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**IMMEDIATE
ATTENTION**

SM/99/267
Revision 1

November 19, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction Strategy Papers—Status and Next Steps**

Attached for the information of Executive Directors is a revised paper on Poverty Reduction Strategy Papers—Status and Next Steps (SM/99/267, 10/28/99), which incorporates comments received from Executive Directors at the Fund and the World Bank.

Given the high degree of public interest in this issue, it is proposed that this paper be posted on the Fund's website. In the absence of an objection from an Executive Director by noon on Wednesday, November 24, 1999, it will be posted on the Fund's website later that day. A similar proposal is being circulated simultaneously to the World Bank Executive Board.

Mr. Kincaid (ext. 37356) and Mr. D. Andrews (ext. 38318) are available to answer technical or factual questions relating to the paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Poverty Reduction Strategy Papers—Status and Next Steps

Prepared by the staffs of the IMF and the World Bank

Approved by Jack Boorman and Masood Ahmed

November 19, 1999

1. Following the Interim and Development Committees' endorsement of the approach to poverty reduction embodied in the introduction of country-owned Poverty Reduction Strategy Papers (PRSPs), the staffs of the Bank and the Fund have begun the task of helping countries to implement this new approach. The Committees' call for as many countries as possible to reach decision points under the HIPC Initiative by end-2000 has underscored the need for an early start on implementation. This short paper has been prepared to inform Executive Directors of the Bank and the Fund of progress to date and future steps to help the introduction of PRSPs, as spelt out below.
2. In preparing for the introduction of PRSPs, the staffs have been mindful that, to be effective and meet the expectations underlying this new approach, these strategies must be genuinely country-owned and reflect the outcome of an open participatory process involving governments, civil society, and relevant international institutions and donors. This process is based on the same principles as the Comprehensive Development Framework (CDF). Poverty reduction strategies will identify the priorities for public action that will have the greatest impact on reducing poverty. They should contain systematic and participatory analyses of poverty, short-and long-term tradeoffs of alternative policy decisions, and the impact of proposed reforms on the most vulnerable social groups. These strategies will also address the critical, and often complex, issues related to enhancing governance and supporting transparency in policy making. The effective design and implementation of poverty outcome-oriented strategies will require improvements in the quality, timeliness, and coverage of relevant data in most countries. PRSPs will be introduced, country-by-country, according to a timetable that is as ambitious as possible while recognizing these constraints; and is country-driven, reflecting the government's stated commitment to poverty reduction. For HIPCs generally, the PRSPs will need to include clear, monitorable key actions that would allow, if endorsed by the two Boards, a country to reach its completion point under the HIPC Initiative; it is also essential in this context that all available resources are integrated in a transparent, accountable budgetary framework, which could include poverty/social funds, to ensure their effective use to combat poverty. For HIPCs that have already reached their

decision or completion points under the original framework, additional debt relief will be assessed based on their progress in designing and implementing their poverty reduction strategy.

3. Work on developing the PRSPs has already begun in several countries. Overall, a transition period, which will be kept as short as possible in each country, will be necessary during which PRSPs will be developed further without disrupting ongoing concessional assistance from the Bank and Fund to these countries. Poverty reduction strategies will evolve and improve over time, reflecting the learning-by-doing efforts of all parties. To give this process strong momentum from the outset, prospective PRSP countries will be requested to develop concrete plans and timetables as soon as possible.

4. Initial efforts will focus on supporting the development of country-owned poverty reduction strategies in countries expected to be eligible for assistance under the enhanced HIPC Initiative. However, at the same time, we are working towards the phased introduction of the new approach in all low-income countries receiving concessional assistance from the Bank and Fund.

5. A working group of Bank and Fund staff, including representatives from Fund area departments, Bank regions and central units, chaired by Mr. Ahmed and Mr. Boorman, has been formed. This provides a forum to tackle issues of mutual interest, assure a channel for quick communication on PRSP-related issues, and keep the two institutions moving in tandem. Under the broad guidance of this working group, the following steps have been, or will shortly be, taken.

- A joint letter from both managements is being sent to the involved countries encouraging action to develop country-specific poverty reduction strategies using an open and broad-based participatory process and, wherever possible, building upon existing procedures; and reiterating that such strategies would form the basis for Bank and Fund concessional assistance to low-income countries.
- Resident representatives of the institutions will arrange meetings with senior country officials to explain the objectives of the PRSP and to encourage governments to take the lead.
- Regional workshops are in preparation. These would serve as a vehicle for Bank and Fund staff to explain the principles and aims of the PRSP process and, more importantly, for policymakers and civil society to provide their views on the implementation of this approach.
- Staffs will assist country authorities in establishing country-specific timelines for the development of a country-owned PRSP as outlined in paragraph 2. As noted, the initial focus of this work would include countries expected to qualify for assistance under the

HIPC Initiative and will be extended to include other low-income countries receiving Bank and Fund concessional assistance; timelines for these countries would take account, inter alia, of the call by the Interim and Development Committees for as many countries as possible to reach their decision points by end-2000.

- The staffs will discuss with country authorities the posting of progress reports on individual PRSPs, including the consultative process involved, on individual country and Bank and Fund websites.
- Follow-through on the new approach will include other partners. Contact is being made with the regional development banks and the UN to bring them more completely into the process. Managements of the Bank and the Fund have suggested that the PRSP be a central topic for discussion at the next meeting of multilateral development banks (MDBs) in February. In addition, staff will continue to take advantage of regular MDB meetings on the HIPC Initiative to discuss the PRSP process. The senior level meeting of the Development Assistance Committee in December will provide an opportunity to discuss the implications of the PRSP process with bilateral donors, as will forthcoming meetings of the Special Program of Assistance for Africa.
- The staffs will build upon existing contacts with NGOs and other interested parties on the development of this approach and, in particular, the role that the Bank and the Fund can play in helping country authorities to strengthen their consultative processes. Views in this respect will be solicited on Bank and Fund websites.
- An all-day retreat was held on October 18 to familiarize further operational Bank and Fund staff—primarily Fund mission chiefs and Bank Country Directors for low-income countries as well as sector representatives—with the poverty reduction strategy approach and to discuss implementation challenges. In their remarks to the retreat, the Managing Director of the IMF and the President of the World Bank both stressed the priority they attached to making this new approach truly effective, noting that expectations are high worldwide.
- A paper, prepared jointly by Bank and Fund staff, will be discussed by the Boards in December. It will flesh out implementation modalities of the PRSP including, for example, analyses of poverty and of the impact of the proposed reforms on the most vulnerable social groups, a broad-based consultation process, specific policy intentions, transparent and accountable fiscal systems to monitor spending and broader measures to support good governance. The paper will set out transition arrangements for progress to a PRSP, including procedures for phasing out the PFP and promoting high quality PRSPs. The paper would also provide the basis for more specific guidance to staff.
- A separate paper to be discussed by the Fund's Board in December will examine operational implications of the PRSP for the Poverty Reduction and Growth Facility

(PRGF). The Fund's Board has already taken decisions to change the name and purposes of the Enhanced Structural Adjustment Facility. The new purpose is to support programs to strengthen substantially and in a sustainable manner the balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty. A paper on changes in the ESAF-HIPC Trust to implement changes to the HIPC Initiative will be issued shortly.

- Similarly, a separate paper for the Bank's Board for discussion in December is being prepared by OPS in collaboration with other Bank Group units. It will discuss linkages between the PRSP, the CDF, and Country Assistance Strategies; the roles of the different parts of the Bank Group (e.g., IFC, MIGA, etc.); and the details on operational implementation.
- Work is also continuing to secure the full financing of the Fund's contribution to the HIPC Initiative, as well as the Bank's and those of other multilateral institutions, and separate papers will be submitted to the Boards on this issue along with a joint note on the revised estimates of the costs of the HIPC Initiative.