April 23, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Final Minutes of Executive Board Meeting 99/136**

The following correction has been made in EBM/99/136 (12/21/99):

Page 91, third full para., line 5: for "developing a PRSP"
read "designing a development strategy similar to a PRSP"

A corrected page is attached.

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including the cost of participatory ownership, the cost of taking time—because the process would take time—which for some countries would mean falling behind in growth rates vis-à-vis competitors, and the cost of reversals. It had been assumed so far that the new approach would entail a linear process which would proceed smoothly. However, it was more likely that there would be some reversals. The staff had been very straightforward and open in that regard.

Ms. Lissakers stated that she did not think that those costs were greater than those that the countries would be incurring anyway, without the new approach. There were interruptions and reversals under the existing programs as well; but if the new approach worked, they were likely to be fewer and less damaging. As to the demands on public resources and public staffing, the fact was that the main poverty reduction programs in many of the countries in question were simply to put lots of people on the public payroll. So it was likely that there were ample, or even excessive, resources in the public sector. Of course, those resources were not necessarily interchangeable and deployable to the kind of data gathering and monitoring that would be required for the PRSPs, but surely many people who were currently doing certain jobs would be better employed doing different tasks.

Mr. Faini said that, while he understood Ms. Lissaker's point view, he also recognized that, as Mr. Rustomjee had pointed out, implementing the PRSP approach would require skilled personnel—a scarce resource in many countries, which would thus cost more.

Mr. Rouai noted that his chair favored option three for the retroactive cases, and hoped that the PRSP approach would not delay the actual delivery of debt relief. In that regard, he had been interested to hear Mr. Rustomjee's comments on the separation of the HIPC from the PRSP and PRGF. On the issue of cost, his own country's experience was that designing a development strategy similar to a PRSP was very time-consuming and costly. As it took between 18 months and two years to complete the participatory process, his country preferred to do so on a five-year timeframe.

Mr. Pickford remarked that while he agreed that some resources could probably be reassigned, he also recognized, like Mr. Faini, that a there would have to be a jump in quality, and thus some transitional costs. Many of the HIPC countries had poor implementation capacity, and it was important for the Fund, the Bank, and other donors to help build up that capacity. The point that Mr. Rustomjee had made about integrating the PRGF strategy into the budgetary system was also very important. One of the many encouraging lessons that could be drawn from the Ugandan case was precisely the way in which the debt-relief resources had been used to build up the budgetary systems, through allocating five percent of the debt relief to integrating sound budgetary and accounting systems. That had much wider benefits in terms of capacity and in terms of building sustainable programs than just that initial cost, because it spilled out onto the wider budgets.

Ms. Lissakers stated that she had not meant to deny that there would be costs to developing and implementing the new approach. However, over time, those costs would be relatively modest compared to their likely payoff, and compared to the current costs of a failed effort. Moreover, presumably, one of the large benefits of having a well-defined poverty-reduction strategy would be precisely that resources could be mobilized into some coherent whole among donors, so as to target the expenditures that were needed to actually carry forward the poverty-reduction strategy, and ensure a more consolidated approach by the external community in providing the necessary resources. That avoided a lot of wasted effort.

Mr. Barro Chambrier noted that the direct budgetary costs to countries implementing the PRSP should not be minimized, even if the precise identification of those costs would come only as the process began and as several modalities were experimented with. Greater donor coordination might result from the consultation process, but only if the strategy was good. As that would be a challenge, it was necessary to weight the costs and benefits in the medium and in the long term. He did believe that, in the long term, there would be some compensation and some benefit, but in the meantime there would be an increased need for technical assistance.

Mr. Portugal said that he agreed with Ms. Lissakers that the PRSP approach was a worthwhile exercise whose benefits would probably exceed its the costs in the long term. However, he did not agreed that there were ample resources that could be redeployed to help in its implementation. In most HIPC countries, there was a lack of skilled people to be used in all data collection and organizing the authority. That point could not be ignored. Even in the Fund, which was a very well-endowed institution, it was recognized that the new PRSP approach would be impossible to undertake without additional resources. The same was true for the countries themselves, and they would also require much training and technical assistance.

Ms. Lissakers observed that Zimbabwe, for example, had about fifty-four cabinet ministers. It was hard to believe that all of those ministers and the people below them lacked education and skills, were overworked, and had so many responsibilities, that it would be necessary to add ten more ministries to do the poverty-reduction strategy.

Mr. Portugal pointed out that the strategy would not be implemented by Ministers. It would be implemented by officials in villages that were close to the poor people.

Ms. Lissakers said that some countries—such as Uganda and Mozambique--appeared to have gone pretty far in designing and beginning to implement the poverty-reduction strategy; and they had done it without and massive increment in either budgetary outlays or staffing or external support. They had also managed to reach into the villages. The fact was that the villagers knew which children got to school and which did not, and which teachers were competent and showed up to work and which ones were not. The key to success was policy coherence and the will to actually deliver. That was why so much emphasis had to be placed on public accountability and transparency. If the villages were anything like the local school districts, and if the authorities were willing to listen, it would not be necessary to send a lot of civil servants to collect information. That had been the experience of Uganda in developing the community outreach in the design of its strategy.