

MASTER FILES
ROOM HQ C-525

0409

BUFF/99/154

December 27, 1999

**Concluding Remarks by the Chairman
Poverty Reduction Strategy Papers—Operational Issues
Poverty Reduction and Growth Facility—Operational Issues
Executive Board Meeting 99/136
December 21, 1999**

This has been a most constructive discussion. Directors welcomed these papers on operational issues as a concrete sign of the Fund's new commitment to tackle poverty reduction within the context of the PRGF and the HIPC Initiative, and noted the substantial progress that has been made in this area since the Annual Meetings. I will summarize this discussion in two parts, beginning with the Poverty Reduction Strategy Papers (PRSPs) and then turning to the Poverty Reduction and Growth Facility (PRGF).

Poverty Reduction Strategy Papers — Operational Issues

Directors reaffirmed their support for the principles underlying the PRSP approach. They underscored the importance of macroeconomic stability and sustainability, market-based reform, and good governance in engendering the rapid sustainable growth that is a prerequisite for enduring poverty reduction. At the same time, they recognized that rapid growth needs to be accompanied by policies to enable the poor to contribute to, and share in the benefits from, growth, to increase their capabilities, and to reduce their vulnerabilities to risks. Indeed, tackling entrenched poverty—and the related lack of economic opportunities and asset endowments—can itself remove important obstacles to more rapid growth.

Directors stressed that poverty reduction strategies must be country-driven, developed and monitored with broad participation, and tailored to country circumstances, as such strategies are more likely to enjoy broad public ownership and to result in effective and sustained policy implementation. These strategies should build on work already under way on poverty eradication in these countries and should be developed from an understanding of the nature and determinants of poverty and the links between public actions and poverty outcomes. Directors emphasized the importance of designing strategies to achieve quantified *medium- and long-term goals for poverty reduction, including key outcome and intermediate indicators*, that are needed to ensure that policies are effectively implemented and monitored. They also stressed the important role that development of a poverty reduction strategy will play in coordinating the work of the World Bank and the Fund, as well as that of regional development banks and other multilaterals, bilateral donors, and private sector organizations. The resulting strategy should integrate institutional, structural, and sectoral policies into a coherent macroeconomic framework.

Directors noted that the development and implementation of PRSPs in line with these principles would represent a major challenge for all participants. Several Directors expressed

concern about the costs to recipient countries of designing, implementing, and monitoring the PRSPs, and noted the need to take these costs into account in this process, which makes it all the more important that appropriate additional donor support be made available to strengthen institutional capacity. Technical assistance is, of course, particularly important in this context. Directors strongly endorsed the staffs' view that there could be no rigid blueprint for carrying forward the PRSP process. We all have to learn from experience and adapt our operations accordingly. In the same vein, Directors emphasized that the joint paper, and the proposals it contains, should be regarded as a consultation document on which the views of all participants—especially the countries that would be developing PRSPs—are being sought.

Directors stressed the need for PRSPs to reflect individual country circumstances and the desirability of experimentation. They broadly supported the staffs' suggestions for elements that country authorities should consider including in their PRSPs. Some Directors considered that, although flexibility in the scope and coverage of PRSPs would be desirable to reflect different country circumstances, there would be a need to define a minimum set of core elements for a PRSP, to provide an appropriate framework for the lending operations of the Bank and the Fund.

Directors broadly endorsed the objectives set out in the paper for the participatory process to develop and monitor the PRSP. However, they recognized that the nature of the participatory process would vary according to country circumstances and that governments would face challenges in developing these processes. Several Directors pointed to the importance of democratically-elected bodies retaining their legitimate role at the center of this process. Directors urged governments to ensure that the views of the poor were adequately represented, recognizing that this is an enormous challenge—both in terms of human and financial resources—that will require concerted efforts to achieve. More generally, some Directors noted the danger that vested or unaccountable interests could bias the participatory process. In view of these concerns, Directors saw a need for the international community to support governments' efforts to develop participatory processes. Some suggested that the staffs, particularly the staff of the Bank, should offer more guidance in this area, while others stressed the role that other agencies, including bilateral donors, could play in supporting the development of participatory processes.

Directors stressed that the new approach would require closer Bank-Fund collaboration in assisting low-income members. They agreed that, to enhance collaboration, the staffs should, at an early stage, develop a shared perspective on country-specific obstacles to poverty reduction and a range of policy options. Several Directors pointed to the need for this initial perspective to focus on diagnosis and present a variety of options so as not to overwhelm the emerging participatory process; this was an area in which careful experimentation would also be needed. We will be working with our colleagues in the Bank to define how this common perspective is developed and on the modalities for joint mission operations.

Directors broadly supported the proposed division of labor between the Bank and the Fund in supporting the preparation of PRSPs. They emphasized that Fund staff should not be

expected to—and should not—offer assistance in areas that are primarily the responsibility of the Bank. I will return to the issue of the delineation of responsibilities later in these remarks.

Directors agreed that, in reviewing a country's PRSP, the Bank and Fund Boards would consider and broadly endorse the overall strategy as an integrated whole; each institution would focus on those policies and programs it supports in its area of responsibility and as a basis for lending operations. Directors noted that the procedures for the parallel review of the PRSP by the Boards of the Bank and the Fund would need to be developed in greater detail over the coming months. Directors agreed that a joint staff assessment would accompany the PRSP. While some Directors thought that the staff assessment should provide a view on the quality of the participatory process, more generally the Board considered that the staff should avoid explicit judgments and that it should seek to provide a full and structured description of the process to inform the Board's assessment.

Directors stressed the value of informal country-specific briefings while the PRSP is being developed. This would help Directors to formulate their views on the emerging strategy, and would be particularly useful when the country-led process appeared to be generating possible policy options which might not have the support of the staffs or the Boards. Such briefings could also inform Directors of the nature of the participatory process. Directors generally agreed that the PRSP should be published by the country authorities prior to Board discussion to enhance the participatory process.

Directors agreed that the development of a PRSP with broad participation is likely to take time. In view of this, they also agreed that transitional arrangements were needed to allow existing operations to continue without disruption while PRSPs are developed. In this vein, Directors endorsed the staffs' proposals, including the use of interim PRSPs that would, *inter alia*, present the authorities' plans for the elaboration of a PRSP in a participatory process and provide, as far as possible, an indication of the main elements of the strategy. I would reiterate, as many of you have noted, that we must expect to see considerable variation in the scope and coverage of these initial documents reflecting the different points at which countries are in the preparation of poverty strategies, as well as the different stages of development, availabilities of social sector indicators, administrative capacity, and financial resources.

While reaffirming that, in principle, countries seeking assistance under the HIPC Initiative should have a PRSP in place at the decision point, Directors noted that this could unduly delay assistance for early cases. In these early cases, they agreed that a decision point can be reached with an interim PRSP in place. In general, however, countries should have adopted a participatory PRSP and completed at least one year of satisfactory implementation—as evidenced in the government's PRSP progress report—by the completion point.

Directors recognized that this latter requirement could, however, delay the provision of enhanced assistance under the HIPC Initiative to those countries that have already reached decision points. Directors agreed that, for this reason, some flexibility is required in these cases. While many Directors favored a possible collapse of decision and completion points

on a case-by-case basis for the strongest performers among the retroactive cases, some other Directors did not support this approach. However, I sense that the majority of the Board favored early decision points under the enhanced Initiative for retroactive cases, depending on performance, with the timing of completion points decided on a case-by-case basis linked to the adoption of an interim PRSP, the degree to which the PRSP is participatory, and overall progress in poverty reduction and economic performance.

In connection with the HIPC, I note that the expected timetable for processing HIPC cases in the coming months is that, subject to country progress, three countries would reach their decision points under the enhanced Initiative in January—Bolivia, Mauritania, and Uganda—with Mozambique following shortly thereafter. Staff are also working on a number of early country cases, and depending on policy implementation and resolution of outstanding policy issues, a further four to seven countries could reach their decision points in the subsequent three months.

Directors agreed that participation in the PRSP process and support for PRSPs by donors and other multilaterals would be important to the success of the new framework. Some Directors also noted the potential for substantial benefits from closer collaboration, including a streamlining of donor practices. Directors supported staffs' intentions to foster these changes. More generally, they agreed that the success of PRSPs would be assisted by wider actions, including in the areas of trade and aid. Some Directors proposed that the Bank and the Fund collaborate on a paper that would consider various external constraints on poverty reduction in low-income countries, including the impacts of trade restrictions in industrialized countries and of aid flows.

Directors agreed that revised versions of Sections III and IV of the paper on the content of PRSPs and on the participatory process should be prepared for consideration by the Boards in mid-2000 in the light of Directors' comments—and those from the low-income countries concerned, donors, other multilateral institutions and the general public—and on the basis of early experience. Directors also agreed that it would be appropriate to conduct a review of the PRSP approach, with external participation, including that of representatives from HIPC countries, at the latest by the end of 2001, and with earlier progress reports. I noted that some Directors favor a somewhat earlier review. We will consider this option in the context of a forthcoming work program. A number of Directors suggested that there should be an independent, external evaluation.

Poverty Reduction and Growth Facility — Operational Issues

Directors welcomed the discussion on the Fund's operations and in particular the Poverty Reduction and Growth Facility (PRGF), which emphasizes poverty reduction as a key objective for the Fund's concessional lending to low-income countries. Directors supported the thrust of the proposed policies and procedures for the PRGF and for linking programs supported under the facility to the PRSP. They encouraged Fund staff to begin the implementation process quickly, recognizing that it would involve a substantial degree of experimentation and innovation.

Directors agreed that Fund staff will need to participate in broad-based consultations on the policy framework, and expected that this would help increase ownership of prudent macroeconomic policies. They supported the integration into the macroeconomic frameworks of key specific, costed measures to increase growth and reduce poverty, noting that this will enhance existing efforts to increase social and other priority spending where appropriate, and to identify targeted social safety nets. Directors agreed that the policies to meet poverty reduction objectives would have an impact on the design of the macroeconomic framework, and they could have an impact on the level of the fiscal and external deficits. Directors emphasized, however, that government spending would need to be financed in a non-inflationary manner. They agreed that external financing would need to play a crucial role in meeting poverty objectives within a stable macroeconomic environment. Directors hoped that the PRSP would identify priority program elements for poverty reduction, to guide adjustments in spending should funding differ from what was assumed. Most Directors considered that Bank and Fund staff should take an active role in identifying financing needs and in mobilizing additional donor resources on appropriate terms for the countries that most need and can effectively use such support.

Recognizing the crucial role of good governance in underpinning macroeconomic stability, sustainable growth, and poverty reduction, Directors stressed that PRGF-supported programs should emphasize measures to promote good governance. While governance-related measures could cover the range of issues of relevance to the Fund, a primary focus for the Fund would be on improving the management of public resources through greater transparency and accountability in fiscal management. Good fiscal management would be particularly important in supporting members' efforts to shift public expenditures toward efficient, well-targeted, poverty-reducing programs and away from unproductive uses.

Turning now to the framework linking the PRGF and the PRSP, Directors agreed that Fund arrangements under the PRGF must support and be consistent with the country's poverty reduction strategy. To this end, Directors agreed that a current PRSP that had been endorsed by both Boards would be a condition for Fund approval of a PRGF arrangement, or for completion of a review thereunder. They considered that such a framework would ensure that Fund resources were provided in support of a comprehensive poverty reduction strategy, including those policies not subject to specific conditionality in a PRGF arrangement. A number of Directors expressed concerns that this framework could raise questions concerning cross-conditionality, which they believed should be avoided.

Directors generally agreed that discussion of PRSPs could take place at the same time as that of a PRGF discussion, and at the time of requests for new three-year arrangements or yearly reviews. However, I have also noted that some Directors would have preferred an earlier discussion so that PRSPs can be endorsed by the Board prior to approval of the supporting PRGF arrangement. In any case, since the PRSP will also play a key role in the Bank, and possibly other institutions, some stand-alone discussions of PRSPs at the Fund might be needed. In general, Directors agreed that a prerequisite for a new PRGF arrangement or completion of a review would be endorsement of a PRSP or progress report by both Boards within the preceding 12 months.

Mid-year reviews under the PRGF would normally take place without a simultaneous discussion of a PRSP or progress report. In such situations, Directors agreed that management would recommend Board action only if it considers that implementation of the poverty reduction strategy remains satisfactory, or sufficient corrective measures have been taken to put it back on track. Some Directors emphasized the need for judgement and to avoid a mechanistic approach. Fund staff and management would make the assessment of implementation on macroeconomic and structural areas within the Fund's mandate. For social policies, most poverty-reducing measures and other structural policies within the Bank's primary mandate, the Fund staff should ascertain whether the Bank staff has any major outstanding concerns about the adequacy of implementation before Fund management determines whether to recommend Board approval of disbursements under the PRGF arrangement. Directors welcome the proposal that staff reports would record the views of Bank staff regarding implementation of the poverty reduction strategy in areas within their mandate.

In circumstances where Board consideration of a PRSP or progress report and a PRGF arrangement or review do not coincide, Directors noted that the PRGF documents should assess whether unexpected developments had affected the relevance of the latest PRSP. Any proposed departure from the PRSP framework in the PRGF-supported program would need to be identified, agreed with the authorities and Bank staff, and reconciled with the PRSP when the PRSP is next prepared.

Taking note of the new framework for very close cooperation and communication with the Bank, Directors welcomed the proposals to reduce overlapping conditionality. They agreed that, for policies identified in the PRSP, the staff of the Bank and the Fund would decide jointly, on the basis of established guidelines for Bank-Fund collaboration in assisting member countries, whether the Bank or the Fund would take primary responsibility for supporting the government's policy formulation and for monitoring or, where appropriate, liaising with other interested development partners. On the basis of this division of responsibilities, Directors agreed there would be a presumption that PRGF letters of intent and policy memoranda would cover and reach understandings only in those areas where the Fund was primarily responsible (and in these areas conditionality would be used sparingly). Thus, conditionality in areas within the primary mandate of the Bank will be the responsibility of the Bank, except where a condition is judged to have such a direct, critical macroeconomic impact that the PRGF program would be derailed if the measure were not implemented. Directors generally considered it appropriate that the Fund rely on the Bank to monitor implementation of structural reforms consistent with the PRSP in the Bank's areas of expertise, and welcomed the sharpening of the lines of institutional responsibility and accountability.

Directors agreed that the macroeconomic conditions in PRGF arrangements would derive from the framework elaborated in the PRSP. Structural conditionality in Fund programs would be drawn from, or elaborate on, the structural measures identified in the PRSP, and would, as noted, cover only those areas identified as being within the Fund's area of responsibility, except as noted in the previous paragraph.

During the transitional period needed for countries to prepare their first PRSP under a participatory process, Directors agreed that an interim PRSP would underpin new PRGF arrangements or new yearly programs under the PRGF. The interim PRSP would need to be endorsed by both Boards on the basis of a joint staff assessment as a requirement for new three-year arrangements under the PRGF or completion of yearly reviews.

Directors supported the proposed arrangements regarding Fund support for countries which do not have current PRGF-supported programs and do not prepare an interim PRSP in the coming year, as set out in SM/99/293.

Directors supported efforts to streamline the necessary documents where possible. They encouraged the staff and the authorities to experiment with very short letters of intent and policy memoranda, which could be confined to a specific list of policy measures under broad headings and tables of quantitative performance benchmarks. Alternatively, if the authorities wished to include additional background materials in their documents, Directors considered this material could then be excluded from staff reports, with appropriate cross-references.

A review of the PRGF facility will be prepared by end-2001, in conjunction with a general review of the PRSP approach. These reviews will include contributions from member countries, international institutions, other aid providers, and civil society.

The Bank Board agreed to publish the joint PRSP paper after this Board meeting. We plan to post this, and the Fund paper on PRGF—Operational Issues, on the Fund's website, together with a brief press release outlining, inter alia, our planned timetable for early HIPC cases. We also plan to publish these concluding remarks as soon as they are finalized.

