aspects forms a key component for the PRSP process. This requires the selection of indicators and targets to be monitored, in line with priority public actions and capacity. Yet, more importantly, it also requires the **development of a sustainable monitoring and evaluation system that has the capacity, resources, independence, and the incentive structure to objectively monitor progress**. The system should be transparent and participatory, and set up such that the results are fed back into the annual and long-term budgeting and policy process.

71. **Monitoring a PRSP goes much further than monitoring poverty outcomes, and needs to include the monitoring of the key component parts of the strategy** (e.g., the rural development strategy). As such, monitoring should be seen as a management tool that can be regularly used to adjust and fine-tune the allocation of public resources. While PRSP teams and development partners are important users of the system, other users include program managers (at central and sub-national levels), parliament, and civil society (beneficiaries and voters). A monitoring system that meets the challenges posed by the PRSP approach needs to be rooted in a national process, to be comprehensive, and to address the demands created by greater outcome orientation of policymakers. At the same time, this Review and any proposals for future actions must be realistic about the nature of the policy process, in terms of both policy formulation and implementation. Solutions will never be purely technical. Data collection and analysis are challenging tasks in the best of circumstances and are especially difficult where national and local institutions for M&E have weak capacity. Weak institutional capacity for monitoring may reflect the nature of civil service capacity, as well as, in some cases, weak demand by and for government to be accountable for the effective use of public resources.³⁹ Several areas that are important to PRSP monitoring have been

³⁹ EC, 2001, p. 22.

addressed above and elsewhere in the paper. The balance of this section focuses on issues related to timely monitoring and feedback, and national capacity for monitoring.

72. On the supply side, a full M&E system has to draw on a range of sources including expenditure tracking systems, management information systems (MIS), surveys, and censuses. Many countries have adopted the framework provided by the IMF's General Data Dissemination System (GDDS) to improve transparency, as well as national capacity to compile and disseminate economic and socio-developmental data. Uganda is an example of good practice on this front, not only because of the 2000 Uganda Household Survey, but because its monitoring system draws on a wide range of sources and instruments including sectoral information systems, PPAs, service delivery surveys and integrity surveys. This opens up the possibility of triangulation, which can fuel lively debate, particularly when different sources give apparently different signals (as was the case in Uganda). **Institutional arrangements—the allocation of responsibilities, incentives and internal coordination—are central to establishing an effective monitoring system.** In IDA programs in Africa, there are now a number of examples where public sector reform programs are taking the lead and providing the framework for M&E rather than the economic reform packages. If donor alignment to PRSPs implies a shift toward programmatic support, and if this extends to financing of the M&E systems, this should improve donor coordination.

73. **Many PRSPs have detailed plans for improvement in M&E capacities, consistent with the objectives of the PRSP approach.** In Bolivia, for example, the authorities have a detailed plan to improve capacity to monitor poverty-related spending. In Honduras, PRSP monitoring will greatly benefit from a newly established institute on statistics. Many countries, including Mozambique, have plans to include CSOs in monitoring. In some other countries, however, the institutional structure for monitoring has not been clearly defined.

74. **The importance of sustained improvements in M&E capacities within PRSP countries is increasingly recognized.** In contrast to the quite uneven progress on the PEM front, informed observers have concluded that **the measurement of final poverty outcomes/impacts is taking a substantial leap forward in most countries.** New household surveys are underway in many countries, and the use of participatory poverty assessments is also much more established than in the past. Indeed there have been substantial advances in the capacity of PRSP countries to monitor poverty. Nicaragua appears to be establishing a systematic information system for poverty indicators—a new LSMS is to be fielded in 2001, with further surveys planned every three years. The semi-annual PMHS in Honduras should, if continued, constitute the core of a systematic poverty information system for the future. Uganda in many respects represents good practice. The commitment revealed in completing, processing, and analyzing the 2000 Uganda Household Survey in time for the PRSP Progress Report in 2001 shows what can be achieved, even in the context of a typical low-income African country. Vietnam is also establishing a systematic information system for poverty indicators and plans to undertake a comprehensive household survey every two years, starting in 2001, which will provide most of the information needed to track progress in poverty

reduction. In addition, local and international NGOs, and other members of civil society, will be involved in monitoring progress through qualitative methods.

75. However, **not all PRSPs have indicated their plans for improving M&E capacity, nor their priority needs for additional external assistance for capacity building.** In other cases, it has been argued that the proposed M&E strategy might prove too complex and too ambitious. This has been posed as a risk for Tanzania, for example, which is seeking to remedy a large deficit on the poverty information and monitoring front, although among its strengths, Tanzania's monitoring strategy was developed in a notably participatory way which would enhance the demand for effective monitoring and the likelihood of effective implementation.

76. An increasing emphasis on more regular and appropriate data collection should be linked to a **focus on information dissemination and use.** At the recent International Conference, the discussions about monitoring revolved largely around the need to ensure that monitoring promotes accountability, with a focus on joint monitoring (by governments with CSOs and development partners) and the importance of statistical agencies being able to function free from political pressures.

Good practices for countries

- **Analyzing the poverty and social impact of major programs and policy actions;**
- **setting realistic targets for growth and poverty outcomes,** including the MDGs among national goals when relevant, and customizing targets to country circumstances;
- **developing appropriate intermediate indicators** to enable timely monitoring of performance and feedback, to complement measurement of poverty outcomes;
- **developing capacity and the institutions required for improving monitoring and evaluation** and reporting on plans and associated assistance requirements in the PRSP;
- **ensuring that statistical agencies are engaged in the PRSP process;**
- **working with partners to agree on a sector-type approach to statistical needs** and demand, to define a sustainable statistical program around a monitoring and evaluation system; and
- **exploring at the country level, with donor support, the potential for using known techniques to provide quick feedback** on critical implementation issues, such as participatory beneficiary assessments and facilitated staff self-assessments.

Good practices for development partners, including the Bank and Fund

- **Contributing to coordinated assistance** in support of poverty diagnostics and PSIA;
- **providing timely and appropriate analytical work** for key areas of the PRSP, and prepared, whenever possible, jointly with the government; and
- **providing sufficient resources for technical assistance in support of capacity building** for PRSP design and monitoring.

Actions by the Bank and the Fund

- The **Bank will take the lead in assisting countries in carrying out PSIA of major policy reforms**, including in applying existing techniques more systematically in building capacity, and in undertaking research to improve the applicability of new analytical techniques over time. Fund staff will generally draw on these analyses to assess the impact of PRGF-supported programs and contribute to macroeconomic aspects of such analyses.

Priority public actions

77. This section reviews the dimensions of content of PRSPs, from macroeconomic and fiscal choices, through governance and structural and sectoral policies, drawing from staff thematic reviews and related documentation, the PRGF Review, and external contributions to this Review. Before doing so, however, the cross-cutting challenge of prioritization, which has relevance across the range of public actions is reviewed, along with the related issue of discussing policy alternatives.

78. Although it should be grounded in comprehensive diagnosis, a good strategy requires prioritization, both in the choices of policy measures and in the allocation of public expenditures. This implies limiting—and sequencing—the set of policy measures to those that can most likely be achieved, given administrative and political constraints, over the time horizon of the strategy. Prioritization also implies recognition of budget constraints and a willingness to reallocate budgets from lower priority to higher priority sectors and subsectors. **A good strategy would also define its priority public actions specifically with regard to what is to be done, by which institution, and within what approximate time frame. Specificity requires clarity, not details, about the means to the stated objectives or end.** In this way, countries' PRSPs can not only serve as a more useful instrument for coordination and monitoring by government and civil society, but can also serve to better guide external development partners in aligning their programs and deriving their conditionalities consistent with national commitments and priorities.

79. **Early experience with full PRSPs revealed that most strategies were weak regarding the prioritization of public actions.** Both Boards have expressed concern and

called for better prioritization and costing of actions for poverty reduction. The degree of prioritization of public expenditures is obviously related to issues of budget constraints and fiscal sustainability and is discussed below under “Fiscal Choices”, this section discusses prioritization of policy and institutional reforms. In Latin America, while the PRSPs from Bolivia, Honduras, and Nicaragua define a limited set of broad areas for action, the array of measures in each area is daunting and possibly too ambitious. For example, the Nicaraguan PRSP includes 26 pages of actions while the Honduran PRSP’s measures for 2001-2005 include 53 separate legal and institutional measures. Although the African PRSPs generally set forth a more modest set of policy measures, all would have been strengthened by greater prioritization. Burkina Faso and Mauritania’s PRSPs, for instance, include an imposing list of measures with little sequencing or ranking. Mozambique’s PRSP listed a more realistic number of measures in six priority areas, but also included “other key measures” outside these areas.

80. **Prioritization is a difficult task, both technically and politically.** PRSP teams face pressures, especially as a result of the participatory process, to add to policy lists rather than to prioritize. Although the reasons for weak prioritization vary across these countries, they are partly the product of the demands generated domestically through the participatory process and from donors, as well as a reflection of limited capacity to cost and evaluate programs and policies. Some observers, including the OECD and OXFAM, have argued that cross cutting issues such as gender, equality, sustainable development, trade, conflict prevention, and good governance have not been adequately addressed. Others (including BMZ, for example) maintain that PRSPs cannot be expected to address all development issues simultaneously and that appropriate prioritization of policies and public spending should be the main guiding principle. To support country efforts in prioritization, development partners can play a role in respecting country leadership rather than pushing their own projects or concerns, and in supporting the development of technical capacity to cost and therefore weigh alternative policy and program options (see below, under public expenditure management).

81. **The degree of specificity of priority public actions varied considerably among the early PRSPs.** While there were numerous positive examples (Box 12), many of the actions were listed with little or no information about what was to be done, by whom, and when. For example, the Tanzanian PRSP and Ugandan PEAP tended to include general actions with little clarity on responsible institutions and timing. Even when priority sectors and cross cutting areas were clearly designated, the strategies in each sector or area were often not stated with sufficient specificity. To some extent, this may reflect weak capacities of sectoral ministries, which is associated with a lack of groundwork or absence of detailed sectoral strategies to underpin sectoral programs in the PRSP. Another explanation for vague sectoral strategies in the PRSPs could be government reluctance to commit to a specific program of action. **A major challenge is to determine the appropriate level of detail to provide in a PRSP. It is not feasible or desirable to describe fully every proposed action, or even to include every action, nor to provide all the underlying analysis underpinning**

policy choices. What is most important is to link the strategic objectives with outcome targets, and to specify structural and sectoral interventions with intermediate indicators linked to the outcome targets.

Box 12. Specificity: Examples of Good Practice

Specificity about priority public actions involves clarity (but not great detail) about what will be done, by which institution(s) and within what approximate time frame. The early PRSPs include many good examples of specificity of public actions—some involving discrete changes in policies or practice and other requiring implementation of on-going programs. For example:

- Tanzania’s PRSP commits to “extend the [Integrated Financial Management System] to all ministries, departments, agencies in Dar El Salaam and in all regional sub-treasuries by 2002.”
- Nicaragua expects “INETER and MHCP (the relevant institutions) to demarcate and title lands of the indigenous communities of the Atlantic Coast and Bosaowas” during 2001.
- Honduras plans to “Incorporate into censuses and surveys more differentiated information by gender,” for which the national statistical institute is responsible during 2002-5.
- Mauritania’s PRSP indicates that, in order to ensure rational management of fishery resources, in each year there will be a “allocation of fishing activities based on a permissible level defined by .. [the relevant regulatory agency] for each fishing ground”.

Of course, at the time of the PRSP, a government may not have completed adequate analysis or achieved sufficient political consensus about an intended policy direction. In that case, good practice is to specify the responsibility and timetable for the next steps in defining the appropriate actions. For example, Mozambique’s PRSP assigned responsibility to the Ministry of Justice to “develop and adopt an integrated strategic plan for the justice system” by December 2001.

In terms of specificity (but not extent of prioritization), the Bolivian EBRP serves an example of good practice. Its Annex V indicates intended actions, identifies which institutions are responsible, and states whether or not any new “regulatory instrument” is required. These actions fall within all three categories of public policy (i.e., discrete policy changes, ongoing implementation, and studies to define future policy changes). An annex lays out the time schedule for actions during the coming years. Despite the favorable attributes, the matrix of actions and policies does include a considerable number of measures for which the means is not clear (e.g., “develop markets for entrepreneurial and microfinance services”).

82. Prioritization implies that alternatives have been considered and trade offs made. Many observers would like to see a more explicit presentation of alternatives in the PRSP. Alternative macroeconomic and structural policy choices and trade-offs could have been made more explicit in the early full PRSPs. Each of the full PRSPs put forward a single set of macroeconomic policies and related structural reforms. Several donors and civil society groups (OECD/DAC, UK DFID, EURODAD, OXFAM) have called for more innovative and rigorous thinking by countries in conceptualizing alternative post-stabilization macroeconomic frameworks based on normative assessments of social need and growth. In practice, there is no disagreement about the importance of low inflation for poverty reduction; the potential for debate tends to be largely around the design, timing, and sequencing of structural reforms (e.g., major privatizations or trade liberalization). Options can also be presented on the allocation of available resources and scope for reducing

“unproductive” expenditures. The absence of explicit debate about alternatives is related in part to how the scope of the participatory process was defined in some countries, and in part to the need to build national capacity for technical analysis among CSOs. At the same time, Bank and Fund staff should continue to engage in policy discussions with governments and domestic stakeholders about alternative policy choices. It is important to include references to such discussions in the staff reports and lend documentation in justifying the preferred course. This relates also to the need to support poverty and social impact analysis at the country level, through timely provision of tools and advice, and actual analysis where requested, to feed into the development of alternative policy choices.

Macroeconomic frameworks, fiscal choices and financing

Macroeconomic frameworks

83. **Full PRSPs are expected to put forward a medium-term macroeconomic framework that is fully consistent with the country’s growth and poverty reduction objectives.** In doing so, countries are expected to summarize the priority public actions over a three-year horizon by inclusion of a table presenting the country’s macroeconomic framework, a table summarizing the overall public expenditure program and its allocation among key areas, and a matrix of key policy actions and institutional reforms and target dates for their implementation.

84. **To date, all the full PRSPs have put forward macroeconomic frameworks that support the poverty reduction and growth objectives of the government’s strategy.** These frameworks envisage a level of inflation that would not undermine private-sector growth, an external position that is sustainable, measures to support pro-poor growth, and an overall fiscal stance that is compatible with the PRSP’s poverty reduction and growth objectives.⁴⁰

85. The achievement of macrostability has been an important step forward in many low income countries in the 1990s, and in each PRSP to date there was clear commitment to maintain stability. **The monetary programs were consistent with the objective of low inflation** with targeted rates ranging from 2-4 percent in Albania, Burkina Faso, Mauritania, and Tanzania to 5-7 percent in Mozambique and Uganda. At the same time, these monetary programs allowed for significant increases in private-sector credit. Hence, macroeconomic stability does not imply a credit squeeze for the private sector that would adversely affect growth prospects. For example, in Albania and Uganda, credit to the private sector is to increase by an average of 35 percent and 15 percent per year, respectively, thereby allowing gradual increases as a percentage of GDP.

⁴⁰ See PRGF review, “Review of the Poverty Reduction and Growth Facility – Staff Analyses” for details.

86. **Macroeconomic frameworks targeted a sustainable external position**, with current account deficits financed from external flows while maintaining a sufficient level of foreign reserves and avoiding an unsustainable build-up of external debt. For example, Nicaragua's external current account deficit is projected to decline substantially, while its gross foreign reserve level is projected to rise and its external debt ratios are expected to improve.⁴¹ Uganda's projected widening trade deficit is expected to be fully offset by increases in official and private transfers, thereby permitting gross foreign reserves to be maintained at five months of imports, although high dependency on aid has raised concerns over future debt sustainability.

87. **Vulnerability to external shocks continues to be a key risk to the external viability of most of the full PRSP countries.** For example, Mauritania's strategy is based on continued high dependence on a narrow export base, while Bolivia and Uganda are also highly susceptible to external shocks due to terms of trade fluctuations. The PRSPs typically did not discuss the appropriate set of macroeconomic policies to reduce the risks from external shocks or to ensure debt sustainability. For example, Mauritania's PRSP did not discuss exchange rate policy nor the need to enhance competitiveness in order to diversify its export base, while the Ugandan PEAP did not discuss progress on diversification from coffee. Bolivia's EBRP's did, however, include a macroeconomic scenario, which assessed the impact of a terms of trade deterioration.

88. **The fiscal stances put forward in the full PRSPs were broadly appropriate** in light of ongoing efforts to mobilize additional domestic resources, expected availability of external concessional resources, and concerns over debt sustainability. Bolivia's EBRP presented a public expenditure path based on non-inflationary sources of financing. Tanzania and Uganda had medium-term expenditure frameworks that were fully integrated into their macroeconomic frameworks and consistent with their annual budgets. In Albania, the fiscal stance was appropriate in light of concerns regarding debt sustainability and global uncertainties and was consistent with the priorities that emerged from the poverty diagnosis and the consultative process. Mauritania is an example where medium-term budget deficits were fully consistent with the poverty reduction, growth, and macroeconomic stability objectives, given planned increases in priority public investment. A further relaxation in the fiscal stance is foreseen if additional concessional donor assistance can be secured.

89. **Some of the PRSPs (Albania and Burkina Faso) had only limited discussion of their macroeconomic frameworks.** Some could have been better supported by including a more comprehensive set of tables, while others (Mozambique, Tanzania, and Uganda) could have benefited from a more substantial discussion of the linkages between macroeconomic

⁴¹ Between 200-2005, Nicaragua's external current account deficit is projected to decline from 33.3 to 22.0 percent of GDP, and international reserves are expected to increase from 3.1 to 3.7 months of imports of goods and services.

and structural policies and poverty reduction.⁴² For example, the discussion of the linkages between outputs and the budget in the Uganda PEAP could have been strengthened and made explicit. Uganda's PEAP, however, did explicitly analyze the expected impact of projected growth rates on income poverty.

90. **Each of the macroeconomic frameworks included ambitious growth projections and could have benefited from a sharper focus on the expected sources of pro-poor growth.** These range from 5 percent in the case of Bolivia and Nicaragua to 7-8 percent in the case of Albania, Burkina Faso, Mauritania, Mozambique, and Uganda. With populations growing annually at a rate of 2-3 percent, such growth rates are needed if living standards are to improve and income poverty to decline. These national projections were also typically in line with forecasts in earlier PFPs for the country. Uganda's PEAP sought to explain the feasibility of its projected growth rate and defined the conditions under which such a rate could be attained. More typically, however, analysis of the sources of growth underpinning these projections was lacking. Nicaragua's PRSP presented a limited analysis of the economy's sources of growth, although this was not clearly linked to the expenditure program. (For example, while 15 percent of investment under the growth pillar is to increase coverage of water and sewerage services in urban areas, it was not clear how this would stimulate broad-based economic growth.) Similarly, Mozambique's PARPA could have gone beyond the "mega projects" and elaborated on the other sources of growth, especially the expected basis for strong growth in agriculture. In this context it is not surprising that a number of observers have called for a sharper focus in PRSPs on pro-poor growth.

91. **Some of the early PRSPs have made progress in identifying pro-poor growth policies.** These PRSPs included a general strategic orientation towards rural development, improving competitiveness, investments in human capital, and greater trade openness. For example, in Nicaragua's PRSP, the development of rural areas was the growth pillar, with a policy focus on the elimination of price and cost distortions faced by farmers, improvement in the operation of rural factor markets, increased investments in rural infrastructure and the promotion of improved production technologies, and education and health strategies targeting rural areas. The early PRSPs generally acknowledged the primacy of the private sector for growth and poverty reduction and associated structural measures for growth and poverty. (This is addressed in paragraphs 146-155 below.) Honduras represents a good practice example in this respect (Box 13).

⁴² As discussed in more detail above (paragraphs 62-63), the early full PRSPs are very limited in their presentation of existing or planned PSIA of priority public actions, including the key macroeconomic policies.

Box 13. Strategic Pro-Poor Growth Orientation: Honduras

The Honduras PRSP identified clear links between the main identified sources of growth and the underlying poverty diagnostics.

Since poverty is extensive in rural areas, the PRSP aimed to improve the competitiveness of the small rural economy by facilitating better access to infrastructure, market support services, technology and financing. Specific programs and projects include business development of the small-farm economy, building and repair of rural roads, increasing the area under irrigation, rural electrification, provision of basic sanitation, and seed capital for small producers.

At the same time, the diagnostics also showed serious poverty in cities, and the PRSP also aimed to improve employment and income opportunities for the urban poor, formalize and regulate street vendors, foster the development of micro, small- and medium-sized enterprises, develop the potential of intermediate cities (so that they can become regional growth poles), and improve living conditions through access to housing and basic services.

More generally, access to assets – in particular land and capital – were key features of the PRSP, and a number of policy actions were proposed to improve the investment climate and competitiveness.

92. **It is broadly true that the core macroeconomic and structural elements of the early PRSPs have changed little from the programs of the recent past.**⁴³ The PRGF review and staff analyses which compared the policy content of countries' full PRSPs relative to that of their earlier PFPs found that there was substantial continuity in the macroeconomic frameworks of the first ten full PRSP countries. Projected economic growth rates were broadly similar. A substantially more expansionary fiscal or monetary stance, which would have caused higher inflation, was avoided. This is not surprising as policymakers were most likely building their early PRSPs on existing policy frameworks, which was appropriate if this set of policies are considered by the government to be the most effective way of ensuring sustained growth and poverty reduction.

Fiscal choices

93. **The consistency of fiscal choices with poverty reduction and growth objectives is essential.** This has several aspects. First, there is the question of whether expenditure allocations are consistent with strategic priorities, and whether the composition of spending has become more “pro-poor.” A second consideration is the extent to which increased spending has been accompanied by improvements in the efficiency and targeting of

⁴³ CIDSE and CARITAS maintain that orthodox structural adjustment policies dominate PRSPs, focusing on “budget austerity, economic growth and free market approaches,” with little consideration of who benefits and who loses from these policies. The World Development Movement and the Pan-African Declaration on PRSPs suggests that PRSPs are a veil for the Bank and the Fund to continue their neo-liberal agenda without any real change in the content or ownership of policies. Save the Children (2001) maintains there is little consideration of macroeconomic alternatives, as does IBIS.

resources. Third, the quality of the cost estimates upon which expenditure allocations are based is crucial. Fourth, it is useful to examine the revenue effort in full PRSPs and evaluate the extent to which tax reforms simultaneously improve efficiency and equity.

94. **Tracing the links between the poverty reduction and growth objectives in PRSPs and the fiscal choices in the strategy is inherently complex given the difficulties in assessing the impact of public spending.** First, there are methodological problems in isolating the impact of particular programs and also significant lags between spending and data and impact on poverty outcomes. Second, the composition of spending labeled as “poverty related” has to be interpreted carefully. For instance, not all health and education spending is poverty reducing. In the absence of well-developed budget classification systems, it is difficult to precisely match the “poverty reducing spending” as defined in PRSPs, and budgeted expenditure allocations.⁴⁴ Third, in the absence of clear prioritization among public actions, clearer links between expenditure allocations and targets, and reliable program costing, it is difficult to assess whether expenditure allocations are consistent with strategic priorities. An assessment of fiscal choices in PRSPs at this early stage must therefore be limited to an evaluation of changes in expenditure allocations and revenue measures and to the determination of whether they are broadly consistent with strategic priorities.

Box 14. Presentation of Budgets in PRSPs: Mozambique

In the Mozambican PARPA/PRSP, the presentation of the public expenditure program began by estimating its medium-term fiscal resource envelope, including external financing. It then projected total expenditures, as well as spending within the six priority areas, in a way which clearly indicates changes from the “execution” of the budget in the base year.

The PARPA showed the unit cost assumptions which underlie these projected expenditures in the priority areas, and presents at least indicative details of the allocations to activities within the broad priority areas. On the basis of this presentation, it appears that the priority areas are budget priorities, with shares of total expenditures rising from 60 percent in 1999 to about 66 percent by 2004.

The comprehensiveness of this presentation reflects the development of a MTEF prior to the PRSP, although the presentation would have been further strengthened by a more detailed disaggregation across activities so as to allow a better sense of what share of these resources would actually benefit the poor.

95. Ideally, a PRSP should provide a comprehensive view of the public expenditure program and the cost estimates for key programs, as well as disaggregation of expenditure programs by sector and key programs for poverty reduction, and by capital and recurrent expenditures. There are some instances of relatively good practice in this area, most notably to date, Mozambique (see Box 14) and Uganda. **However, the presentation of public**

⁴⁴ Issues related to the quality and usefulness of public expenditure data and the coverage of public expenditure management in PRSPs are discussed in paragraphs 115-119 below.

expenditures in the early PRSPs has often been weak. This is true even in cases where substantial efforts are ongoing to improve public expenditure management. The weaknesses range across several areas, of varying relevance across countries:

- **Weak budget classification systems** – which in turn tend to reflect underlying problems about PEM weaknesses, which are covered in depth under the heading of Governance below.
- Presentation of public expenditure in the PRSP was sometimes **limited to incremental activities**, to be financed by HIPC debt relief and additional external financing. For example, in Burkina Faso, the PRSP expenditures amount to only about 6-7 percent of total expenditures (excluding debt service), and for Honduras, the comparable figure is about 24 percent. This “new project” approach precludes consideration of how the existing expenditure program might be reshaped, even at the margin, to improve its impact on poverty reduction.
- The public expenditure programs and targets presented in the PRSPs were **not always developed through detailed costing** of programs and policies. Even though some PRSPs did reflect costing (Mozambique’s PRSP presents unit cost assumptions for example; see also Box 10 on Guinea), some external observers, as well as Executive Directors, have generally stressed the need for better costing to improve the quality of policy and budget decisions. OXFAM and others have urged efforts to cost the achievement of the MDGs in individual countries. Improvements in costing are also key to prioritization and are useful for coordinating donor assistance.
- In this context, it is difficult to get a full sense of the fiscal choices of governments from reading the PRSPs alone. In the analysis which follows, staff have relied on official budgetary documents and information in staff reports for PRGF programs in order to gain insights into how allocations are changing over time.⁴⁵

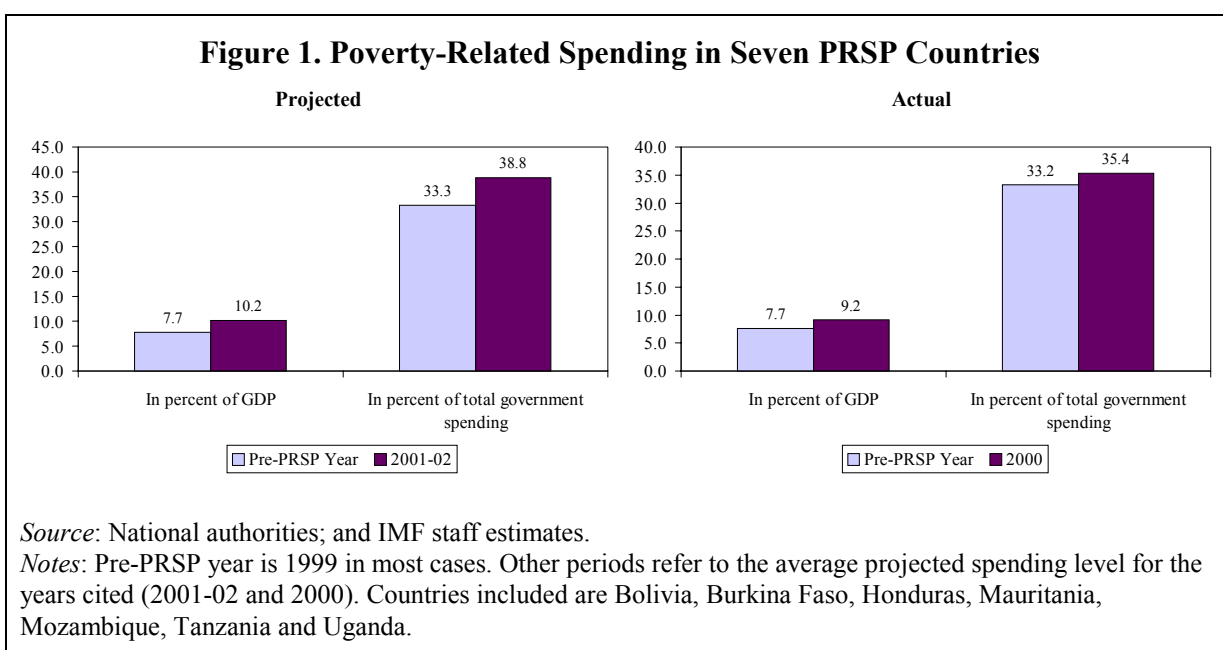
96. **Budget allocations for potentially pro-poor spending have increased in the full PRSP countries.** All of the PRSPs generally presented the intention to increase expenditures in favor of sectors conventionally regarded as being important for poverty reduction (health, education, and rural infrastructure). Fund staff have compared budget allocations for such spending in the PRSP countries over time and in comparison to a larger group of 19 low-income countries with active PRGF programs. The preliminary results clearly indicate that full PRSPs are associated with an increased emphasis on “pro-poor” spending. For a group of seven countries with full PRSPs, “poverty-reducing spending”⁴⁶ is expected to increase from

⁴⁵ See the PRGF Review for a broader discussion of fiscal choice issues for the full set of PRGF countries.

⁴⁶ “Poverty-reducing” spending is country specific and follows the definition in the PRSP. PRSPs have defined a range of programs as poverty-reducing, including primary education and health, spending on rural development and on roads. Data are drawn from the PRSPs themselves, or from other documents (such as staff reports or

(continued...)

7.7 percent of GDP to 10.2 percent of GDP, or by 30 percent, between 1999 (pre-PRSP) and 2001/02 (Figure 1). As a share of total government spending, this translates into an increase of about 5.5 percentage points relative to 1999. Moreover, when compared with the full group of 19 PRGF countries, the increase in “poverty-reducing spending” is approximately 20 percent higher in the full PRSP cases. Spending on health and education is also projected to increase in PRSP countries as a share of GDP and of total government spending, as well as in real per-capita terms (Figures 2 and 3). The data on higher real per-capita outlays which shows higher increases in real per-capita education and health spending in full PRSP cases, is particularly notable and possibly more informative if the growth projections are overly optimistic (Figure 3).⁴⁷

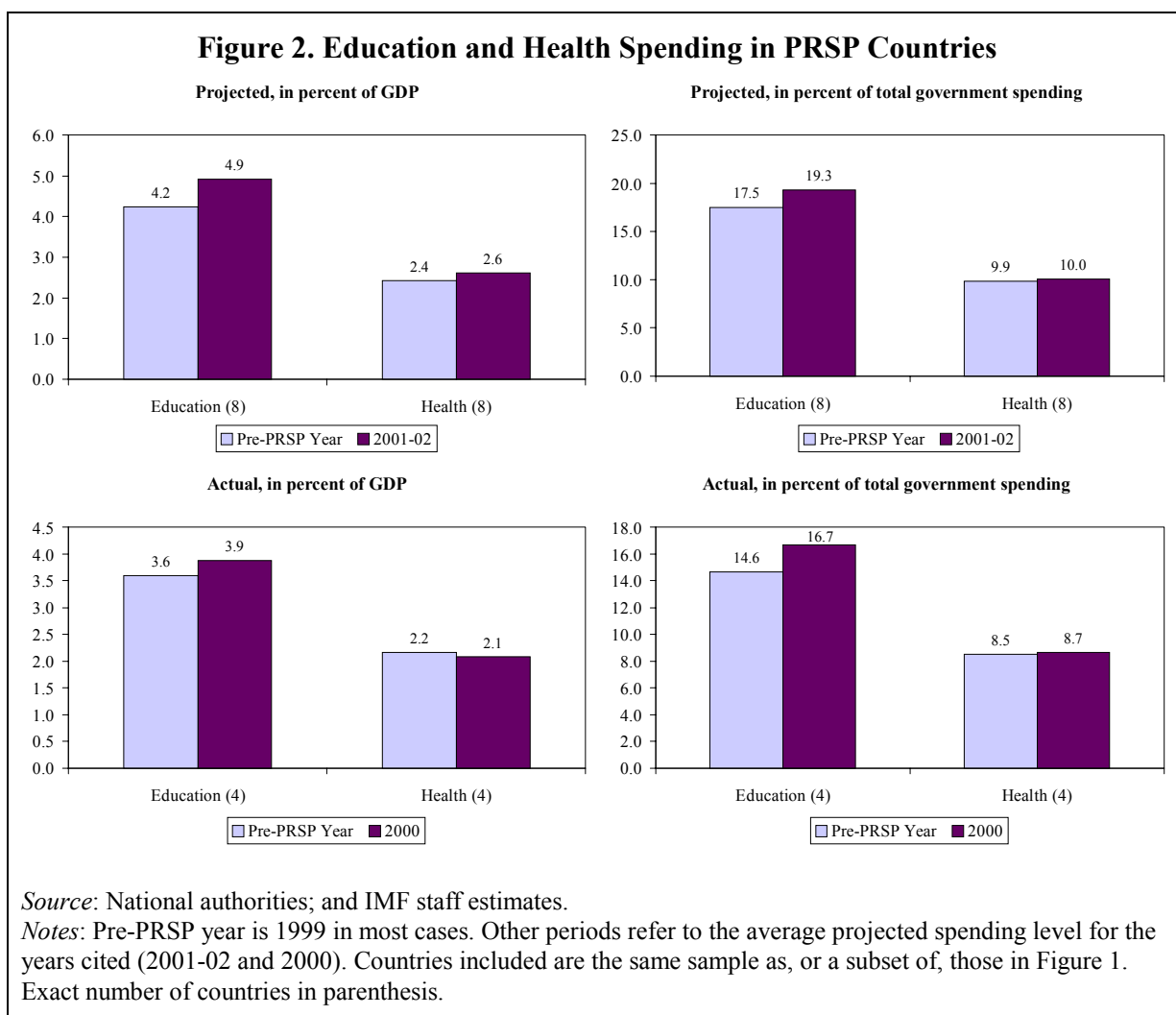


97. Data on actual budget outlays is limited but, where available, confirm the positive trends in budgeted pro-poor spending. Even among the full PRSP cases, only a few of the countries are tracking their poverty reducing spending. Indeed, so far only Burkina Faso, Honduras, Mozambique, and Uganda reported actual data on its PRSP-defined poverty reducing spending for 2000. Figure 1 indicates that for these countries poverty-reducing spending increased by 1.5 percent of GDP or 2.2 percentage points of government spending between 1999 and 2000. Data on actual outcomes for education and health spending in these

decision point documents). The sample excludes Nicaragua, which is not a PRGF country, and the most recent PRSPs: Albania and Niger.

⁴⁷ The high projected increase in real per-capita spending in education is affected by Mozambique’s PARPA; without Mozambique, the average increase in real per-capita education spending falls from 14 to 10 percent.

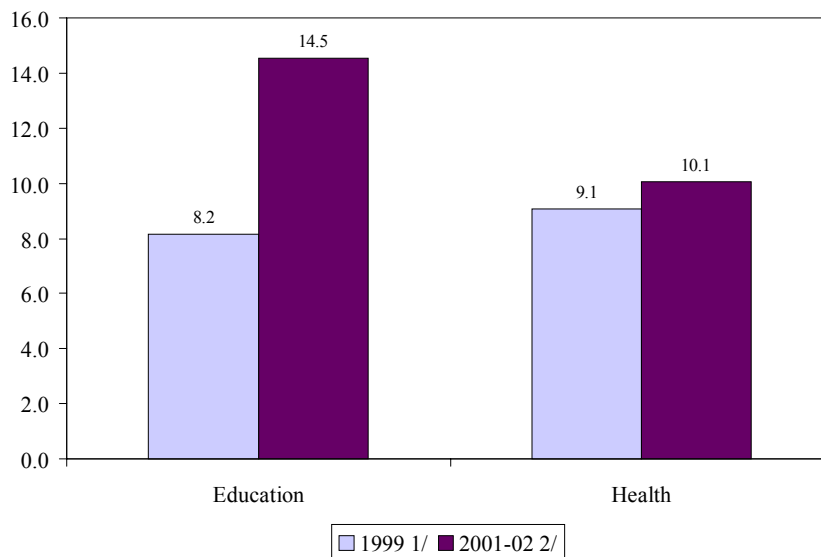
four full PRSP countries for 2000 shows education spending increased both as a proportion of total government spending and GDP (Figure 2), which is consistent with the findings for a larger group of PRGF countries.



98. **The increases in budget allocations and outlays in PRSP countries require further analysis to explain the role of the PRSP process in this trend and to explain cross-country variation.** Relevant factors include the starting point of the country, the availability of external financing and debt relief, and changes in the aggregate fiscal stance. The PRSP process could have an impact on these factors and may itself, through responsiveness to broad-based participation or improved prioritization and costing, affect poverty spending. The links have not been researched in detail in the context of the PRSP approach, but staff analysis on the larger set of PRGF countries shows considerable cross-country variation in changes in budget outlays. Smaller than average increases are envisaged in transition countries, and larger than average in HIPCs, possibly reflecting the higher initial

levels of spending in the former and the availability of debt relief in the latter group of countries.

Figure 3. Annual Change in Real Per Capita Education and Health Spending in PRSP Countries



Sources: National authorities; and IMF staff estimates.

1/ Refers to the annual change in real per capita spending between 1996 and 1999.

2/ Refers to the annual change in real per capita spending over the program period up to 2001 or 2002.

Notes: Countries are the same as in Figure 1.

99. **Several PRSP countries are aiming to improve the efficiency and targeting of spending in education, health, rural development, and other poverty-related areas.** As described more fully below under the heading of sectoral policies, several of the early PRSPs have included measures that improve targeting of these expenditures toward the poor.

100. **The need for low-income countries to improve their revenue systems and encourage domestic revenue mobilization was emphasized at the recent International Conference, and in the PRGF Review.** In general, the first set of poverty reduction strategies were fairly neutral in their revenue effort, but tended not to report on the measures supporting the projected revenue paths. With the exception of Albania, where the average tax revenue/GDP ratio was expected to increase by over 2½ percentage points over the next three years, the other full PRSP countries assumed small increases (on average less than one percent of GDP) in their projected revenue/GDP ratios. In two instances (Mauritania and Nicaragua), revenues were projected to decline over the first three years of the PRSP period. The projected increase in the PRSP cases was lower than for the larger sample of PRGF cases in the PRGF review, possibly since these are HIPC countries with access to debt relief. Revenue measures were typically not discussed in the strategy documents or included in the policy matrix, although Mozambique's PARPA noted that a revenue action

plan would be developed over the next year. Where information is available, countries typically relied on improving tax administration, with tax system design focusing on indirect taxation. Equity considerations were also featured in some tax reforms in PRSPs, such as lower VAT rates for basic goods in Mauritania.

101. The full PRSPs did not generally discuss alternative fiscal policy choices and their impact on the poor. The trade-offs involved with alternative expenditure and taxation options are rarely covered in the PRSPs, even though these discussions may have taken place during preparation. The PRGF Review found that PSIA were undertaken for less than 10 percent of the revenue measures in PRGF-supported programs, and plans for further PSIA were not elaborated in any case (see paragraph 63 above).

Financing plans

102. PRSPs are expected to outline a financing plan—including domestic borrowing and projected aid (and other external) flows. The realism of these projections will, in part, underpin a country's ability to deliver outcomes against the stated poverty reduction measures and objectives. Financing plans should ideally also include contingency plans in the event of a shortfall in revenues or financing.

103. All of the PRSPs presented financing plans that were broadly adequate, although the discussion and approach to financing varied considerably. PRSPs usually indicated the financing from debt relief under the enhanced HIPC Initiative. Some PRSPs included only minimal discussion of these plans (Albania, Burkina Faso, and Uganda). Bolivia, on the other hand, included alternative scenarios for the concessionality of external financing and increased private-sector financing in infrastructure, and Mozambique outlined plans for developing a policy framework in which to make financing choices. The approach to financing has been fairly evenly divided. Some countries identified the overall financing need that would be necessary to meet the poverty reduction and growth objectives of their strategy, and note possible shortfalls (Bolivia, Honduras, and Mauritania).⁴⁸ Elsewhere, poverty targets and proposed spending were based on expected resources flows (Mozambique, Tanzania, and Uganda), often based on recent trends in donor support. The former approach has the advantage of highlighting spending needs, but the subsequent targets may be too ambitious relative to available financing and capacity. In the PRSPs that point to financing gaps, there was little supporting discussion of contingency plans, and how and why the levels of projected financing would be obtained.

⁴⁸ Ideally, macroeconomic frameworks can be cast against the backdrop of the MDGs, as adapted to their national circumstances. Measures that would permit the country to meet these objectives were to be fully costed and prioritized within sector-specific strategies that were to be integrated into a medium-term expenditure framework (MTEF) and annual budgets and, in turn, within a consistent macroeconomic framework. Such prioritization would allow the country to define a set of contingency spending measures that could be pursued based on the availability of domestic and external concessional resources. See Macro chapter of the PRS Sourcebook.

104. **Most PRSPs provided little supporting discussion of the projected path of domestic financing.** Most countries' financing plans limited the use of domestic financing, consistent with their monetary programs. However, in several countries (Burkina Faso, Mauritania, and Nicaragua), the mix between domestic and external financing was not discussed, nor were the implications for domestic financing of shortfalls in external assistance. The Tanzanian PRSP noted that its monetary program, including planned government recourse to bank credit, may have to be modified after more detailed costings are prepared. Mozambique's PARPA went a step further by announcing its intention to develop a strategy for domestic and external debt management (including the capacity to incur and sustain domestic debt), and the use of public debt as an instrument for monetary management.

105. **None of the first full PRSPs presented a set of contingency measures in the event of financing shortfalls.** As noted above, the presentation of a set of priority public actions that are not yet fully financed and without contingency plans is a risk to the achievement of poverty reduction objectives. Limited coverage of alternative revenue or financing options was included in some cases (Bolivia, Honduras, and Nicaragua). Others may have contingencies but did not outline these in their PRSPs. For example, Albania has set out some contingency plans in its Memorandum of Economic and Financial Policies (MEFP) for a Fund arrangement. Even when some contingencies were presented, they were not typically well integrated into the macroeconomic framework.

Good practices for countries

- **Discussing in detail in PRSPs the macroeconomic framework** (including a comprehensive set of tables) and **reviewing the sources of pro-poor growth** underpinning projections;
- **developing alternative macroeconomic scenarios in PRSPs, including contingency spending plans and measures supporting alternative revenue paths,** in light of uncertainty regarding growth projections and projected revenue paths;
- elaborating, to the extent possible, on the **linkage between macroeconomic and structural policies and poverty reduction, and discussing alternative policy choices and trade-offs;**
- **including policies to reduce the risks from external shocks** and/or to ensure debt sustainability;
- **costing priority public actions and targets;**
- indicating **any assurances or tentative commitments received from donors** in support of the projected path of available external financing; and

- presenting any **plans the government may have to seek additional external financing**, including concerted negotiations with donors or planned consultative group meetings.

Good practices for development partners (including the Bank and Fund)

- **Enhancing research and analysis, including support to national institutes and think tanks**, with a focus on sources of pro-poor growth, on linkages between macroeconomic and structural policies and poverty outcomes, and on vulnerability and external shocks;
- **augmenting resources for capacity building**, including fuller utilization of local expertise regarding macroeconomic analysis for governments and for civil society, and setting priorities through improved methodologies for costing and assessing inter-sectoral policy tradeoffs; and
- **supporting applied technical learning focused on specific topics** such as sources of growth, costing, and inter-sectoral linkages.

Actions by the Bank and the Fund

- **Bank/Fund will devote sufficient resources to support training, economic sector work, and technical assistance in key areas, including costing poverty measures and in developing methodologies for assessing intersectoral trade-offs between policies and in analyzing the sources and patterns of growth.**

Governance and Public Expenditure Management

106. Good governance and effective public-sector performance are central to poverty reduction. As poverty reduction strategies are neither developed nor executed in political vacuums, the overarching political and institutional context sets the parameters and constraints that shape the prospects for economic and social reform. Without explicit attention to governance concerns, the climate for investment and growth can often be jeopardized.

107. Several trends are emerging in how PRSPs are approaching governance issues, including corruption and accountability, civil service reform, inter-governmental relations and decentralization,⁴⁹ public expenditure management, and legal and judicial systems.⁵⁰ This section briefly reviews how PRSPs have treated these governance issues. It then highlights

⁴⁹ This is emphasized in DAC, op. cit.

⁵⁰ This list of issues is drawn primarily from the governance chapter of the World Bank's PRSP Sourcebook.

some challenges related to prioritization, governance indicators, and monitoring, and finally sets out some operational implications.

108. While governance issues were once considered too sensitive, there is **now openness among donors and country officials alike to discussing challenges and strategies** for improving governance for the sake of poverty reduction. There is a consensus among client country officials, CSOs, and development partners that that good governance goes hand in hand with poverty reduction, and that achieving the desired poverty reduction outcomes will depend on the commitment and capacity of governments and the public-sector institutions charged with delivering them. If PRSPs address governance and public expenditure management issues realistically and systematically, there is a greater likelihood that the strategies will be translated into actions that are technically, fiscally, and politically sustainable.

109. **It is a promising sign that all PRSPs include attention to governance concerns; in several cases, the inclusion of governance in PRSPs is a result of public consultation and input from citizens and civil society organizations.** Several PRSPs have integrated governance concerns, and three countries highlighted good governance as a principal objective crucial to reducing poverty (including Burkina Faso, Box 15). However, most lacked a systematic diagnosis of what the key governance challenges are and the implications of specific governance reforms for poverty reduction.⁵¹ While it is possible that PRSPs are based on consultations and careful deliberations about the choices made, the PRSPs themselves provided limited information on governance priorities.

Box 15. Improving Governance as a Key Objective: Burkina Faso

As did several countries, Burkina Faso's PRSP identified better governance as a key objective, noting that it will "accelerate reforms to strengthen democratic forums and promote efficient management and transparency of government finance." Good governance was seen on par with the other major objectives of Burkina Faso's PRSP: accelerating growth, ensuring access of the poor to basic social services, and expanding opportunities for employment and income generation.

In pursuit of good governance, the PRSP undertakes to prepare a national plan for good governance, prepare a strategy for judicial reform, implement public administration reform and decentralization, and improve access to social and economic information.

110. **Corruption received consistent attention across the first set of full PRSPs; each explicitly discussed corruption concerns and corresponding strategies to address some dimensions of the problem.** In Mozambique's case, corruption surfaced as an issue during the consultation process; as a result, corruption was given stronger treatment in the full

⁵¹ Casson and Grindle, 2001, and Eurodad, op cit., (p. 8), argue that PRSPs should more comprehensively cover broader political issues relating, for example, to participatory democracy and elections.

PRSP, relative to the interim strategy. This demonstrates how PRSP preparation can provide a useful platform for dialogue on important governance issues. Similarly, concerns over the lack of accountability and transparency were raised during the Government of Tanzania's Zonal workshops.

111. Many PRSPs appeared to fall short, however, in their analysis of the nature of corruption problems. Interventions and strategies to address corruption did not seem to be informed by an understanding of the economic incentives and social dynamics that enable or facilitate corrupt behavior, and of vested interests that will block anticorruption reforms. This may result in proposed actions that may not address the root causes of corruption, or be feasible politically. In some cases (e.g., Bolivia), the staff noted this point in JSAs.

112. **Most PRSPs to date have addressed civil service reform under broader strategies to reform public administration.** While in some cases (including Bolivia and Mauritania) the strategy was quite detailed, most PRSPs did not undertake such an explicit discussion. Specific problems (such as civil service corruption) and entry points to civil service reform were often not discussed, though some strategies (Mozambique and Mauritania) highlight capacity constraints and the need for corresponding reform programs to address these.

113. **Most PRSP countries are implementing some form of decentralization, and all PRSPs reviewed highlighted the potential for decentralization to enhance local participation in decision making and accountability.** In several cases, including Bolivia, Honduras, Mozambique, and Nicaragua, PRSPs described specific plans to regularize public and civil society participation in government planning (a point dealt with separately above under the heading of Institutionalization of Participation; see also Box 7 above).

114. Indeed, **a number of countries have also put decentralization at the core of their strategies.** In Bolivia's EBRP, municipalities were regarded as "the legitimate and most suitable arm to develop actions to fight poverty," and the EBRP committed to deepening the decentralization process and to channeling HIPC resources directly to the municipal level. Mauritania's PRSP placed decentralization as one of five priority areas for governance reform. Mozambique's Participatory District Planning proposed to engage citizens in the assessment of public service delivery, with proposed legislation covering state and local institutions that would enable participatory planning, beginning with the poorest districts. In some PRSP countries, governments are pursuing decentralization as a solution to an array of difficult challenges, including corruption, accountability, and improved public service delivery. While decentralization has this potential, the challenge here as elsewhere will be in ensuring effective implementation. More country-specific analyses are needed to help identify the specific form of decentralization most likely to succeed in a country and to help guide country officials and donors on the sequencing of policy reforms, capacity building efforts, and technical assistance necessary for successful decentralization and greater local accountability. Capacity constraints relevant to decentralization are related in part to problems surrounding PEM.

115. **The importance of sound public expenditure management is increasingly recognized, but deep-seated capacity constraints are often not being adequately addressed.** Albania represents a good recent example of linking its PRSP process (called the Growth and Poverty Reduction Strategy) to plans to strengthen public expenditure allocations and management (Box 16). This section reviews the current treatment of PEM issues in PRSPs, and complements the earlier discussion in the context of fiscal choices.⁵²

Box 16. Linking the PRSP to Public Spending: Albania's GPRS

Providing public services to the poor requires not only well-designed macroeconomic and fiscal policies but also well-functioning budget institutions and processes that can shape the size, allocation, use, and monitoring of public resources. During much of the 1990s, Albania focused mainly on maintaining aggregate fiscal discipline. Albania's PRSP process is now changing this.

Improved governance, growth, and private-sector development are the main pillars of the Albanian Growth and Poverty Reduction Strategy (GPRS). The process has major strengths in the extent of country ownership and public participation, and the efforts to tie the GPRS into Albania's Medium-Term Expenditure Framework (MTEF) are its main strengths. Led by the Minister of Finance as the National GPRS Coordinator, an inter-ministerial working group met regularly during the preparation phase and helped establish the close link between the GPRS and MTEF. During preparation, ministries and agencies not represented in the working group requested the inclusion of their contributions, reflecting the growing awareness within government of the importance of the GPRS. Broad civil society participation signaled a new emphasis on transparency and inclusiveness. Civil society GPRS advisory groups worked with four of the six ministries piloting the MTEF: Agriculture and Food, Education, Health, and Labor and Social Affairs.

Albania has already benefited from the process of preparing the GPRS: it has set a precedent for civil society participation in formulating public expenditure strategies, reinforced a long-term, results-oriented vision of development, and sparked increased press coverage and public discussion of poverty and its relationship to public expenditures.

116. Several interrelated problems can be identified relating to the quality of expenditure data presented in PRSPs, as noted in paragraph 94. Budget data were often not at the level of detail to match the definition of poverty-reducing programs in PRSPs, and in many countries provided only a broad-brush picture. Without appropriate disaggregation, it is difficult to identify which components of expenditures are pro-poor. Weak functional budget classifications in many countries also meant that the allocations presented in PRSPs could not be matched to line items in the budget. Among the first set of full PRSPs, only Bolivia, Tanzania, and Uganda currently publish data on actual poverty reducing spending that are consistent with their PRSPs. More generally, the recent HIPC tracking study found that over 80 percent of HIPC countries do not produce functionally-based expenditure reports.

⁵² See also the recent Joint Bank-Fund Board paper on Actions to Strengthen the Tracking of Poverty-Related Spending in Heavily Indebted Poor Countries, SM/02/30 and IDA/SecM2002-0030, January 30, 2002, and the PRGF Review, for a more general discussion.

117. Looking ahead, **PRSPs vary in the coverage and depth of plans to strengthen PEM capacity**. Several PRSPs included statements of intent to continue strengthening PEM systems (e.g., Burkina Faso and Honduras), but did not detail key PEM system weaknesses. Almost all JSAs commented on the need to address weaknesses in PEM capacity (including, for example, Bolivia, Burkina Faso, Mozambique). In Bolivia's case, the JSA noted that poor financial management capacity at the municipal level poses a risk to the proposed channeling of HIPC resources to local governments, as well as the government's plans to extend the integrated financial management system to that level.

118. Mozambique's and Mauritania's PRSPs had a relatively rigorous treatment of PEM issues. Both emphasized the **use of the medium-term expenditure framework (MTEF) as an effective framework for annual budget programming and for maintaining its pro-poor orientation**. An independent review of Mozambique concluded that the PARPA's integration with public financial management instruments (such as the MTEF) is sound and bodes well for the PARPA as a tool for directing Mozambique's development efforts.⁵³ Uganda is a good practice example of improving PEM, with ongoing efforts to strengthen its PEM capacity, including reducing divergences between planned and actual expenditures on poverty (Box 17). It would have been useful for Uganda to report more fully on these efforts within the PRSP so that domestic stakeholders and external partners could be aware of, and could monitor, progress in their implementation. More generally, as emphasized by the recent HIPC expenditure tracking paper, the integration of a medium-term perspective into the budget formulation process remains a major challenge for a majority of the PRSP countries, and over four-fifths of HIPCs do not have a medium-term framework. Recognizing the still limited capacity of PEM in many countries, governments may not be able to comprehensively monitor all public expenditures and may have to choose specific priority areas or sectors. In most instances, agreement on these priorities and the development of appropriate indicators will require more analysis and discussion than has presently occurred.

119. Several PRSPs highlighted that CSOs are becoming increasingly active in monitoring public expenditures. Participatory PERs and expenditure tracking instruments were proposed in Tanzania. In Albania, building the capacities of civil society organizations for participatory budgeting reviews was identified as a priority. Uganda is planning to use participation to influence resource allocations in MTEFs, drawing on the country's well-known public expenditure tracking surveys for education and health programs.

⁵³ H. Falck, and K. Landfald, "The Poverty Reduction Strategy Process in Mozambique," PRSP Institutionalization Study, Final Report, (August 2001).

Box 17. Progress on Public Expenditure Management: Uganda

Uganda's first public expenditure tracking survey revealed that in the early 1990s, on average only 13 percent of the central government allocations for education reached schools. Following PEM reforms that were put in place (including public dissemination of data on monthly intergovernmental transfers), the situation improved considerably. Preliminary survey results assessments show that on average about 80 to 90 percent of intended capitation grants reached schools in 1999 and 2000.

Uganda has made progress on budget formulation, execution, and reporting. Today, Uganda is able to adequately track and report on pro-poor spending and use of HIPC funds. Budget classifications are generally consistent with international standards, and is closely adhered to, with outturn within 2 percent of budget for 2000/01. Commitment controls currently cover 43 percent of the budget: introduced in 1999-2000, such controls reduced new arrears by 77 percent and this reduction is expected to continue. Internal audits exist and are active. There is monthly reconciliation of accounting and banking data at the central government level, and audit by the Treasury Inspection Service. Line ministry expenditure reporting requirements generally are being met, even though some questions remain on data quality.

Despite the significant progress at the central government level, there are still significant weaknesses at the local government level, particularly in budget execution. With roughly 70 percent of the Poverty Action Fund implemented by local government, there is a pressing need to upgrade local expenditure management capacity, and greater attention to reconciliation is still required.

Uganda is now seeking to strengthen its overall financial management system, including capacity building programs at the local level. This will include updating the legal and institutional framework for financial management (including a new Public Finance Bill to replace the one dating from 1964); improving accounting and reporting in districts and at the center using an integrated financial management information system that will cover activity-based classification of spending; and strengthening the Office of the Auditor General, including in its human resource management aspects.

120. **The first ten full PRSPs included some treatment of legal and/or judicial systems, and most (including Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, and Nicaragua) included a number of measures to address challenges in these areas** (Box 18 provides an illustration for Mozambique). However, there was little detailed analysis of the precise challenges, entry points, or the relevance of legal/judicial reform to reducing poverty. As a result, the rationale for the strategies chosen is unclear, though the choices may be appropriate.

121. **It is well recognized that the creation of sustainable administrative capacity for improved poverty reduction is critical.** Country officials from Albania, Bolivia, and Uganda on a governance panel at the recent International Conference noted that while the importance of governance is understood, their governments need assistance to build national capacity to better understand how to select from a variety of possible governance reforms and effectively integrate them into their PRSPs. This reinforces the messages that emerged from the regional fora, particularly in Africa and East Asia. In some cases, there was prioritization in terms of identifying a timetable or deadlines for certain actions on governance (e.g., Mozambique). However, even where prioritization appears more strategic, including in

Bolivia and Honduras, there was still a tendency to list a large number of priorities without clear indications of entry points and sequencing.

Box 18. Policy Commitments on Judicial and Legal Reform: Mozambique

Mozambique's PRSP notes that "the justice, court, and public order systems (in Mozambique) are seen as extremely fragile." It also quotes the Africa Business Competitiveness report as describing Mozambique's legal system as non-operational, subject to delays in the resolution of commercial disputes and with a less than clear legal code. To address these problems, Mozambique's PRSP undertakes to devise a strategic plan for the justice sector, revise the Penal Code, build the capacity of the police services, rehabilitate living conditions in prisons, and train prison staff. It does not, however, explicitly discuss the incentives for better governance in the judiciary or issues related to its independence.

122. **Finally, the early PRSPs were weak on offering intermediate indicators that can be used for benchmarking and monitoring progress on governance.** Governance-related reforms in the strategy were frequently omitted or obscured from the final policy matrix, which makes it difficult to identify those areas where progress on governance. Even in those cases where governance actions were included in the policy matrix, few PRSPs offered indicators to correspond with these actions. PRSPs typically did not provide corresponding intermediate indicators to monitor progress. Some full PRSPs gave attention to the need for improved indicators in the areas of public expenditure management (e.g., Tanzania) and poverty funds (e.g., Uganda), though the linkages to broader governance concerns were not made. Looking ahead, Pakistan's I-PRSP proposed an ambitious program of monitoring and evaluation that will link its public expenditures to poverty-reducing intermediate outputs and final outcomes. Finally, it should be noted that considerable analytical work is still required (and some of it is underway at the Bank and other development agencies) to arrive at a range of broadly accepted governance indicators that are robust under different country situations and can therefore be used as generic yardsticks of progress at the national level.

Good practices for countries

- Undertaking an **upstream review of governance and institutional development problems** early in the PRSP process, with inputs from donors and civil society, in order to build consensus among various stakeholders on the main governance challenges to poverty reduction; and
- **outlining in PRSPs an assessment of the current state of PEM systems and plans for improving them.** Looking ahead, for HIPC countries, these plans could be derived from the Assessments and Action Plans for tracking poverty-reducing spending as these become available; and
- where a medium-term budget instrument/process does not exist, **outline plans for how MTEFs are being developed.**

Good practices for development partners, including the Bank and Fund

- **Providing sufficient resources for technical assistance in support of capacity building** for PEM in ways which are responsive to country needs and constraints, utilize national capacity, and are coordinated across donors;
- **improving guidance** to country counterparts from the Bank, Fund, and other donors **on the need for realism and prioritization in governance reforms**;
- **fostering civil society capacities** for establishing priorities, benchmarking, and monitoring progress on governance; and
- **continuing to invest in tools about sectoral and governance-poverty links**, support their adaptation to specific country settings, and support dissemination of good practice.

Sectoral and structural policies

123. **The public actions set forth in a PRSP should include a set of structural and social policies designed to promote poverty reduction.** These are expected to include measures intended to broadly stimulate economic growth as well as those which are specifically designed to expand opportunities and public services for the poor. Across the full range of sectors and cross-cutting themes, the PRSP should indicate those policy measures which are regarded as priorities for the coming years.

124. **A key challenge has been to present the principal sectoral and structural objectives** (and how they are linked to overall growth and poverty reduction), and **the major programs and policies to ensure that targets are reached** (backed up by appropriate monitoring indicators), **without presenting an overwhelming level of detail.** In most cases, it is assumed that the policy actions that are strategically summarized in the PRSP would be underpinned by more detailed sectoral strategies prepared through a similar, but separate process.

125. This section describes the structural and social policies that have been included in the full PRSPs to date across a range of thematic areas. This description reveals the **generic problems that have already been analyzed above**—in particular, lack of clarity in public actions, weaknesses in prioritization and costing, absence of PSIA, and weaknesses in addressing governance issues. For the most part, the proposed means to address these problems are not specific to any particular sector or crosscutting theme but instead require general improvements in how PRSPs are approached. Hence the key relevant areas of good practice have already been presented—for example, with respect to greater involvement of sectoral ministries in PRSP preparation as a means to strengthen sector strategies, about improving poverty diagnostics to link to policy choices, and the importance of better PEM.

126. **This sector-by-sector review of the PRSPs to date should not be construed as an indication that each PRSP must give full and equal treatment to each of these sectors or crosscutting themes.** Based on a comprehensive diagnosis, a good strategy must define priorities; by definition, not every sector or theme can be given priority. Additionally, within each priority sector or theme, a strategy must further establish priorities for what measures should be undertaken.

127. **The PRSPs to date reflect substantial advances relative to pre-existing national strategies and partnership documents like PFPs in terms of linking sectoral strategies to poverty reduction, and the extent of ownership to enable implementation.** The key achievements on the structural and sectoral front have been to lift poverty reduction out of the “social sector ghetto” so that measures to address poverty include, but extend beyond, basic social service delivery.⁵⁴ There is a marked focus on infrastructure, for example, and its linkages to service and market access, as well as a clear recognition of the importance of rural development, which is a priority sector in all PRSPs to date. In terms of information and knowledge, countries have begun to develop appropriate indicators and feedback loops to enable improvements over time. There has also been explicit recognition of policy gaps—where these exist—and, in each of the early cases, steady and rapid progress to develop appropriate policy responses. For example, to address gaps acknowledged in the first PRSP, Uganda proceeded to develop its Plan for Modernization of Agriculture, and Tanzania put together its health and education strategies. Both of these were completed in the year following the first full PRSP, and reported upon in the first annual progress report. There has also been recognition of links between the environment and poverty, and cases of successful mainstreaming, as in Bolivia (see Box 19).

128. At the same time, there has been **significant variation across countries, and across different areas of policy, in the ways in which sectoral and structural policies have been tackled.** This section highlights this variation, as well as the concerns that have been raised most frequently by observers of the PRSP process and by the countries themselves. It begins with a review of the crosscutting issue of gender, then turns to focus on service delivery, which is clearly a key concern to the poor, looking at the treatment of services related to education, health, social protection, infrastructure, and agriculture. The section then turns to review treatment of a range of structural issues, beginning with trade, then moving into regulation and price reforms, and finally privatization.

⁵⁴ ODI, “PRSP Institutionalization Study,” London, U.K.: ODI.

Box 19. Environment in PRSPs and Emerging Good Practice

An environmental perspective on PRSPs entails a crosscutting approach, which does not fit neatly into any sectoral 'box.' As defined in the Environment Chapter of the PRS Sourcebook, the environment is relevant as a source of raw material and energy, in terms of its impact on the health status of poor people, and as a source of amenities, including recreation, which is potentially a sustainable and significant income source for poor people. It is therefore directly relevant to policies in the areas of health (particularly as it relates to polluted water and air), agriculture and rural development (particularly soil degradation, deforestation, loss of biodiversity, tenure), infrastructure (particularly water supply, sanitation and waste management), governance (environmental laws and regulations and associated institutions), promotion of growth sectors (environmental considerations pertaining to mining, forestry, fisheries, manufacturing, tourism, etc.) and so on.

Many PRSPs have recognized environment as a crosscutting theme, and treat it, more or less successfully, as an integral part of the strategy. In general, the first eight full PRSPs available at the time of the staff review compared well relative to I-PRSPs. Four of them rank among the top five in terms of environmental mainstreaming (see Bojo and Reddy, 2001). The recent review by Bank Environment staff also found encouraging improvements from the I-PRSP stage to the full PRSP stage in each country. Cases such as Mozambique and Bolivia are impressive examples. The degree and nature of emphasis varies, as one would expect, depending on the environmental conditions across countries. And there is room for improvement, in part because the further one goes into the details of environmental actions (targets, costing), the less clear the picture becomes.

Bolivia offers one of the clearest statements of environmental mainstreaming encountered in a PRSP where "The government has taken up Sustainable Development as the conceptual basis for its policies and strategies." For example, the PRSP identifies water pollution as the key environmental health and disease issue. A matrix with priority actions and policies for water-supply, sanitation, and housing is presented, and responsible intuitions are identified. Other key measures for "sustainable utilization of the environment," including environmental regulation and sustainable natural resources management are identified. The structure of goals, targets, and indicators is well organized, and there is a separate set of indicators for "environment" pertaining to water management, protected areas revenue, and wildlife revenue, as well as clearly defined indicators for environmental health.

Gender

129. **Gender would be expected to be a key crosscutting issue in the design, implementation and monitoring of an effective poverty reduction strategy.** This point has been raised in a number of Board discussions of PRSPs. The extent and depth of coverage of gender in the early PRSPs has varied both across sectors, as well as across countries.⁵⁵ A recent staff review by the Bank's gender group found that **the coverage of gender issues was generally good in education and health, but that in other sectors** (e.g., in agriculture, financial services, labor markets or infrastructure, governance and legal issues), coverage tended to be much lower. This reflects in part a bias toward issues related to girl's education and maternal mortality. Addressing illiteracy and mortality risks are of course

⁵⁵ UNIFEM (2001) argues that gender is rarely recognized as a crosscutting issue and also objects to many countries' subsuming the category of women under a broad 'vulnerable' group.

critical to poor women in many countries, but a limited policy focus risks neglecting the crucial role of women in agriculture and other productive activities, which may be even more important for poverty reduction.

130. **In some PRSPs, a comprehensive diagnosis was undertaken, including disaggregation by gender** (e.g., Honduras). However, another general finding of the above-mentioned staff review was that attention to gender issues tended to decline as the PRSP moves from diagnosis to actions, and from actions to monitoring. For example, where gender-related poverty issues and constraints were included in the diagnosis, specific follow-up public actions may not have been identified. Often, too, actions were identified without any plans for monitoring outputs or impacts. This was evident for Albania and Mauritania, though it does appear to hold more generally. In terms of the participatory processes used to inform the PRSP, the extent of gender inclusiveness has been quite variable, with the Tanzanian PRSP providing a good practice case. In these consultations, villagers were grouped according to gender and religion, and one sixth of the focus groups identified gender discrimination as an obstacle to poverty reduction.

131. **PRSPs for other countries, while lacking a systematic gender perspective, did contain a number of policy analyses covering gender considerations.** For example, the issue of violence against women was addressed in Nicaragua. The Burkina Faso PRSP was one of the few to address gender issues in HIV/AIDS. Its strategy included general actions, such as enhancing the ability to diagnose and treat AIDS-related illnesses at local levels, and actions targeting at specific groups including "ensuring most vulnerable groups (military personnel, truck drivers, sex workers, etc.) have 100 percent access to condoms, HIV testing, and counseling as well as treatment...." with specific budget line items for these activities indicating commitment to implementation. In Honduras, specific programs for poor women spanned a broad spectrum of activities, and included developing labor market skills and support for working women, providing training and support for female microentrepreneurs, establishing information centers for women's rights, and preventing violence against women (including the provision of counseling and shelters). This was complemented by measures to improve access to reproductive health services, and to education. Honduras was also one of several PRSPs that included measures directly aimed at improving poverty outcomes for rural women.

Service delivery

132. **All the PRSPs to date have emphasized that access to services, especially basic local services, is a key concern for the poor.** Access to services comes up frequently in participatory poverty assessments and is a major correlate of poverty in household surveys. Education for children, and access to appropriate preventive and curative health services are critically important; but so is access to clean water, provision of roads and other basic services. The focus on service delivery is reflected in the shifting budget allocations highlighted in paragraphs 96-101 above. This is generally complemented by a range of

sectoral reforms to improve the efficiency of resource use and the impact of spending on the poor.

133. **Improving access to education, especially at basic levels and in rural areas, was a key priority of all the early PRSPs.** There was a strong correlation between the identification of poor quality education services and its subsequent prioritization as a means and an end to address poverty, and all the PRSPs sought to align the proposed public actions with the key education targets. Mozambique is a good practice example in this respect, with the poverty diagnostic identifying low access for girls and the poorest in rural areas motivating an education strategy in the PRSP which pays “particular attention to the promotion of social equity and equity between the regions, the cities and rural areas, and on the basis of gender.”

134. In the case of education, the PRSPs reflected a range of measures related to internal efficiency (e.g., repetition, dropout, retention, transition rates); and education quality (e.g., provision of schooling inputs, such as textbooks); as well as improved management and system efficiency (e.g., pupil-teacher ratio, classroom-teacher ratio). Countries’ matrices of policy actions in education are usually organized either by education levels or by areas of intervention, illustrated by the good practice cases of Mauritania and Nicaragua, respectively. Box 20 provides some details on the approach taken by Nicaragua.

135. A staff review of policy actions in education in the PRSPs to date showed, as expected, that there are not two countries with an identical choice of policy actions. Even the actual number of policy actions varies substantially, from about 23 for Honduras to less than 3 for Uganda. At the same time, several policy actions in education were common to several countries. For instance, seven countries planned to build more schools at the primary or secondary levels or both, and to distribute instructional materials. Six countries will build centers for the provision of literacy and adult education training. Five countries will launch a major overhaul of their education system to strengthen their institutions and management.

136. Similarly, **in the case of improving access to health services, a staff review of the treatment of health, nutrition, and population concerns in PRSPs found a consistent focus on health outcomes and on diseases of the poor.** All the PRSPs reviewed placed health strategies as part of the overall approach to improving access to basic services and quality of life of the poor. Burkina and Mauritania, for example, clearly laid out strategies to increase access availability (both of health staff and of other necessary inputs), use, and continuity and quality of services for the rural population. All the African PRSPs, other than Tanzania, clearly outlined strategies to improve the accountability of health service providers to local communities, and all included some information about their programs for combating HIV/AIDS.

Box 20. Examples of Policy Actions in Education: Nicaragua's PRSP		
Area	Objectives	Policy Actions (selected)
Increase coverage	Increase net primary enrollment to 83 percent, from 75 percent in 1999	<ul style="list-style-type: none"> • Implement pilot project for preschool education during vacations • Design plans to increase double shifts; expand multigrade schools in rural areas; & incorporate classrooms with community support • Rehabilitate, replace, and/or build over 6,000 primary classrooms
	Reduce illiteracy to 18 percent in 2004, from 19 percent in 1998	<ul style="list-style-type: none"> • Expand program for functional illiteracy
Improve the quality of education	Improve the quality of education by improving relevance of teaching	<ul style="list-style-type: none"> • Improve initial and ongoing training for teachers and provide scholarships in teacher training schools • Give primary teachers incentives linked to performance • Expand textbooks and materials distribution by 2% a year • Generalize primary school standards • Reform secondary education • Reform elementary bilingual intercultural education • Modernize tertiary education • Strengthen plan for "flagship" schools
School decentralization	Improve participation of families and communities	<ul style="list-style-type: none"> • Implement training plan for the School Directive Councils, parents, and school principals • Continue formulating and training student governments
	Improve financial efficiency and transparency	<ul style="list-style-type: none"> • Expand school autonomy by 100 percent • Pass Law for Participation in Education
	Central role of setting norms and supervising	<ul style="list-style-type: none"> • Design and implement National System for Institutional and Academic Evaluation, and Integrated Financial Management System • Finalize the National Education Plan
Improve social protection for school children	Design and implement interventions based on specific vulnerability characteristics	<ul style="list-style-type: none"> • Assist groups facing nutritional and educational risks: with numerical targets by age and region) • Implement program to assist children with disabilities • Protect working children

137. All the African PRSPs to date indicated **an increased emphasis on and allocation to financing a core package of health services and increasing allocation to primary care**. Budgetary reallocations on the basis of regional disparities was emphasized in the PRSPs of Burkina Faso, Mauritania, and Mozambique. The PRSPs for Burkina Faso, Mauritania, and Uganda stated plans to develop specific demand-side financing mechanisms, including third party payment for specific social programs. The Nicaragua PRSP provided the most compelling targeted health programs: targeting is based on the type of health interventions (basic package), services (primary), and geographical (Atlantic Coastal Region) and socioeconomic characteristics (poverty and vulnerability). The Bolivia PRSP also proposed

to extend health insurance to poor women and support targeted programs through special funds.

138. **Efforts to balance the objective of improved quality and continuity of services against distributional concerns in the health sector have motivated certain structural reforms in the health sphere.** For example, all countries (except Mozambique) considered modest user fees managed by local communities as key to ensuring continuity and quality of health services. This was complemented by specific exemptions for services (e.g., for immunizations in Mauritania), or vulnerable groups in Burkina Faso (e.g., young children), or both. The Uganda PRSP mentioned targeting certain regions with specific subsidies to reduce the level of fees. The Honduras PRSP proposed to establish community medications funds as a demand-side mode of financing to ensure the poor population access to essential, safe, effective, and low-cost medications. With a similar focus on alleviating demand-side constraints, Nicaragua proposed to expand a pilot program that uses financial incentives to encourage student school attendance and family use of the preventive programs of rural health clinics (e.g., vaccination, prenatal care).

139. **The degree of focus on social protection programs varied across regions, and was largest in Latin America and in the ECA region.** In a number of PRSPs, particularly in Africa, treatment of social protection was more limited and focused on selected, existing programs. At the micro-level, however, especially in Latin America, countries drew clear diagnoses of the sources and causes of risk facing households, and the PRSPs addressed a broad range of social protection issues as a coherent part of their overall poverty reduction strategy. In Honduras, for example, a social protection strategy was set out for vulnerable groups to address their low human, physical, and social asset levels.

140. Nicaragua's coverage of social protection in the full PRSP improved relative to its I-PRSP with policy development supported by an analysis of the vulnerabilities of the poor and the relationship of the different donor-supported programs. Social protection became one of four pillars of the strategy, representing about 10 percent of the budget. The proposed actions were aimed at strengthening the relevant public institutions, better targeting and consolidating many programs and projects, and progressively transferring some responsibilities to civil society organizations and local governments where responsiveness and understanding of these vulnerable groups is better. If these programs succeed, over the medium-term there will be a rationalization of many smaller programs into consolidated local grant programs that aim to expand effective demand of, and use by, the poor and vulnerable with supply by line agencies and local, decentralized service providers.

141. **Alongside the focus on social protection—indeed underpinning it in several instances—is a broader focus on vulnerability, which also raises issues related to the environment (Box 19) and health and HIV/AIDS.** Mauritania and Burkina, for example, broadened the scope of thinking about health-related poverty outcomes to include income

protection to protect the poor against the shock of high and/or catastrophic health expenditures, and Honduras included an analysis of health insurance coverage.

142. **Many PRSP countries are badly hit by the HIV/AIDS pandemic**, which has grown from being a health issue to a serious development challenge, especially in Africa. In ten low-income countries, adult infection rates exceed 10 percent; in the worst-affected countries an estimated one-third of all adults are carrying the HIV virus. **While the PRSP offers a potentially useful tool to elevate the national importance of HIV and its links to poverty, a number of early PRSPs were not fully successful in capturing the seriousness of the threat, or the link between poverty and AIDS.** A review of PRSPs and I-PRSPs suggested that poverty/AIDS analyses tended to be weak, but some countries (including Cameroon, Madagascar, Malawi, and Mozambique) are making good progress. Poverty/AIDS analysis is stronger where socioeconomic impact research is underway (e.g., Uganda), but the case of Kenya shows that this is no guarantee. In Mozambique, a well-articulated and publicized AIDS plan can create a basis for a strong AIDS strategy in the PRSP. National AIDS agencies have in some countries successfully lobbied for its place in the PRSP process (including Guinea and Uganda). Donors can make a difference, as the experience of UNICEF in Uganda suggests. A toolkit on AIDS/PRSP jointly developed with UNAIDS has been posted on the Bank's website with the PRS Sourcebook, although there is a need for wider dissemination, continued capacity building, and dissemination of best practice examples to be published in 2002.

143. **An important element in the growth strategies of PRSPs was the development of infrastructure, through expanded public provision and/or structural reforms.** Mozambique's PRSP, for example, gave priority to the most densely populated and poorest regions in planned investments to improve the road network and expand access to energy and water. In general, **the focus on infrastructure was concentrated in rural areas.** Niger's PRSP called for the construction of new roads in rural areas with strong economic potential and high population density, improved maintenance of the national and rural road network, improved road safety as well as the development of rural transportation services. Most PRSPs also recognized the need to have specific actions to expand rural access to economic infrastructure (e.g., potable water, electricity, roads, and communications infrastructure). Six PRSPs proposed priority actions to improve the rural transportation network, either calling for the construction of new rural roads, or the rehabilitation and maintenance of the existing rural road network (Honduras, Mauritania, Mozambique, Nicaragua, Niger, and Tanzania). Investments to increase access of rural households to potable water and improved sanitation were advanced in seven PRSPs. Increased access to rural electrification is also a priority in five PRSPs (Bolivia, Mauritania, Honduras, Nicaragua, Mozambique), with rural subsidies proposed in Uganda and strengthened institutional arrangements and/or infrastructure for rural electrification proposed in Mauritania, Burkina, and Nicaragua. Specific initiatives for the development of rural communications infrastructure were proposed for Mozambique, Mauritania, Nicaragua, and Niger.

144. **The first set of full PRSPs generally treated rural development as a crosscutting thematic issue, proposing specific actions to address rural poverty in many of the core asset areas (human, natural, physical, financial, social) as well as risk management.** However, the discussion of the issues tended to be generic and brief, and the institutional framework for their implementation was generally vague. As a result, it is difficult to assess the specific content or the poverty focus of the actions proposed. Beyond the fact of inclusion in the PRSPs, the rural actions were generally not prioritized or sequenced, either within the rural sector or across the PRSP as a whole. Moreover, there were no explicit criteria indicating how the actions were selected. The actions proposed tended to be investment or project oriented, rather than seeking to improve maintenance or quality of existing services. The PRSPs did not appear to be the government's vehicle of choice for initiating major policy reforms, insofar as the incentive framework was discussed only in two PRSPs, and even the coverage of rural markets, for example, tended to focus on transactions costs and infrastructure rather than on regulatory and policy issues.

145. **Rural interventions targeted towards increasing access to and the productivity of natural assets (land, irrigation water, and agricultural productivity) most frequently complemented efforts to improve rural education and health.** Every PRSP contained public actions to improve research and/or extension services (except for Honduras) and to strengthen rural land tenure or access to land for the poor or both. Issues related to rural credit are covered below.

146. **Initiatives to strengthen land tenure security** were proposed in Bolivia, Burkina Faso, Honduras, Mozambique, and Nicaragua (titling, conflict resolution mechanisms, demarcation of indigenous lands). In addition, initiatives to improve access of the poor to land through improved land rights, a women's land rights act, and a land fund were outlined for Bolivia, Honduras, and Uganda. There were also measures to promote improved land management and institutions in Bolivia, Honduras, Mozambique, Nicaragua, and Uganda (improved cadastre, registers, etc.), while in Tanzania the government will, among other things, ensure that regulations facilitate the use of land as collateral.

147. **Water interventions called for an improved regulatory framework in several countries (including Bolivia, Burkina Faso, and Honduras), increasing the area under irrigation and improving access to water points (Burkina Faso, Honduras, and Mozambique).** All but two PRSPs (Tanzania and Uganda) called for public actions to improve access to or the management of irrigation water. Mozambique discussed building small-scale irrigation systems. Nicaragua indicated its intention to implement the national irrigation program.

Structural policies

148. **In general, the PRSPs acknowledged the primacy of the private sector for growth, and thus for poverty reduction, although the extent of treatment of related structural issues varied across countries.** In general, the early PRSPs did not clearly lay out

the underpinnings in terms of structural and related reforms of the expected high growth rates. Significant attention was given to marketing issues, calling for improved market information systems (Mozambique and Uganda), improved access to markets (Mozambique), strengthening marketing channels and infrastructure (Bolivia, Mozambique, and Nicaragua) and support for agro-industry, ranging from quality assurance systems, market promotion, and industry development (Honduras, Mozambique, and Nicaragua). The rest of this section turns to highlighting coverage of key structural issues not covered elsewhere, in particular trade, private-sector development, and small and medium enterprises (SMEs), and privatization.

149. **To the extent that trade policies have affected a country's past development experience and/or are seen to be a priority in supporting poverty reduction in the future, countries are expected to discuss trade policy in the context of the prioritization of public policies.** Moreover, the lessons from past experience could be useful in helping countries frame the direction of future trade policies in support of their poverty reduction strategy.

150. **While all full PRSPs supported in broad terms the desirability of trade openness, the majority dealt with the underlying issues in a fairly limited way.** None of the PRSPs dealt systematically with past experience, although a few provided brief accounts: for example, the Honduras PRSP noted that trade growth in the past had been hampered by infrastructure weaknesses, while opening up to world trade was seen to have “led to an explosive increase in the needs of people” in Albania. Although some PRSPs (e.g., Tanzania and Uganda) did not explicitly discuss trade policy priority actions, the majority (including Burkina Faso, Mauritania, and Nicaragua) addressed the issue in fairly broad terms, noting the need to develop an enabling environment and basic infrastructure, and the desirability of consolidating the liberalization process. Several PRSPs (including Albania, Honduras, and Mozambique) went somewhat further and included specific measures in their policy matrices in support of trade promotion and liberalization. While these measures were framed largely in terms of supportive macroeconomic policies and developing enabling environments, they also included/are pursuing negotiations on free trade agreements (e.g., Albania and Honduras) as well as faster customs clearance processes and VAT refunds for exporters (e.g., Mozambique). Only in Honduras and Mozambique was there an attempt to clarify the link between these reforms, and growth and poverty reduction (Box 21).

151. Some external commentators have criticized PRSPs for a lack of depth in dealing with trade issues.⁵⁶ There are of course divergent views on the impact of trade on poverty reduction, particularly in terms of balancing the short-run costs and longer-run objectives of trade liberalization. Domestic stakeholders have sometimes also raised diverse views on trade liberalization. In Mozambique, for example, the private sector was divided between those

⁵⁶ See UNCTAD, 2000.

who advocate complete deregulation of foreign trade and those in favor of protectionist measures. At the same time, low-income countries, both in their PRSPs and in the regional fora and International Conference, are united in calling on countries in the North to support developing countries' liberalization efforts by way of reciprocity. For example, the Bolivian PRSP calls for elimination of barriers in industrial country markets to Bolivian exports. Donors and other development partners are already making considerable efforts to support PRSP countries through capacity building for trade negotiations and trade-related institutions in the context of the Integrated Framework for Trade-related Technical Assistance.⁵⁷ While important, however, technical assistance should not be seen as a substitute for open markets.

Box 21. Trade Policy in PRSPs: Honduras and Mozambique

The Honduran PRSP outlined a number of recent trade policy measures (including GATT and WTO membership), but noted that the nation's trade potential had not been exploited fully in the past due to infrastructure constraints and cumbersome customs procedures, and that a narrow export base heightened vulnerability to shocks. As the basis for further trade policy action, the PRSP argued that trade liberalization has "had a generally positive effect on poverty, through its contribution to the expansion of exports, many of which are labor-intensive, and the drop in price of imports, which has stimulated internal competition with favorable effects on the productivity and prices of domestic production. Although some workers have lost their jobs as a consequence of external competition, the number of people affected is small." Building on this, the PRSP policy matrix included actions aimed at allowing wider participation in trade and improving access to international markets, including simplifying and harmonizing tariff rates, eliminating non-tariff barriers and finalizing free trade agreements.

Mozambique's PAPRA cited continued liberalization of foreign trade and expansion of trade flows as a priority, to support rapid and inclusive growth, arguing that trade liberalization "...expands the market for agricultural products, contributing to the expansion of agricultural investment and employment..." and that "manufacturing industries geared to export markets are also levers for job creation, through their exploitation of foreign markets using labor-intensive technologies..." The choices of trade policies are therefore designed to "create conditions for [the] export sector to be an instrument for sustaining rapid and broad growth. This requires maintaining a competitive exchange rate, eliminating trade barriers, and providing more effective export promotion services, for both traditional and non-traditional exports." Supporting actions in policy matrix included faster customs clearance processes and VAT refunds for exporters.

152. The issue of price liberalization was not a major feature in the early PRSPs, no doubt in some cases because this agenda already had been substantially completed.

Albania's PRSP made a brief reference to the fact that electricity prices remain controlled. While others, such as the Nicaragua PRSP, suggested a strategy to improve the incentives for rural development through the elimination of price and cost distortions faced by farmers." The Honduras PRSP noted that the government intends to "promote the proper functioning and healthy competition in markets through regulations that assure the development of economic activity under conditions of efficiency...and that avoid distortions that damage the

⁵⁷ See also OECD DAC, November 2001.

economic system...” (page 65). Similarly, the Burkina PRSP stated the government’s commitment to accelerated growth, and as such refers to its commitment to opening up the economy and freeing prices, especially in the food crops sector, where improvements in logistical arrangements, commercial practices, distribution costs are designed to make prices “more transparent.” The Mauritania PRSP noted that the liberalization of its oil and natural gas subsector will result in price changes, while the Tanzanian PRSP mentioned that there will be a shift away from state involvement in the rural sector where in the past agriculture was heavily taxed.

153. **Several PRSPs discussed upcoming privatization initiatives.** Among those PRSPs that explicitly included intended privatization of public services were Nicaragua, Burkina Faso, and Mauritania, although the depth of discussion varied considerably. The Nicaraguan PRSP stated that privatization of utilities is an important part of its plan for economic growth and structural reforms, and it detailed plans to privatize public utilities such as telephones, power generation plants, and hydroelectricity plants. Mauritania’s PRSP briefly mentioned that the government will privatize the electricity subsector as well as telecommunications in 2001. The Burkina PRSP stated only that the government will privatize state interests “in order to facilitate the entry of new firms, resources, and technology into various segments of the market,” without noting which areas to be privatized or the sequencing of reforms. In general, in measures related to privatization, the emphasis tended to be on costs and efficiency, without explicit consideration of the distributional effects.

154. **Many countries reflected in their PRSPs an intention to seek greater private-sector participation in public service provision.** Mauritania, Honduras, Mozambique, Nicaragua, Uganda, and Bolivia were all explicit on this front although, once again, the depth of discussion varied widely. Mauritania’s PRSP, for example, was very clear on the need to involve private capital/management in the areas of road maintenance, airport infrastructure, ports, and the energy sector, as was the Honduras PRSP, which identified capitalization of the telephone company and port sector modernization through management concessions. Mozambique is encouraging private investments in energy, water, mining, ports, and shipping, and discussed restructuring telecom and opening the sector to private capital as well as the possibility of granting concessions for road management. Nicaragua’s PRSP detailed intentions to engage private-sector management of water systems and ports. Finally, Uganda’s PRSP mentions “smart subsidies” for rural electrification as an incentive to encourage entrepreneurs to invest in power infrastructure in rural growth centers, while the Bolivian PRSP describes the government’s intent to grant concessions for the management of local roads to SMEs.

155. **Several PRSPs included a focus on improving the environment for SME development.** The generation of SMEs in small towns and the expansion of nonagricultural employment in rural areas were a key part of Nicaragua’s growth strategy, for example, to address the unemployment problems as identified by its poverty profile. Bolivia’s strategy to expand opportunities were consistent with the underlying poverty diagnostics, with the

promotion of microenterprises and small business, and microfinance to complement other initiatives.

156. **The primary focus of several countries was on strengthening the overall financial system.** Notable amongst these was Honduras, Mauritania, Mozambique, and Nicaragua. For example, the Honduras PRSP laid out an action plan that included implementation of prudential regulations and governing laws for the stock market and insurance systems. The Nicaraguan and Mozambique PRSPs emphasized strengthening norms in accordance with the Basle accords. The Mauritanian PRSP stated intentions to diversify financial products, develop risk coverage mechanisms for investors, and strengthen and expand the credit union network, in addition to strengthening prudential controls. Countries that did not detail measures to strengthen the overall financial system include Bolivia, Burkina Faso, Tanzania, and Uganda.

157. **Several PRSPs explicitly focused on expanding credit and savings opportunities for the poor, and all the PRSPs included interventions to improve access to rural credit.** In Bolivia's and Nicaragua's PRSPs, actions were set out to strengthen micro-finance institutions, improve the regulatory framework, including the supervision of micro-finance institutions, and improve microfinancial instruments. Nicaragua also proposed to extend loans for agricultural machinery equipment and inputs. Bolivia stood out in its microfinance policies. The PRSP provided extensive details on the government's plans to expand micro-finance coverage in urban and rural areas that are currently not served, as well as to improve the quality of microfinance credit. The Nicaraguan policy matrix specified that non-conventional financial organizations will be formalized into rural banks, operations of rural credit funds will be improved, and credit instruments for small rural producers will be designed. Mozambique's PRSP mentioned that 30 rural microfinance institutions will be created and that the government will study options for developing accessible and sustainable financial services for small rural producers and SMEs; while Uganda's PRSP briefly referred to a new regulatory and supervisory structure for micro-finance. Mauritania also called for the creation of savings funds in rural areas and financial support to SMEs in rural areas, while Tanzania indicated that the government will promote private sector involvement in micro-finance. Targeted or subsidized credit initiatives were advanced for Honduras, Nicaragua and Burkina Faso. In a couple of cases, improved access to credit was recognized as critical for increasing incomes of the rural poor—without clarifying the proposed approach. For example, the Tanzanian PRSP stated only that the government will encourage private sector efforts, including NGOs, in providing rural credit, without spelling out the details.

Good practices for countries

- **Utilizing the results of appropriately disaggregated poverty analysis to inform the design of structural and sectoral policies**, supported by PSIA where appropriate;

- **exploring options to improve the efficiency of services** that are of key relevance to the poor;
- **analyzing and considering the links between sectoral issues** (e.g., the impact of education on health outcomes) **and crosscutting issues** (e.g., gender and the environment) in developing priority public policies;
- **developing institutional capacity, and ensuring the involvement of sectoral ministries** in core PRSP skills, including public expenditure management, poverty diagnostics, and monitoring and indicators; and
- **improving prioritization of policies and including appropriate levels of specificity** about proposed actions.

Good practices for development partners (including the Bank and Fund)

- **Supporting dissemination of good practice sectoral policies;**
- **providing support—particularly to line agencies—to prepare sectoral strategies** based on the PRSP approach;
- **supporting implementation of sectoral strategies by using these as a framework for program or project assistance;** and
- **deepening current efforts** to understand more fully the linkages between policy actions and pro-poor growth. This needs to take place at the country level, through economic and sector work, complemented and supported by relevant international research efforts, including at the Bank and the Fund.

C. Donor Alignment

158. **Donor alignment is a key to sustaining the PRSP approach.** In part, the PRSP approach was designed to overcome long-standing problems of poor donor coordination, weak country ownership of donor-financed programs, and the extreme fragmentation of governmental programs and institutions caused by multiple, and often inconsistent, donor interventions. To overcome these problems, all partners need to seriously confront the challenge of aligning their programs with PRSPs. The transaction costs to the country in dealing with its multiple donors can be reduced if alignment, as well as harmonization and simplification, are pursued. This would be a powerful incentive for governments to continue the development and implementation of PRSPs.

159. Although an operational definition may be subject to considerable debate, alignment can include several possible dimensions:

- **Providing significant financial support and technical assistance to only the areas to which the PRSP has assigned priority** (provided that these priorities are broadly within the mandates of the donors). Conversely, it means not pushing government's attention into areas that have been given low priority in the PRSP, thereby fragmenting national efforts and encouraging governments to attempt to do too much.
- Establishing **policy conditions** for lending operations that are derived from, and consistent with, the policy measures set forth in the PRSP.
- Increasing **aid allocations to those countries** that are effectively implementing PRSPs and achieving better results in terms of poverty reduction. In this way, the PRSP approach should reflect recent work on aid effectiveness, which concluded that aid can be well used only if directed toward countries with good policy environments.⁵⁸
- **Harmonizing and simplifying 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 programmatic, rather than project, lending.

160. **Donors have agreed in principle to align their programs with PRSPs.** From the outset, there has been a remarkable and increasing degree of support from both multilateral and bilateral donors to the objectives and principles of the PRSP approach—including the objective of aligning donor assistance with PRSPs. Donors working in Africa have been especially clear about their support, as evidenced by a survey commissioned by the Strategic Partnership with Africa (SPA) and conducted in October 2001 (Box 22). Among these donors, the strong support for alignment by the European Commission (EC) is particularly noteworthy given that, in the framework of the Cotonou Agreement in 2000, the EU hopes to commit 2-3 billion euros annually in grant assistance to the countries of the Africa, Caribbean and Pacific group, until 2007. The EC takes an active role in international fora, in particular in the SPA, to advance conceptual issues linked to the PRSP agenda. There, the EC focuses specifically on the post-PRSP process; the definition, integration, and monitoring of outcome indicators; and issues of public expenditure management and good governance. In a growing number of countries, the EC has already agreed on a joint financing framework for poverty reduction budget support with other donors, and it is also exploring possibilities for cofinancing of PRSCs with the Bank. Furthermore, the African Development Bank (AfDB) is working to ensure that its assistance is harmonized with the poverty reduction strategies of its regional member countries and is revising the format of its Country Strategy Papers “to align

⁵⁸ World Bank “Assessing Aid: What Works, What Doesn’t, and Why,” (World Bank, 1998) and Devarajan, et. al. “Aid and Reform in Africa: Lessons from Ten Case Studies, (World Bank, 2000).

their content with the poverty diagnosis, sectoral priorities, and poverty reduction strategies articulated in the PRSPs.”⁵⁹

161. Most large multilateral and bilateral agencies have indicated their support for the PRSP process and for the alignment of their assistance with PRSPs. More generally, the agencies of the United Nations have agreed that the United Nations Development Assistance Frameworks (UNDAFs) should become business plans for support of the country’s PRSP by the various UN agencies involved in that country. The pace at which this will be achieved for a particular country depends in part on the time frame for preparing the UNDAF and the PRSP.⁶⁰ Japan—which is generally the largest source of external assistance for the PRSP countries in Asia—has been working closely on PRSPs in several countries and redesigning its project lending to support PRSP objectives. In Latin America, where Bolivia, Nicaragua, and Honduras have already completed full PRSPs and Guyana will do so soon, the Inter-American Development Bank (IDB) is currently designing and adjusting country strategies to ensure that they conform to the priorities stated in the PRSPs.⁶¹ However, the Asian Development Bank (ADB) remains concerned that the PRSP process is not yet working well among East and South Asian countries because, in its view, ownership of PRSPs is largely confined to central ministries and collaboration among donors needs to be improved. At the same time, the ADB suggests that the PRSP process “may be considered more timely and to be of greater benefit in the case of Central Asia.”⁶²

Box 22. Results of SPA Survey of Donor Engagement with National PRSP Processes

In June 2000 and in October 2001, the Strategic Partnership with Africa (SPA) commissioned a survey of 15 donors who are active in Africa (Belgium, Canada, Denmark, the EU, Finland, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, UK and USA). Based on a response to a detailed questionnaire, the SPA concluded that, by October 2001, donors had become much more firmly engaged in the PRSP process over the preceding 18 months. Twelve of the 15 donors now have formal policy guidance relating to PRSPs, and typically these guidelines encourage alignment of their assistance strategies with the PRSP “to the extent possible.” Of these 12, four (Canada, Ireland, Netherlands, and UK) have several examples of country strategies firmly aligned with the local PRSP, and four others (Denmark, Finland, Germany, and Norway) have plans to create closer alignment when strategies are renewed or national PRSPs are completed.

Source: Coyle and Evans (2001).

162. **Much remains to be done—by both countries and donors—to achieve alignment**
The recent World Bank report on implementation of the CDF principles concludes:

⁵⁹ African Development Bank, December 2001, p. 1.

⁶⁰ UNDP, UNDP review of the PRSPs” (2001), p. 12.

⁶¹ IDB, 2001, p. 5.

⁶² ADB, 2001, p. 2.

“Promising commitments have been made but these have yet to be generally translated into action at the country level. The area of greatest promise is in-country donor coordination mechanisms, where just over half of the 46 countries [in the sample] demonstrate clear progress. However, the alignment of external assistance to the country’s own strategies, including selectivity, is generally weak.”⁶³ In part, slow progress on alignment reflects an unavoidable lag. Most of the full PRSPs have been completed only in the last 12 months and, because assistance programs almost always have substantial lead times and hence change rather gradually, there has been little time to adjust these programs. Also, some donors may hesitate because of doubts about the commitment and capacity of governments to implement their PRSPs, and/or institutional and capacity constraints of their own that work against alignment. Nonetheless, if the PRSP approach is to become credible, donors and countries must now seriously tackle the challenge of alignment.

163. PRSP governments need to exercise leadership to bring about donor alignment.

The dominant view among governments in PRSP countries and donors at the regional fora and recent International Conference was that, consistent with the principle of country-driven processes, the governments themselves should take the lead in donor coordination and alignment. In this context, donors need to accept and defer to government leadership. Each government may wish to consider convening in-country workshops after its PRSP is completed, at which time each donor could indicate how it expects to align its assistance to the PRSP and/or restructure existing projects consistent with the PRSP, as Niger recently did by convening a “project forum.”

164. Clearer prioritization and specificity within the PRSP would greatly facilitate meaningful donor alignment. As noted above, some of the PRSPs to date have been rather weak in terms of prioritization and the specificity of measures within priority areas. In such a case, the strategy documents will provide little guidance to donors, who would likely be able to justify any of their own preferences within the broad categories of a PRSP. In order to facilitate prioritization within country strategies, donors must exercise self-discipline and not forcefully push their own agendas.

165. Donors can pursue alignment on several fronts:

- The timetables for revising country-specific assistance strategies should be synchronized as closely as possible with the PRSPs so that donor strategies can be updated soon after a PRSP is completed. In reviewing their programs, donors should consider restructuring existing projects to better support the PRSP and also should resist the tendency to maintain proposed projects in the “pipeline” if these are no longer consistent with the country’s priorities.

⁶³ World Bank, “Comprehensive Development Framework: Meeting the Promise?,” September 27, 2001, SecM2001-0529/1, p. 19.

- Consultative Groups and other such donor meetings should be used to discuss progress toward and issues related to alignment on a country basis.
- The ongoing work on harmonization of donor practices is intended to identify good practice principles and standards in financial management, procurement, environment assessments, and monitoring and report. Donors should pursue early opportunities to collectively adopt such good practices in PRSP countries.
- Donors should endeavor to provide the government more accurate data about projected disbursements on an annual basis and likely aid levels on a multi-year basis. This will facilitate the design of strategies that are consistent with likely financial resources in the short- and medium-term.
- “Peer reviews” in the DAC could examine the extent to which donor programs are aligned with PRSPs, including the extent to which relevant procedures and practices are in place.
- Donors might review their criteria for allocation of assistance among countries in order to increase the shares going to those countries that are effectively implementing good poverty reduction strategies.
- Finally, donors may need to do more to promote changes in organizational cultures and staff behavior in order to reinforce the principles of country ownership and partnerships.

166. It must be acknowledged, however, that even where the PRSP is clearly prioritized and the PRSP governments have exercised leadership, there remains a **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 reduce this tension by encouraging donor staff to be open-minded and responsive to home-grown solutions and focusing 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. Inevitably, however, there can be some remaining divergence in views. A donor may then be torn between, on the one hand, its desire to respect country ownership and, on the other hand, its responsibility to support only policies and programs that, in its best professional judgment, contribute effectively to results consistent with the donor’s mandate. This will on occasion limit the extent and/or nature of support that a donor can provide to a country’s poverty reduction strategy.

167. **The intention to align with PRSPs and the principle of country ownership embodied in the PRSP does not eliminate the need for the World Bank, the IMF, and other donors to place conditions on the use of their resources.** It does, however, imply that conditionalities in their lending operations principally draw from or elaborate on policies

and actions contained in the PRSP. When the country owns its strategy, conditionality derived from that strategy not only provides assurances to donors about the use of their resources, but also can be useful to the government as a commitment mechanism and a signal of a country's intent to continue reforms.⁶⁴

168. Programmatic lending (including Sector-Wide Approaches (SWAps) and general budget support) is a potentially important instrument for alignment which should be actively used when circumstances warrant, but many donors remain cautious about this type of support. Programmatic lending was strongly emphasized by the PRSP countries at the recent International Conference as a way to support the strengthening of national institutions and procedures and avoids the fragmentation of institutions and the administrative burden usually associated with project lending. The recent SPA donor survey revealed that 14 out of the 15 donors are currently participating in SWAps, and 10 out of 15 also provide general budget support in one or more countries.⁶⁵ Many donors recognize that the PRSP process provides an opportunity to expand such lending, although several (especially Japan and the US) stress that project lending can also be aligned to the priorities of a national strategy. Programmatic lending is not a requirement for supporting the PRSP process. According to the SPA survey, current concerns about corruption, accountability, and transparency generate substantial caution (Box 23). Until there are substantial improvements in systems for public expenditure management (PEM) and monitoring and evaluation (M&E), many donors will remain hesitant about programmatic lending. Some have indicated that they are monitoring the success of the participation in SWAps, in which improvements in PEM and M&E systems can be pursued at a sectoral level, before they consider general budget support.

169. Although alignment with PRSPs is a challenge for the entire donor community, the Bank and the IMF have a special responsibility to demonstrate their own willingness and ability to do so. In part, this presents a continuing challenge for staff behavior. The PRSP approach does require new ways of working. In their interactions with governments and development partners, staff need to consistently demonstrate a willingness to support country-driven processes and governmental leadership, to have an open mind about ideas and proposals generated within the country, and to strengthen collaboration with partners. But there are several specific dimensions in which the Bank and the Fund can pursue better alignment.

170. For the Bank, the key step is to align its Country Assistance Strategies (CASs) in substance and in timing with PRSPs. Regarding timing, the Bank has begun to synchronize

⁶⁴ See IMF-World Bank "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality," 2001.

⁶⁵ Erin Coyle and Alison Evans, "Donor Engagement with National PRSP Processes," Prepared for Strategic Partnership with Africa, (SPA, October 2001), pp. 11-14.

its CAS preparation with PRSPs. So far, during this transition period among the ten countries that have completed full PRSPs, the Bank has developed new CASs only for Uganda and Burkina Faso. For the other countries a CAS is being prepared, or will be by the end of the current CAS period. To a large extent, for countries without a PRSPs, CAS Progress Reports have been prepared in place of a full CAS pending the completion of the PRSP. However, in a few cases during the past two years full CASs have been prepared on the basis of an I-PRSP because the previous CAS was outdated and the Bank and the Government needed a new basis for carrying forward the assistance program. Going forward, Bank management has advised staff that beginning July 2002, normally a new CAS should not be presented to the Board until a country has completed its first full PRSP. After this date, for countries that have not completed their PRSP, the Bank's assistance program will be normally updated in a CAS Progress Report to be presented to the Board, covering a period of up to 18 months and focusing on the Bank's support to the preparation of the PRSP. This should provide countries with sufficient time to complete their PRSPs. A full CAS will be prepared soon after the PRSP is completed.

Box 23. Donor Concerns about Programmatic Lending

The recent SPA survey of donor engagement in PRSP processes indicated that there is general (but not universal) willingness to move further toward budget support given certain conditions (Coyle and Evans, 2001). In particular, most donors stress the following requirements in partner governments for further budget support, at both the national government and sectoral level:

- Greater capacity and political will to implement reforms
- Improved transparency, of budgets in particular
- Improved public financial/expenditure management, financial accounting in particular
- Improved planning capacity, including ability to realistically prioritize and cost
- Improved monitoring, reporting, tracking and auditing systems.

171. Regarding the substance of CASs, in all countries, not only those with PRSPs, the Bank's intention is to ensure that all new lending, analytical work, and other activities support the country's priorities. For PRSP countries, this implies that lending conditionalities are consistent with the country's own policy commitments in the PRSP, that the choice of lending instruments is appropriate in light of the country's circumstances and objectives, that non-lending services, including ESW, address issues that are critical to refining and implementing the strategy, and that performance benchmarks are based on PRSP indicators and targets. Alignment of CASs with the PRS can include an explicit link between ESW (AAA) undertaken by the country team and any gaps in the analysis or information base of the PRSP that preceded it. In this way, the Bank can help to ensure that the next PRSP will have the appropriate building blocks, including PSIA.

172. Because there are only two new CASs that have been prepared in response to PRSPs, it is too early to generalize about how well the Bank is aligning its assistance strategies to

support PRSPs. As detailed in Box 24, the case of Uganda provides a good illustration of how a CAS can be designed in line with a country's PRSP. Future reports to the Boards on PRSP progress in implementation will include information concerning the alignment of CASs with PRSPs in countries that have completed their full PRSPs.

173. Poverty Reduction Support Credits (PRSCs) can be an important instrument for supporting PRSP implementation when the prerequisites for such lending are met.

While all elements of the Bank's assistance program—including project lending and ESW—are aligned with the country's overall strategy through the CAS process, PRSCs are designed as an especially effective instrument for supporting a country's poverty reduction strategy. A PRSC program typically involves a series of two or three individual PRSCs that together support an IDA country's medium-term program as presented in its PRSP.⁶⁶ The medium-term program supported by a PRSC series principally draws from and elaborates on the reform measures and policy actions in the PRSP. Each individual PRSC is based, inter alia, on upfront completion of a set of social and structural reform measures that are critical to the success of the medium-term program. In assessing performance under the program, the staff also consider results-focused indicators. Two ex ante analyses are expected to underpin a PRSC program—an assessment of the country's social, structural, and key sectoral development policies and an assessment of the country's public financial accountability arrangements.

174. Thus far, PRSCs have been approved for three countries—Uganda, Vietnam, and Burkina Faso.⁶⁷ Based on this limited experience, it is premature to evaluate how well the principles and guidelines of PRSCs are being implemented in practice. Box 25 highlights some of the key features of the recent PRSC for Burkina Faso as an illustration of the desired features of this instrument.

175. In their inputs to this Review, some NGOs have already expressed skepticism that triggers and performance benchmarks for PRSCs and conditionalities for other Bank lending will in fact be consistent with PRSPs.⁶⁸ **The Bank as well as the Fund ought to redouble its efforts to ensure that lending conditionalities are derived from the PRSP.** Both as an internal discipline and as a means to protect the credibility of the PRSP approach to country ownership, it would be helpful if the Bank's documentation for PRSCs and other lending instruments made explicit the linkages to the underlying PRSP.

⁶⁶ See Interim Guidelines for Poverty Reduction Support Credits, May 2001, on the World Bank's website (www.worldbank.org/about/whatwedo) under Lending Instruments.

⁶⁷ The PRSC country documents are available on the World Bank's website at www.worldbank.org/infoshop.

⁶⁸ For example, Eurodad expressed concern about the “back-door” policy specification, noting that “there has been a tendency to add extra specifications to policies and reforms” into PRSC documentations that are not in the PRSP. See Eurodad, “Many Dollars, Any Change?”, October 2001, p. 1.

Box 24. Aligning the Bank's Country Assistance Strategy with Uganda's PRSP

In terms of timing, the PRSP-CAS link was exemplary. The new Bank CAS for Uganda was circulated in draft for comments from the Uganda government and civil society in April and May 2000, shortly after the Uganda full PRSP had been accepted by the Bank's Board as an adequate framework for its assistance program. The CAS was formally presented to the Board in December 2000. The final CAS includes a box summarizing the comments on the draft CAS by some key stakeholders in Uganda. The CAS explains each of the elements of the Bank's program of lending and non-lending activities in terms of the four pillars of the Uganda PRSP. Main elements of the linkages between the PRSP and the CAS are:

- 40 percent of IDA lending during FY01-03 will be through two Poverty Reduction Support Credits (PRSCs). Both will support reforms in public-sector management, which is part of the PRSP's agenda for good governance. The first will focus on improved service delivery in the education, health and water sectors—the priority sectors in the current PRSP—and the second will likely focus on agriculture and rural development—which the government anticipates to be the priority in the next PRSP.
- The CAS includes two large loans for road development, on which the government intends to increase the share of public expenditure from 8.2 percent in 1999/2000 to 13.6 percent in 2002/03.
- The Bank's program includes a US\$90 million project for Northern Uganda Reconstruction, which the PRSP identifies as the poorest area of the country.

ESW—often done jointly with Uganda counterparts—focuses on areas in which the government seeks to refine its policies. For example, the Bank will undertake analytical work on decentralization of public service delivery, which the PRSP acknowledges requires careful assessment.

The CAS documents includes a partnership matrix which shows the extent to which development partners are involved in each strategic area and which seeks to clarify selectivity in the Bank's program.

176. **For the IMF, the key challenge is aligning the PRGF arrangements with PRSPs. The progress in doing so is the focus of a separate review by the IMF staff.**⁶⁹ In brief, that review concludes that, while a good start has been made in incorporating the key features of the PRGF into program design, there is scope for deeper implementation. In addition, there remains room for considerable improvement in clarifying the linkages between PRGF arrangements and PRSPs.

⁶⁹ See IMF, "Review of the Poverty Reduction and Growth Facility—Staff Analyses," SM/02/51, Supplement 1.

Box 25. The PRSC for Burkina Faso

This PRSC is the first in a series of three annual credits that will support the implementation of Burkina Faso's PRSP during 2001-2003. PRSC I is based on the country's prior achievements in (1) public sector reform and governance and (2) specific pro-poor sectoral policies and institutional reforms focusing on basic education, health, and rural development. These were all high priority areas for the country's PRSP. The document for PRSC I highlights the measures that the government has already taken in these areas, which had been previously described in the PRSP. These include, for example, adoption of a MTEF framework for 2002-04 that is consistent with PRSP priorities and approving new rules governing the hiring of primary school teachers.

The Bank moved forward with a PRSC for Burkina Faso in part because the country's existing systems for public expenditure management is relatively good and it has a credible program for further improvements in PEM.

The documentation of PRSC I sets out the triggers and performance benchmarks that the Bank and the government will use as the basis for deciding on moving to PRSC II and PRSC III, recognizing that the details will be refined annually. For example, a possible trigger for PRSC II is the implementation of a mechanism for subsidizing school supplies in the 20 poorest provinces, elaborating the government's commitment in the PRSP to design measures that make it possible for poor rural populations to benefit effectively from the educational investments carried out. The performance benchmarks include several results indicators from the PRSP—for example, gross enrollment rates for girls and vaccination coverage rates—that can be monitored on an annual basis.

177. Both the Bank and the Fund need to ensure that their assistance programs and lending operations are transparent so that the extent of alignment with PRSPs can be observed and monitored by other stakeholders. Many international and domestic CSOs involved in the PRSP process have expressed concerns that lack of public disclosure of agreements with governments—and lack of these documents in original languages—will impede public monitoring of the quality of alignment.⁷⁰ Some have proposed that, in addition to a more open dialogue about policy options and choices during the preparation of PRSPs and of lending operations, the Bank and the Fund should publicly disclose the documentation for lending operations at the same time that these documents are submitted to the Board. This would involve a change in current disclosure policies. For the Fund it would mean earlier release of documents that are now generally published after the Board discussion. Short of such changes, there are several means by which the Bank and the Fund can improve the transparency of its programs. First, the Bank should continue its current practice of seeking comments from domestic stakeholders on its draft CASs and of making all IDA CASs public after Board approval. Second, consistent with the new disclosure policy approved in September 2001, the Bank should strongly encourage governments to make public the full documentation for PRSCs and other lending operations after these are approved by the Board.

⁷⁰ See, for example, OECD 2001; DFID, 2001; World Vision, 2001; Catholic Relief Services, 2001; and Eurodad, 2001.

Similarly, the Fund should continue to make public, with the authorities' approval, the government's Letter of Intent and other documentation associated with PRGF arrangements.

178. In summary, donors must take seriously the difficult challenge of aligning their assistance programs with PRSPs. The following lessons of experience and recommendations may help them to meet that challenge:

Good practices for countries

- **Involving donors in PRSP preparation** through, for example, including donor representatives on PRSP working groups;
- **actively leading coordination and alignment of the local donor community;** and
- **disclosing credit and grant documents** associated with the PRSP approach (i.e., PRGF, PRSC, and SAC for the Bank and Fund, and similar operational documents for other donors).

Good practices for development partners, including the Bank and Fund

- **Aligning donor “business plans” with PRSPs**, including performance triggers and conditionality, and justifying the choice of instruments against PRSP objectives;
- **using Consultative Groups and similar fora**, as well as DAC peer reviews, to identify alignment issues;
- **developing lending operations' conditionalities and policy support** transparently and **encouraging governments to open discussions on lending instruments to broader consultations** with domestic stakeholders, as well as other branches of government, including parliament;
- **continuing to work on harmonizing and simplifying** donor procedures while strengthening recipient countries' capacities and systems around a framework of commonly-agreed standards;
- **exploring the expanded use of programmatic lending**, including Sector-wide Approaches (SWAs), when country circumstances warrant; and
- **providing country authorities with information on a timely basis** about medium-term aid commitments and debt relief, and **improving the predictability and timing of aid flows.**

Actions by the Bank and the Fund

- **Build on recent progress** in aligning the Fund's PRGF with countries' poverty reduction strategies;
- **align the Bank CAS to a country's PRSP** once the PRSP is completed;
- **use PRSCs as a key complement to other Bank instruments to support PRSP** implementation where this fits within the CAS framework;
- **publish country documents in their original language;**
- **provide good models for alignment with PRSPs;**
- **enhance transparency by allowing authorities to voluntarily disclose their documents** in support of Bank/Fund lending (i.e., letters of intent and associated memoranda of economic and financial policies for the PRGF at the Fund, and letters of development policies for the PRSC at the Bank) immediately after they are circulated to Executive Directors (EDs), but before EDs discuss the lending operation. Directors will discuss this issue and its broader implications in the context of the upcoming transparency review at the Fund, with parallel discussions at the Bank (in the context of the first progress report on disclosure implementation in FY 2003); and
- **strengthen internal review of lending programs** to ensure that policies and conditionalities supported by donor operations are derived from the PRSP; and **streamline conditionality** where possible.

D. Conflict-Affected Countries

179. **A number of low income countries are currently, or have recently been, affected by conflict.** Several, including Armenia, Azerbaijan, Bosnia-Herzegovina, Cambodia, Guinea-Bissau, Rwanda, and Sierra Leone have prepared I-PRSPs and are working on their full PRSPs. In all of these countries, adequate progress towards cementing the peace and establishing security is necessary prior to embarking on the PRSP process with meaningful participation from all stakeholders. However, since poverty, exclusion, and poor governance underlay many conflicts, the PRSP process itself can make an important contribution to furthering peace and preventing future conflict. This is illustrated in the case of Rwanda (Box 26). Countries emerging from conflict frequently face particularly acute poverty that is complicated by internally displaced populations, war-wounded and demobilized combatants, disrupted production and social infrastructure, and a weak security situation.

Box 26. Promising Approaches to PRSP in Conflict-Affected Country: Rwanda

Rwanda's case reveals the positive potential of the PRSP process in a post-conflict country. The timing coupled with the way the PRS process was managed led to post-genocide "unity and reconciliation" and decentralization processes being successfully linked to poverty reduction efforts. A recent ODI country study commissioned by the SPA (Mutebi et al 2001) found that the PRS process was critical to establishing the credentials of government, and the basis for national security, reconciliation, and long-term development. It also provided an opportunity for addressing linkages between structural poverty and conflict.

One remarkable feature of the Rwanda PRSP process was its approach to broad-based participation. A nationwide Participatory Poverty Assessment was undertaken, while the PRSP was also linked to participatory planning processes and to new Community Development Funds using traditional concepts and practices of grass-roots collaborative self-help. Important efforts were made to support the rapid development of national capabilities for participatory planning and assessment methods. The ODI study noted that "the prospects for the PRS process...to institutionalize poverty reduction policies, programmes, practices and monitoring systems are inextricably interlinked with the national unity and reconciliation process and the decentralization process. Success in any one will depend on institutionalization of the others. These in turn depend on the success of participation by stakeholders in the PRS process and how this will translate into lasting institutional arrangements."

180. While countries may be able to prepare an I-PRSP shortly after conflict has subsided, they face additional constraints in preparing a full PRSP: a weak administrative capacity, including poor data; a continued weak security situation and a fractured social and political environment. As they emerge from conflict, these countries often face a high degree of political and economic uncertainty that can impede preparation of a full PRSP. In such cases, it may be necessary to delay the PRSP until conditions are more settled. Nonetheless, reconstruction priorities and strategies need to remain flexible, so as to ensure that they do not subsequently constrain or clash with the priorities and strategies outlined in the full PRSP.

181. A key issue for the review was **whether the existing PRSP framework is sufficiently flexible for the special needs of conflict-affected countries**. Where a country is still embroiled in an intense conflict it is obviously difficult to see how the PRSP process can be undertaken. More generally, however, the emerging consensus of key stakeholders is that the framework was adequate and in several cases to date has been quite valuable, but that special emphasis is needed in certain areas to ensure its effective implementation in conflict-affected countries. In addition to those mentioned elsewhere, good practices for conflict-affected countries and their development partners include the following:

Good practices for countries

- **Describing in PRSPs how conflict-related problems and constraints are being addressed; and**

- **focusing on the public actions and institutions most urgently needed** to rebuild core government systems and trust in public institutions.

Good practices for development partners (including the Bank and Fund)⁷¹

- **Improving donor coordination and timeliness of disbursements** for conflict-affected countries;
- **encouraging learning** and dissemination of emerging practices and experiences across countries affected by conflict; and
- **supporting country efforts in formulating strategies** for conflict analysis, prevention, and peace building.

Actions by the Bank and the Fund

- **Sensitize Bank and Fund country teams to the special needs of conflict-affected countries**, offering to pilot promising post-conflict analysis when requested; and
- **flexibly apply the JSA Guidelines** in conflict-affected countries, especially in terms of the expected extent of participation, the quality of poverty diagnostics, and the degree of detailed articulation of priority public policies.

E. Knowledge and Capacity Constraints

182. Given the array of challenges highlighted above, it is clear that **capacity building for low-income countries has emerged as a priority**, running parallel to, and supporting, the development and implementation of the PRSP. Any capacity building program should strategically aim to address the areas of greatest weakness in individual countries, responding to those gaps highlighted by the PRSP process. To that end the Bank has recently launched a new trust fund to strengthen country capacity to develop and implement poverty reduction strategies, supported by \$10 million in funding from the Dutch government. (A similar contribution is expected from Japan, from its PHRD facility.) The fund—which will be co-managed at country level with the UN—will support activities which countries themselves determine to be priorities for capacity building. Activities will, therefore, vary among countries, but are likely to include support to institutionalize the participatory process, analyze sources of pro-poor growth, and develop targets and indicators. Each of the regional fora and the International Conference have indicated a strong demand for increased learning and dissemination of good practices regarding the PRSP approach. Furthermore, any capacity building strategy should seek to bring recent innovations in key policy fields to the attention of the main actors.

⁷¹ The Bank is presently carrying out related work on Low-Income Countries Under Stress (LICUS).

183. Building capacity for data collection and analysis through support for household surveys and other feedback techniques is a priority in many countries. While ESW and support for household surveys (like the experience with capacity building for data collection and for M&E) are variable, many of the more successful endeavors have been multi-year, joint undertakings (as opposed to learning events) that tie the technical analysis with policy dialogue. The link to dialogue addresses the fact that building capacity works best when demand is simultaneously enhanced. PRSPs can do this, but without donor partnership extending to this long-term process, past experience indicates that capacity can wither.

184. At the regional fora and International Conference many PRSP teams, including representatives from Ghana, Kyrgyz Republic, Moldova and Mozambique, stressed the **importance of an approach that makes use of existing national capacity and progressively builds local capacity over time**, rather than relying only on conventional technical assistance from external experts. In Ghana, for example, support has been provided to the PRSP team under government leadership, with the PRSP team responsible for drawing up the terms of reference, selection and supervision of consultants.

185. **Countries can be assisted in this learning process by the continued development and dissemination of the PRSP sourcebook.** The sourcebook is not a set of guidelines. It is intended only to be suggestive, to be selectively used as a resource to provide information about possible approaches, and does not pretend to provide the answers. As a resource for stimulating analysis and dialogue at a country level it has proved a useful tool to date, and will continue to be refined in the light of feedback and demand for guidance in additional fields.

186. **Increasing the opportunities available for learning among developing countries, and fostering knowledge and expertise at the national and regional levels, are key challenges.** It is anticipated that demand will continue for annual regional and international learning events where key players in PRSP development and implementation can come together to share experiences and solve problems. However, to optimize on these opportunities, the Bank is supporting a shift to a more “applied technical learning” focus, allowing for a deeper exploration of specific topics such as the sources of growth, interlinkages, public expenditure management, and poverty and social impact analysis techniques (see Box 8).

187. Participants from Africa at the Dakar Forum issued a call for groups across the continent to begin to **exchange experiences on good practices more systematically**. Efforts are now being directed at stimulating the formation of “Communities of Practice” to leverage the dialogue and learning that has begun at face-to-face events such as Dakar. Utilizing the web and other appropriate technologies, such communities would support the PRSP process by providing members of national PRSP Teams with a space to exchange experiences and draw in advice from both experts and peers. WBI staff, under the Attacking Poverty Program,

have begun regional consultations, and communities are being initiated to explore themes such as monitoring and evaluation, participation processes, and budgeting.

188. The findings of this Review have reinforced the clear call at the International Conference to **enhance the research and analysis effort in support of the PRSP approach**. In particular, there is a sense that a full understanding of some key dynamics is a critical missing element. Sources of pro-poor growth, the linkages between macroeconomic and structural/sectoral policies and poverty outcomes, and policies to address vulnerability and external shocks were three areas highlighted for immediate attention. In addition, there is clear value in supporting national research institutes and think tanks to undertaking research in these fields and to establishing centers of expertise.

189. **The PRSP approach revealed that the staffs of the Bank and Fund faced new demands in their operational work.** The Bank recently introduced a new framework for staff learning that seeks to enhance the technical, integrative, and behavioral skills for the next generation of PRSP work. The PRSP-related learning emphasizes both technical training on core poverty knowledge and skills for staff across a range of sectors, a greater reliance on “action learning”—in which staff learn together with clients and donor partners, and a shift of focus from individual to team-based learning. One example of the latter is a pilot for multi-sectoral learning, which includes the teams working on PRSCs in Albania and Uganda. Other major elements of the PRSP learning agenda for Bank staff, which are either ongoing or currently under development, supported by the Learning Board, include:

- the Attacking Poverty Course, which would address core questions, such as what is poverty, poverty measurement and trends in poverty, and key structural and sectoral policies from a distributional perspective and seek to enhance participants’ understanding of how their work fits into the Bank’s overall portfolio, as well as how it relates to the work of actors worldwide;
- a Program in PSIA, which involves the development and delivery of learning modules for Washington-based staff this fiscal year, with an expected expansion using distance-learning next year, complemented by quality enhancement reviews, which will be held on demand, including for teams working on Chad, Guyana, and Malawi; and
- a Program on Public Action for Human Development and Poverty Reduction, which focuses on public expenditures, public service delivery, and monitoring and evaluation of poverty-focused public policies.

These activities are complemented by initiatives such as a PRSP Seminar Series⁷² and a new fund to enable access by field office staff to a full menu of poverty-related learning activities.

Box 27. The Attacking Poverty Program

The Attacking Poverty Program (APP) was established by the World Bank Institute in early 2000 to reflect a greater focus on poverty in its learning programs. The program aims to support the design and effective implementation of PRSPs through increasing the capacity of national PRSP teams and other stakeholders such as policymakers, parliamentarians, academics, technicians, media, and civil society representatives. In addition, it seeks to consolidate national capacity by working with local and regional institutions involved in poverty-related activities.

The APP offers specialized learning activities in areas central to the design and implementation of PRSPs: poverty analysis, macroeconomic, fiscal and rural policy, decentralization, and governance. To increase the impact of the intervention at the country level, APP focuses on a limited number of thematic areas for each country. In this way APP can develop a medium-term strategy for a particular area (e.g., poverty monitoring or governance and public expenditure), targeting various audiences interested in the topic at different levels, and investing in local and regional partners to take on greater responsibilities over time.

The program is demand driven and aims to respond to specific requests from PRSP teams. For example, a recent *Macro Modeling Workshop* provided hands-on training in recent quantitative techniques for growth and poverty analysis for PRS countries of Francophone sub-Saharan Africa, with participants being nominated by their respective PRSP Teams.

The APP also seeks to cultivate links between PRSP countries and facilitate the exchange of experience, creating “communities of practice” in this process. Events such as the *Dakar Poverty Forum* in September 2001 testify to the success of this approach. The Forum attracted more than 270 participants from 32 African PRSP countries, donor agencies, and local and regional partners. It inspired a lively exchange of experience focusing on a number of key issues such as integration with the budget process, ensuring credible participation in the design process, and monitoring progress in meeting targets.

The *ECA Development Debates*, held in the autumn of 2001, provide another example of South-South learning, bringing together the PRSP teams and a broader group of poverty specialists from the six IDA countries of the region to explore poverty reduction strategies and problem solve together. Over the course of four weeks, each country group discussed policy issues of particular relevance to their PRSP and then linked through video-conference with each other to share their learning and experiences.

F. Implementation and Updating of PRSPs

190. 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 **both regular monitoring and evaluation—checking on progress against indicators and on outcomes and analyzing what is working—and**

⁷² The Seminar Series uses video-conferencing to expose resident mission staff and their clients and partners in government, academia, NGOs, and donor agencies to recent intellectual developments, best practice, and current empirical research in the field of PRSPs.

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 current 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. However, several questions have been raised during the course of this Review about what is practical and desirable with respect to reporting on progress in implementation and periodic revisions of strategies.

191. There was broad agreement among contributors to the Review on the desirability of periodic reporting about progress in implementation but without undue burden on governments. The potential value of annual reporting is clear: it retains governmental focus on carrying out priority actions and monitoring short-term results, and thereby helps to ensure that the PRSP does not become one more document on the shelf of other strategy documents, but a living document that guides implementation. Also, if done well, PRSP implementation reports could serve as the government's primary report to its donors on country achievements, ideally substituting for other documents that donors seek to satisfy their fiduciary responsibilities, and thereby reducing transaction costs for countries.

192. 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. Each of these reports was quite substantive. In the case of Uganda, it contained detailed results from the newly available nationwide household survey. The Tanzania report also filled in important gaps in its initial PRSP about the strategies for education and for rural development. However, these countries indicated that preparing these reports was burdensome. Considering also that many results cannot be monitored on an annual basis and taking into account the "participation fatigue" of civil society partners, several PRSP country participants at the International Conference suggested that progress reports should be prepared every two years rather than annually. In response, most donors emphasized the value of annual reporting—both for the country and for the donors as well.

193. In terms of content, progress reports could include a matrix of policy measures for the coming year (as recommended by the EC, for example). Annual updating of the one-year policy matrix would avoid erosion of the PRSP in value year by year as conditions change, some measures get delayed, new studies are concluded, and so on. Hence good practice for annual reports could include a matrix that lists the policy measures that the government expects to implement during the coming year, drawing on the initial PRSP matrix, but clarifying timing and improving specificity where possible. This need not be accompanied by text that provides explanations unless the measures in the one-year forward matrix deviate in a significant way from the policy directions set forth in the PRSP.

194. An appropriate balance between the desirability of annual reporting and the practical constraints facing governments could be struck if the expectations for such reporting are sufficiently modest. The report should be focused on (a) the results indicators that are

available on an annual basis compared with the baseline level in the previous year, and a brief comment on factors affecting the results so far; and (b) a policy matrix based on that in the PRSP, which summarizes policy measures taken during the past year and the priority measures for the coming year. Ideally, such a report should be prepared in coordination with the annual budget cycle so that its results could inform budget decisions. The staff propose to develop—in consultations with countries and other donors—guidelines for such short annual progress reports on PRSP implementation and, on that basis, to maintain the expectation that countries will prepare such reports and present them to the Fund and the Bank. These reports would be used by the Fund and the Bank as a basis for annual PRGF reviews and for consideration of new PRSCs within a multi-year series. Other donors—in the context of the DAC review of ways to reduce reporting burdens—might be encouraged to make use of these country reports as a substitute for other reporting expectations.

195. **There is broad agreement that poverty reduction strategies need to be updated and revised periodically and that the appropriate periodicity for such revision should be decided by the country in line with its own preferences and institutional cycles.** The strategy embodied in a PRSP is ideally regarded as a “rolling program,” and the PRSP as a “living document.” While it would be impractical to thoroughly review and revise the strategy frequently, it is certainly necessary to do so periodically. Such a revision should take into account what has been learned during the course of implementation about what has worked and has not worked, and should consider new results from monitoring and evaluation about the determinants and dynamics of poverty. Also, such a revision must take into account changes in the country’s circumstances—for example, a major change in its terms of trade or in the availability of external resources, or a large-scale natural disaster.

196. Countries have varying expectations and traditions which affect the appropriate periodicity for updating their PRSPs. When it launched its PEAP in 1997, Uganda decided to update the strategy every two years. Mozambique determined in 1998 that its PARPA should be a medium-term planning instrument and should be revised every three years. Some countries, such as Vietnam and Yemen, have traditionally developed five-year national plans. In working with countries to develop macroeconomic programs, the IMF has regarded a three-year horizon as appropriate, balancing the need for a medium-term outlook against the increased likelihood of substantial changes in economic circumstances as the programming horizon is extended.

197. The general view at the International Conference was that each country should decide on the periodicity for updating its PRSP within a range up to five years, taking into account its preferences and existing institutional and political cycles. The staff recommends that the Boards should agree to such flexibility with the understandings that (a) in each PRSP, the government would indicate its intended timing for the next full PRSP; and (b) the longer the interval between full PRSPs, the more the annual progress reports would be relied upon to indicate adjustments in the strategy in response to experience during implementation and changes in circumstances.

198. **In the event of a change in government during the course of PRSP implementation, it is broadly accepted that the new government should indicate to the country and to the donors its intentions with respect to the existing PRSP.** Unless a country chooses a periodicity for its PRSP which coincides with its electoral cycle, it is likely that the implementation period for a PRSP will span two administrations. For example, Honduras and Nicaragua recently finalized their PRSPs in advance of national elections, and the challenge of implementation will fall primarily to newly-elected administrations. When a new administration takes office, it normally seeks to review the policy framework in place. It is hoped that the PRSP process—by building broad country ownership for the strategy through the participatory process—will contribute to continuity between one government and the next. In the preparation of their PRSPs, Malawi and Madagascar, for example, have considered this an important objective, and, with that in mind, have included opposition parties and parliaments in the preparatory work. Nevertheless, a new government may wish to change some of the public actions set forth in the PRSP by its predecessor. It is reasonable to expect, however, that, within a reasonable period after taking office, a new government will publicly indicate its intention with respect to an existing PRSP, informing its citizens as well as its donors whether it will seek to implement the PRSP or to revise it according to a certain schedule.

Good practices for countries

- **Preparing and publishing annual progress reports with forward-looking policy matrices** in parallel with annual budget preparation;
- **deciding on appropriate periodicity (up to five years) for revision of subsequent full PRSPs in line with existing cycles for the country's development plans;**
- **publicly announcing a new administration's intentions** with respect to the country's existing PRSP subsequent to the change in government;
- **integrating PRSPs** (and annual PRSP implementation progress reports) with other government decision-making processes, especially with the budget; and
- including in PRSPs **information about the institutional arrangements** for preparing and implementing strategies, including the role of parliament.

Good practices for development partners, including the Bank and Fund

- **Respecting and aligning assistance with national cycles** for government decision making, particularly annual budget cycles.

Action by the Bank and the Fund

- **Maintain the requirement that countries prepare annual PRSP progress reports**, but reduce the administrative burden by asking governments to focus on any key results, the status of implementation and, where appropriate, revisions to the strategy **(and develop guidelines for annual progress reports to that effect)**;
- **each country should decide on the appropriate periodicity for updating its PRSP** within a range of up to five years and, in each PRSP, indicate the timing of the subsequent PRSP; and
- **have staff assessments give greater emphasis to evaluation of risks to implementation**, including the PRSP's projected growth rates, vulnerability to external shocks, and shortfalls in external financing flows.

III. CONCLUDING NOTE

199. The process underpinning this review has been open and inclusive, with a concerted effort to elicit the views of low-income country governments, civil society, development partners and other stakeholders, as well as views of staff. The focus of the review was on countries' experience to date in developing, implementing, and monitoring their PRSPs, recognizing that most are still at the early stages of the process. Views were sought from the countries themselves, civil society organizations, and development partners through a series of regional fora and an International Conference, together with over 50 written contributions to the Review. This was buttressed by substantial staff analysis across a range of sectors and cross-cutting issues, as well as a close reading of the growing literature on PRSPs.

200. This paper began by affirming the substantial support, internationally, for the PRSP approach and setting out a series of key messages that do not need to be repeated here. It is clear that the development and implementation of PRSPs is an ambitious challenge for low-income countries, both in terms of analysis and organization. Continuing efforts are needed to learn and share good practices among countries. There is a need to be realistic about what can be achieved in the short-run and to help countries build the capacities—especially for public expenditure management, poverty and social impact analysis, M&E systems, and institutionalized participation—that will provide foundations for making and monitoring progress over the medium- and long-run. Development partners must continue to help countries evaluate the linkages between policies and poverty reduction. Finally, the importance of patience and perseverance with implementation needs to be reiterated.

201. The focus is on low-income countries to see progress in poverty reduction in coming years. However, the international community, too, has a critical role to play by opening their markets to developing country exports and by phasing out trade-distorting subsidies. These are essential complements to providing higher levels of concessional assistance to those countries that are implementing effective poverty reduction strategies and aligning of

development assistance with national strategies. It is only through such concerted actions by rich and poor countries alike that the fight against poverty can be effectively sustained and the challenge of the MDGs for 2015 can be met.

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