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To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction Strategy Papers—Operational Issues**

Attached for consideration by the Executive Directors is a paper, prepared jointly by the staffs of the Fund and the World Bank, on operational issues relating to the Poverty Reduction Strategy Papers (PRSPs). Issues for discussion appear on pages 24 and 25.

This subject, together with a paper on Poverty Reduction and Growth Facility (PRGF)—Operational Issues (to be issued shortly), is tentatively scheduled for discussion on Tuesday, December 21, 1999. A separate World Bank paper on Poverty Reduction Strategy Papers—Internal Guidance Note will also be circulated shortly as background material for the discussion.

Mr. Boote (ext. 34508) and Mr. D. Andrews (ext. 38318) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Poverty Reduction Strategy Papers—Operational Issues

Prepared by the Staffs of the IMF and the World Bank

Approved by Jack Boorman and Masood Ahmed

December 10, 1999

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I. INTRODUCTION

1. Recent papers¹ presented to the Executive Boards of the Bank and Fund proposed the adoption of an enhanced framework for poverty reduction. This framework reflects a broad emerging consensus on how to make actions at the country level, and the support of development partners, more effective in bringing sustainable poverty reduction. In particular, this consensus—as reflected in the Bank's Comprehensive Development Framework—indicates a need for poverty reduction strategies that are, inter alia:

- country-driven, with the broad participation of civil society, elected institutions, key donors and relevant IFIs;
- developed from an understanding of the nature and determinants of poverty and the links between public actions and poverty outcomes, recognizing that sustained poverty reduction will not be possible without rapid economic growth; and
- oriented to achieving outcome-related goals for poverty reduction.

2. The new framework recognizes the complexity of the determinants of poverty and the considerable work done on poverty reduction by other agencies, including the UN development system. While the causes and solutions will be country-specific, there will generally be common ingredients of a sound poverty reduction strategy. Rapid, sustainable growth is a necessary condition for poverty reduction, along with a pattern of growth in which the poor fully participate. This will require prudent macroeconomic management, robust private sector activity and investment, and sound sectoral and structural policies. The new approach also recognizes the increasing evidence that entrenched poverty and lack of economic opportunities and asset endowments can themselves be impediments to growth. Poverty reduction also requires effective mechanisms for participation of the poor and the creation of responsive and accountable public institutions. Good governance is necessary to assure sound management of public resources, and achieve greater transparency, including active public scrutiny and government accountability in fiscal management. The active involvement of civil society in monitoring relevant aspects of a program is an important ingredient.

3. Under the new framework, the country-led strategy would be presented in the Poverty Reduction Strategy Paper (PRSP) which is expected to become a key instrument for a country's relations with the donor community. In the context of lending operations and assistance strategies, the Boards of the Bank and the Fund would be asked to endorse the PRSP insofar as it relates to policies and programs supported by each institution in its area of responsibility. This would provide a basis for Bank and Fund concessional lending to support the country as well as debt relief under the HIPC Initiative.

¹ *Heavily Indebted Poor Countries (HIPC) Initiative—Strengthening the Link between Debt Relief and Poverty Reduction* (EBS/99/168 and IDA/SecM99-545). *Building Poverty Reduction Strategies in Developing Countries* (SecM99-604). *Review of the IMF's Approach to Social Issues and Policies* (EBS/99/171).

4. After the Interim and Development Committees endorsed this approach, steps were taken to support countries to begin preparing poverty reduction strategies and to involve other development partners in the process, as detailed in Poverty Reduction Strategy Papers—Status and Next Steps². In summary:

- A joint letter from both managements has been sent to the countries involved.
- Mission teams are discussing support in the preparation of PRSPs with country authorities; resident representatives are in the process of meeting with senior country officials.
- A joint letter from both managements has been sent to regional development banks and to UN institutions and aid agencies, bearing in mind the work that many of them have already done to assist governments develop and implement poverty reduction strategies, to involve them in the process. Both managements have suggested that the PRSP be a central topic for discussion at the next meeting of multilateral development banks (MDBs) and the Fund in February.

5. In addition, much work is taking place internally in the Bank and the Fund to equip ourselves better to help countries develop country-owned, effective poverty reduction strategies and to deal with the challenges that both institutions face in doing so. A joint Bank-Fund retreat of senior staff was held on October 18th to discuss the implementation of the new framework and address the challenges it implies for both institutions. Within the Bank, substantial work is taking place to develop “toolkits” that link poverty outcomes to priorities for public actions, and Bank and Fund staff are working on the macro-economic/poverty linkages. Such work will be developed as training materials for joint training for representatives of the recipient countries, as well as Bank and Fund staff.³ Consultations with Governments on the PRSP are scheduled to take place, beginning in January in Africa; consultations with other parts of the world will follow.

6. This paper, jointly produced by Bank and Fund staffs, summarizes suggested guidelines for the development of poverty reduction strategies and PRSPs and discusses the role of Bank and Fund staffs. The paper is intended to facilitate a broad consultation process. Separate papers discuss the related operational issues for the IMF’s Poverty Reduction and Growth Facility (PRGF) and for IDA operations.⁴ These guidelines—in particular the discussion of the contents of PRSPs and the participatory process outlined in Sections III and IV below—will be revised in light of the reactions received and experience. The staffs also propose to prepare a status

² SM/99/267, Revision 1, 11/18/99.

³ The World Development Report will also synthesize experience on how to reduce poverty. See *Approach and Outline on the World Development Report 2000/01* (SecM99-626).

⁴ *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues* (forthcoming) and *Poverty Reduction Strategy Papers: Internal Guidance Note* (forthcoming).

report before the Spring meetings, taking stock of implementation, and progress reports for Board discussion periodically thereafter, beginning in the summer of 2000.

7. The rest of this paper is organized as follows. Section II attempts to put the new framework in context and assess what can be expected to be achieved under the framework in the near term; it stresses that this paper is intended to be consultative and will be revised in the light of comments received. Section III suggests possible issues that governments might address in PRSPs, while Section IV addresses the question of country processes—including civil society participation—for producing and monitoring of PRSPs. Section V describes the role of the Bank and Fund staffs in helping authorities produce PRSPs, and Section VI describes the link between PRSPs and Bank/Fund lending operations, including transitional arrangements. Section VII describes the link between PRSPs and the HIPC Initiative. Section VIII outlines supporting action by donors and other multilateral institutions while Section IX suggests issues for discussion.

II. THE NEW FRAMEWORK IN CONTEXT

8. The key objective of the enhanced framework is to assist countries in developing and implementing more effective strategies to fight poverty. Various countries, donors and international organizations have been seeking to develop more effective poverty reduction strategies over the past several years. Many low income countries have a strong commitment to poverty reduction and broad based consultations have become part of the policy dialogue in many places. Within the Bank, the Comprehensive Development Framework seeks to distill these lessons and apply them in the Bank's country based and international partnership efforts. Within the Fund, this has been reflected in the creation of the PRGF. Box 1 seeks to set out the principles which have been derived from this earlier work.

Box 1. Principles Underlying the PRSP Approach

Country-driven

- Country-ownership of a poverty reduction strategy is paramount. Broad-based participation of civil society in the adoption and monitoring of the poverty reduction strategy tailored to country circumstances will enhance its sustained implementation.

Results-oriented

- An understanding of the nature and determinants of poverty, and the public actions that can help reduce it, is required for the formulation of an effective strategy.
- Medium- and long-term goals for poverty reduction, including key outcome and intermediate indicators, are needed to ensure that policies are well designed, effectively implemented and carefully monitored.

Comprehensive

- Sustained poverty reduction will not be possible without rapid economic growth; macroeconomic stability, structural reforms and social stability are required to move countries to a higher path of sustainable growth.
- Poverty is multidimensional; specific actions are needed to enable the poor to share in the benefits from growth, increase their capabilities and well being, and reduce their vulnerabilities to risks.
- A poverty reduction strategy should integrate institutional, structural and sectoral interventions into a consistent macroeconomic framework.

Partnerships

- Government development of a strategy can provide the context for improved coordination of the work of the Bank and the Fund, as well as that of regional development banks and other multilaterals, bilateral assistance agencies, NGOs, academia, think tanks, and private sector organizations.

Long-term Perspective

- A medium- and long-term perspective is needed, recognizing that poverty reduction will require institutional changes and capacity building—including efforts to strengthen governance and accountability—and is therefore a long-term process.
- National and international partners' willingness to make medium-term commitments will enhance the effectiveness of their support for a poverty reduction strategy.

9. Some countries—such as Ghana and Uganda—have already made substantial progress in developing their own participatory poverty reduction strategies (See Annexes I and II for a description of Ghana and Uganda's poverty reduction strategies).⁵ Burkina Faso is now in the middle of a process that is very much based on the above principles (see Box 2). However, while there is broad acceptance of these principles in general, it is obvious that there are

⁵ Uganda and Ghana are also pilot countries for the CDF.

limitations in their immediate applicability both in general and at the country level. At the general level, further efforts are needed for a full understanding of the complex and multidimensional nature of poverty and its determinants, including for example, the links between higher spending (e.g., on primary education) and desired intermediate indicators (e.g., higher primary school enrollment) and outcomes (e.g., literacy); the links between infrastructure spending (e.g., on rural roads) and poverty reduction; and the relationship between growth and poverty reduction (and inequality more broadly).

10. At the country level, there are wide country differences in:

- the extent of commitment to poverty reduction and preparation of country-owned poverty reduction strategies;
- the type of governments, their representative nature and their capacity to engage in participatory processes with civil society;
- the extent to which civil societies exist, are representative and are active throughout low-income countries;
- the existence of updated poverty assessments on which poverty reduction strategies can be based and knowledge about the nature and locus of poverty; and
- the availability of good data on poverty, which could be used to measure poverty outcomes.

Box 2. Burkina Faso—Pilot Case on Conditionality Reform

In 1997, a two-year pilot was launched under the coordination of the EC with the objectives of :

- Improving and strengthening government ownership in program implementation.
- Smoothing aid flows and reducing disruptive suspensions.
- Enhancing aid effectiveness through program monitoring on the basis of performance indicators.
- Improving donor coordination.

The principal interim conclusions of this pilot case based on three joint donor missions are:

- Ownership has to be taken into account in the design stage, not just in the implementation of the reform program; ownership is not simply the adoption of donor-favored policies.
- The results expected of adjustment programs should be made explicit; the establishment of clear government objectives and their publication aids ownership and the assumption of responsibility.
- The focus on outcome indicators—which measure results—helps ownership, informing the government of the effectiveness of its policies, and making it accountable for them. It also helps donors to improve donor coordination.
- More work is required to establish effective outcome indicators of budgetary management.
- While it is essential that donor support be linked to outcome indicators, this shift needs to be both gradual (given the large change involved from policy-based aid), and graduated (with more or less according to results achieved rather than a cut-off of aid), given the objective of smoothing aid flows.
- The broadened dialogue between donors and government as a result of the focus on performance was the most important innovation which requires a fundamental change from both donors and government.

The key issues for future work are seen as:

- The need to identify appropriate indicators in certain sectors (such as agriculture), to improve data quality and interpret outcomes with care.
- The most effective way to link aid levels to performance.

Source: SPA Working Group on Economic Management, Conditionality, Reform: the Burkina Faso Pilot Case, November, 1999

11. Because of these differences, we need to be realistic about what can be achieved on PRSPs in the near term. The new framework does not contain a “magic bullet” which will solve the problem of poverty, though hopefully over time the knowledge of the issues involved and the ability to implement effective strategies will improve. The nature and content of PRSPs will vary from country-to-country—appropriately so—as will the participatory process involved in their creation. Over time, countries and donor institutions will be involved—as under the HIPC Initiative—in a process of learning-by-doing. Thus the staffs have no fixed idea of the “ideal” poverty reduction strategy or the participatory process and welcome experimentation by country

authorities as they seek to develop PRSPs that come closer to the principles set out above; all that follows should be read in that light.

12. Equally, since the PRSP process was agreed by the Bank and Fund Boards and endorsed by the Interim and Development Committees, it is incumbent on the institutions to offer some guidance to the low-income countries concerned as to what is envisaged. This is what Sections III and IV below seek to provide. But this guidance should be seen very much as work in progress in two key respects:

- As emphasized above, we are engaged in a process of learning-by-doing in which we will continue to be guided by country-experience as it evolves, and in which experimentation is to be welcomed.
- There will be a process of consultations with countries concerned, donors, other multilateral institutions and other development partners over the months to come. We will also seek public reactions to this paper on the Bank and Fund websites.

13. It is essential that in implementing this new framework over the medium term, we should avoid over-ambition leading to paralysis. (This point has been stressed by operational staff of both the Bank and the Fund). We therefore need to be realistic in supporting the development of poverty reduction strategies that can be implemented by the low income countries concerned.

III. POSSIBLE ELEMENTS OF POVERTY REDUCTION STRATEGIES

14. The principles underlying the new approach, and good practice from a number of country cases, suggest a range of issues that could be addressed in a country's poverty reduction strategy. This is intended as a synthesis that governments might find useful to organize their thinking as they work, with the assistance of all participants in the process, toward the elaboration of a PRSP. It should not be seen as a rigid framework or blueprint for the PRSP. The PRSP should seek to build, where appropriate, on existing poverty strategies and reflect relevant country-specific characteristics. Some questions that could be addressed are summarized in Box 3.

Box 3: Questions for Country Authorities to Consider When Designing a PRSP

A. Obstacles to poverty reduction.

- What are the key patterns of poverty in its various dimensions?
- How are these influenced by the level and pattern of growth; public policy; public service provision; social and institutional functioning; and by exogenous shocks?
- What are the main obstacles to more rapid growth and to spreading the benefits of growth to the poor?

B. Objectives and Targets.

- What targets for the various dimensions of poverty reduction have been established?
- What are the targets for selected intermediate indicators?

C. Strategy/Action Plan

- What are the priority public policies to increase growth and reduce poverty ?
- What institutional changes are needed to implement the strategy ?
- How can public spending and institutions be made more efficient and responsive to the needs of the poor?

D. Monitoring and Evaluation Systems

- What is the framework for monitoring progress of the strategy and what is the involvement of civil society in the process of evaluation?
- What safeguards ensure the transparency and accountability of public budgeting and expenditure?

E. External Assistance and the External Environment

- What level of external assistance is expected to be available to support the country's efforts?
- Could more assistance be effectively absorbed, and if it were, what would be the likely impact on poverty reduction goals?
- How does technical assistance, from all sources, support implementation of the strategy?
- What would be the effect of greater access to partner country markets on growth and poverty reduction?

F. The Participatory Process

- What was the nature of the participatory process and how were the views and interests of the poor incorporated?
- What impact did the process have on the formulation and content of the strategy?

15. A poverty reduction strategy should ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development, and be produced in a way that involves transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation. The PRSP would characteristically include:

- Long-term goals for key poverty reduction targets and the macroeconomic, structural and institutional framework for achieving these, drawing on international and country-level experience.

- Given the long lags—both in reporting and in effects—typically associated with poverty outcomes, and the need to ensure shorter-term monitoring of progress, these longer-term goals could be translated into annual (or six monthly) targets covering say a three-year horizon for related intermediate and proxy indicators. Thus, for example, a long-term goal for improving the literacy rate could be translated into annual (intermediate) targets covering, for example, the primary school enrollment rate.
- The policy and institutional underpinnings for rapid sustained growth and poverty reduction—including goals for poverty reduction, institutional and structural reforms, sectoral strategies and specific anti-poverty programs, and the associated domestic and external funding needs—should all be integrated into a consistent macroeconomic framework over a minimum three-year horizon.

16. The above description of the possible contents of a PRSP—which is summarized in Appendix I—should be seen only as an objective towards which country authorities, supported by the Bank and Fund and other development partners, should be working. The staffs stress that this should be regarded as a guide to be used selectively by country authorities, that will need to be adapted to specific country circumstances and knowledge. **Experimentation in the form of the PRSP is to be encouraged. The aim is for a focussed document which describes realistic but challenging poverty outcomes and the policies needed to achieve them, guided by the principles in Box 1.**

17. The design of poverty reduction strategies will be an evolving process in which some countries start from more advanced positions than others and in which some countries move forward more quickly than others. The Bank and Fund along with other development partners should support this process according to their comparative advantages.

18. It is particularly important that the PRSPs help to encourage and track country progress on four main fronts:

- the development of appropriate diagnostics that help national authorities understand better the major obstacles to poverty reduction and growth in the context of their own countries and the related identification and availability of good indicators of progress in poverty reduction;
- the deepening of a shared vision across civil society regarding desired poverty reduction goals;
- the setting of priorities and design of public actions to achieve desired poverty reduction outcomes; and
- the development of participatory processes used for the setting of poverty reduction goals and the monitoring of implementation and progress.

IV. THE COUNTRY PROCESS FOR DEVELOPMENT AND IMPLEMENTATION OF POVERTY

REDUCTION STRATEGIES

A. The Participatory Process

19. Broad participation of civil society, other national stakeholder groups, and elected institutions is expected to improve the design, and support the implementation, of the poverty reduction strategy. Consultations with representatives of the poor should particularly allow the government to address their priority concerns more fully in the strategy.⁶ By fostering stronger ownership of the strategy, broader participation of stakeholders can improve the prospects for successful and sustained implementation. Civil society can play an important role in monitoring implementation of the strategy and strengthening accountability.

20. It is important to stress that there cannot be—and should not be—rigid guidelines for the process of developing poverty reduction strategies. Reflecting the different experiences and political systems of countries producing PRSPs, experimentation and adaptation to individual country cultures and circumstances will be essential for the success of the participatory process. Box 4 lays out the possible factors governments may wish to consider in drawing up their participatory process.

Box 4. Factors Governments may wish to consider in Drawing Up their Participatory Processes

Participatory processes need to reflect the cultures, practices, and institutions of the countries concerned. General models are of little value. This said, possible general objectives include:

- The involvement of as broad a spectrum of government as possible, including parliament where applicable.
- The inclusion of as wide a range of civil society participants and other stakeholders so as to represent the views of the poor.
- The desirability of participation by civil society in the monitoring of the implementation of the strategy and the achievement of outcome indicators.
- The possibility of feedback on the strategy adopted by those consulted.
- The participation of key donors and multilateral institutions in the formulation of the strategy.

B. Preparation of the PRSP

21. The authorities should draft PRSPs, to reinforce their ownership of the strategy, drawing on outside expertise as required. The authorities' first draft of the PRSP could be prepared after consultations with national stakeholders or it could be an input to these initial discussions.

⁶ This could draw on the Bank's earlier work on PPAs.

Major multilateral institutions—including the Bank and the Fund—would need to be available to support the process as would other donors, in view of their central role in providing policy advice and external finance. In this context, it might be appropriate to hold a consultative group meeting or alternative donor forum to secure external support before the PRSP is finalized. It would be up to the authorities to judge—in consultation with its international partners—at what stage to finalize the PRSP and present it for the endorsement of the Bank and Fund Boards as a basis for the institutions' concessional lending (see Section V below).⁷

C. Monitoring and Adaptation of the PRSP

22. Participatory monitoring of the implementation of the PRSP—reinforced by a strengthening of the institutions and practices of expenditure management to enhance transparency, accountability and efficiency—is a key element of the PRSP process. Governments would be expected to produce, annually, a progress report on implementation of the PRSP, which could also serve as the basis for reporting to all external partners, thereby potentially alleviating excessive reporting requirements. The progress report would highlight whether development targets were attained and indicate the reasons for any deviations between actual and targeted outcomes. It would also indicate to what extent outside views were sought and incorporated into the report. Modifications to the strategy to strengthen implementation in the light of experience or to deal with exogenous shocks—both of which could entail revisions to the macroeconomic framework and other policies—could be presented. A full update of the PRSP, developed with broad participation, is suggested every three-years. This update would also provide an opportunity for all participants to review implementation.

V. THE ROLE OF THE BANK AND THE FUND

A. Bank/Fund Collaboration

23. The new framework will require closer Bank/Fund collaboration in assisting low-income members. The objective is to help the country authorities to produce a poverty reduction strategy in which policy actions to raise growth and reduce poverty are integrated into a coherent framework of macroeconomic, structural and social policies. To assist the country authorities, Bank and Fund staffs should present a common country-specific perspective on the key impediments to faster growth and poverty reduction and the policy options for tackling these, as discussed further below. Equally, the staffs must be open to more flexible, home grown adjustment and reform paths, which reflect country ownership without prejudicing the goal of poverty reduction and faster growth.

24. Bank and Fund teams will need to cooperate closely and seek to present the authorities with a coherent overall view, focusing on their traditional areas of expertise in line with past agreements between the two institutions⁸. Thus, the Fund staff will take the lead in offering

⁷ There is a risk that some groups could seek to stall the participatory process so governments need to retain the right to closure.

⁸ 1998 *Report of the Managing Director and the President on Bank-Fund Collaboration*(SecM98-733).

advice to the authorities in areas of its traditional mandate and responsibility. This would include promoting prudent macroeconomic policies; structural reforms in related areas, such as exchange rate and tax policy; and issues related to fiscal management, budget execution, fiscal transparency and tax and customs administration. The Bank staff will take the lead in advising the authorities in the design of poverty reduction strategies, including the necessary diagnostic work such as poverty assessments and their monitoring, the design of sectoral strategies, reforms that assure more efficient and responsive institutions, and the provision of social safety nets; and in helping the authorities to cost the priority poverty reducing expenditures designed to achieve particular outcomes. The Bank staff would also take the lead in advising on how to improve the effectiveness and poverty-orientation of public expenditure (through Public Expenditure Reviews and the like) and in other structural reforms such as privatization and regulatory reform. Many areas will need to be shared between the two staffs, such as the establishment of an environment conducive to private sector growth, trade liberalization and financial sector development.

25. Bank and Fund staffs, as well as other major partners, will need to work closely to ensure their respective expertise is brought together to help country authorities most effectively in the challenging task of creating country-owned poverty reduction strategies. Both the Bank and the Fund should take responsibility for the coherence of their support and advice, taking into account the contributions of other major stakeholders, and the views of the national stakeholders. In this vein, those priority policy actions will be identified for which (see Appendix 1) the Fund or Bank would take primary responsibility for supporting the government's policy formulation and for monitoring. Other international institutions, donors, and civil society are also expected to increasingly take a role in supporting policy formulation and monitoring policy in many areas which would also be identified as appropriate.

26. There is also the need for Bank and Fund staff to work closely together to improve our knowledge of the general link between the macro framework, growth, and poverty reduction, particularly over the medium-term so as to understand better the general issues raised in Sections II and III.

B. Staff Preparations to Help the Authorities in the PRSP Process

27. The elaboration of a country-owned poverty strategy through a government-led participatory process has important implications for the nature of mission preparations in the Bank and the Fund. In particular, the preparation for PRSP missions should allow considerable flexibility, to avoid over-constraining the results of the participatory process. However, at the same time, and reflecting the desire for closer collaboration between the Bank and Fund, staffs should develop a shared initial perspective on the diagnostic analysis of poverty, the obstacles to growth and poverty reduction, and the possible costs and benefits of key policy options. Mission preparations should also help define the role of the staffs in helping the authorities in a PRSP process which will likely vary from country to country.

28. Reflecting these considerations, the main PRSP missions—particularly missions that come at the early stages of governments' efforts to initiate a PRSP process—should be joint. Mission

leadership could vary from country-to-country, with a mission chief from one institution and a deputy mission chief—responsible for that institution's prime areas of responsibility—from the other institution. Early in the process, the staffs should seek a common perspective, and note for management areas of differences in perspective and how they propose to resolve them, on the following issues:

- A description of the current poverty position—based on recent poverty assessments—recent trends in poverty and its determinants and imbalances still requiring adjustment.⁹
- An analysis of the main obstacles to more rapid growth and poverty reduction.
- A discussion of the quality, coverage and timeliness of key data, including possible final and intermediate indicators.
- An assessment of the main policy issues confronting the government in the macroeconomic, structural, and social areas, given the core objectives of promoting growth and reducing poverty.
- An initial view of the current resource envelope and, within this, the possible scale of expenditures for poverty reduction.
- A discussion of the current levels and nature of external assistance, and the prospects for increased aid over the medium-term.

29. It is recognized that a better understanding of the linkages between poverty reduction, macroeconomic stability and growth over the medium-term will require a significant learning process. There should also be agreement on the responsibilities of the respective staffs in assisting the authorities based on the general sharing of responsibilities described above.

30. This common perspective would not be intended as a negotiating position; rather it would serve as a frame of reference for an informed dialogue. In countries where poverty reduction strategies had been prepared, these could be reviewed. The first joint mission should probably focus on the elements to be included in the PRSP and the participatory process. The diagnostic analysis could be shared with the authorities to help their preparation for the PRSP process. The emphasis in the early stages would be on issues to be addressed and a related range of policy options rather than preferred solutions. The staffs would be available to help the authorities in the basic diagnostic work such as poverty analysis and the pulling together of data on poverty from multiple sources.

31. Subsequent missions need not be joint—but briefs would be routinely shared with the partner institution—when, for example, the missions deal with technical work on specific topics in one institution's areas of expertise. However, at key junctures in the process of developing a joint staff assessment of the PRSP (see Section III.D below)—especially when important policy positions are emerging from the participatory process—it may be helpful to have further joint missions for which a common perspective, agreed by managements, would be needed.

⁹ The staffs could help the authorities bring data together (both quantitative and qualitative) from multiple sources such as PPAs.

C. The Participatory Process

32. While the Bank and Fund can, and should, offer assistance in the consultative process, governments must take the lead. Other institutions, including bilateral donors and UN agencies, may be better placed than either the Bank or the Fund to support these processes effectively. Bank and Fund staff should be prepared to share their analyses and the key elements of their policy positions in the consultative process, even during the early stages of the policy dialogue. Missions would learn from the policy dialogue, and should be ready to consider modifying their analysis of the problems and policy options accordingly. Staff would need to play an active role in supporting the process, to ensure that domestic dialogue is well-informed of the lending policies of the Bank and the Fund, and of results of any technical analysis of the relationships between public actions and poverty, from both international experience and analysis of the country itself. Generally, Bank and Fund support would only be an element of a much broader range of support from the international community to the process of formulation and implementation of the poverty strategy, including technical assistance and funding for the process (see Section VIII below).

D. Finalization of the PRSP

33. Although the time taken to converge on a near final draft of the PRSP is likely to vary from country to country, at some point a joint Bank-Fund mission will be needed to prepare for presentation of the PRSP to the Boards. This would require the agreement of both managements on a common view of the strategy emerging from the consultative process to see if it could provide an appropriate basis for the institutions' concessional lending. Informal consultations with the Boards might, on occasions, be needed at this stage.

34. The joint mission would communicate the managements' view of the emerging strategy. In particular, the mission would discuss with the authorities any modifications to the strategy that might be considered necessary to allow managements to recommend to the Boards that the PRSP be endorsed. Again, staff should be prepared to share these views more widely with participants in the participatory process. This would be an important input into the authorities' decision as to at what stage, and in what form, they wished to present the PRSP for consideration by the Boards. It is expected that, as under current arrangements, in general, authorities' would only wish to seek a discussion of their PRSP when managements would recommend its endorsement. The PRSP would be presented to the Boards alongside a joint staff report which would assess the authorities' strategy reflected in the PRSP and set out how the implementation of the strategy would affect the design of each institution's programs.

E. Presentation of the PRSP and the staffs' Assessment to Bank and Fund Boards

35. Experience suggests that strong country ownership of a poverty reduction strategy will improve its implementation and degree of success. But, there is clearly a risk that, at times, country-owned poverty reduction strategies resulting from a process of civil society participation, may shy away from tackling difficult, socially divisive issues and may in substance be less convincing than the Bank and Fund would ideally like. Ultimately it will be

for the Boards to decide whether a poverty reduction strategy is adequate, including whether a strategy that has a higher degree of country ownership, but a potentially less decisive program of action, is justified in particular circumstances.

36. The staffs propose that a joint assessment accompanying the PRSP would recommend endorsement (or rejection) of the strategy as a basis for Bank and Fund concessional lending to the country concerned. The report would also include a description of the participatory process followed in the preparation of the strategy. But the joint report would not recommend acceptance or rejection of the participatory process. The Boards would have had the opportunity to provide comments on the evolving content of the PRSP through earlier informal briefings. Key donors would also have participated in the PRSP process. The Boards' views on policy priorities—assuming they differed from those in the PRSP, despite their willingness to endorse the PRSP as a basis for Bank/Fund concessional lending—would be transmitted to the authorities and could be taken into account in subsequent revisions of the PRSP (e.g., in the annual progress reports), and in the specific content of lending programs.

37. It is envisaged that, in many cases, the authorities will choose to publish their PRSP when it is finalized, and therefore in advance of Board discussion. It is also envisaged that a press release summarizing the outcome of the Boards' discussions would be published on the Bank and Fund websites together with the PRSP and the joint staff report. Endorsement by the Boards of the PRSP in the context of lending operations and assistance strategies would provide a basis for Bank and Fund operations in the country concerned. Section VI discusses the links between the PRSP and Bank and Fund operations, drawing upon the separate papers prepared for the Boards on this issue.

38. The staffs of the Bank and Fund would discuss the PRSP progress report on implementation with the authorities. In line with the procedures described for the PRSP, the annual progress report and a separate joint staff report on the progress made in implementing the PRSP would be submitted to both Boards and to the other major stakeholders. As discussed in the following sections, the Boards' endorsement of these documents and the related staff recommendations could have important implications for the timing of the delivery of assistance under the HIPC Initiative and for future disbursements under Bank and Fund operations. In addition, it is envisaged that the PRSP progress report would become the vehicle for reporting progress to the Consultative Group and hence an important element in donors' decisions on continuing operations.

F. Review of the PRSP approach

39. The staffs propose that implementation of the new framework for poverty reduction should be reviewed by both Boards before the end of 2001. The staffs would prepare a joint assessment of implementation as part of a review process that would include contributions from member countries, international agencies, other aid providers and civil society.

G. Resource Implications

40. The involvement of the staffs in assisting country authorities prepare PRSPs will have a major impact on the work of the staffs. Additional work is envisaged in the areas of poverty (both data and diagnostics); involvement in the participatory process in collaboration with the partner institution (including more joint missions); in basic research; in the provision of technical assistance; and in general public dialogue on the PRSP process. This additional work for missions and resident representatives, could have substantial implications for both staff and travel costs. These implications for the Bank and the Fund are discussed further in their respective companion papers.

VI. LINKS BETWEEN PRSP AND LENDING OPERATIONS

A. IDA Operations

41. For the Bank, the CAS would play an important role in the process. It would incorporate the intermediate and outcome indicators of the poverty action strategy as its objectives and, revisit priorities for Bank-supported lending operations. In all IDA countries, it would use actions specified under the PRSP as a basis for determining lending triggers. In HIPC, in the absence of a CAS or CAS Progress Report in the year prior to the decision point, the President's Memorandum of the HIPC Initiative decision point document would specify Bank lending triggers based on progress in the implementation of the poverty reduction strategy. As the program for support would have been laid out in the staff assessment of the PRSP, the CAS would become a lean and pragmatic document that summarizes the Bank Group's business plan for the medium term.

42. A PRSP or Interim PRSP endorsed by the Boards of the Bank and the Fund will provide the context for the CAS and lending levels. Effective immediately as HIPC reach a decision point or countries come up for approval of new PRGF arrangements or reviews of such existing arrangements; and in the case of all IDA borrowers at a date to be determined no later than January 1, 2001 in light of experience in the first year, a Board-endorsed PRSP, Interim PRSP or PRSP progress report¹⁰ will be a necessary condition for a high-case lending scenario and adjustment lending except in special circumstances such as emergency or crisis situations. In the absence of a PRSP or Interim PRSP endorsed by the two Boards, Bank Management would set out in the CAS the rationale for any lending program to be proposed within the CAS period.

B. PRGF Operations

43. All PRGF-supported programs would stem from, and be drawn from, the PRSP, and be formulated with the country authorities in close coordination with the World Bank and the

¹⁰ Within the preceding 12 months.

country authorities. There are several key implications for Fund operations¹¹. The most fundamental is that most targets and policies embodied in PRGF programs will emerge directly from the country's poverty reduction strategy. Since PRSPs will form a basis for Bank and Fund concessional lending operations in low-income countries, there is also scope to reduce overlapping detailed conditionality. PRGF letters of intent would only cover areas where the Fund was designated as primarily responsible in the PRSP policy matrix, except conditions in the Bank's domain which, if not implemented, could have a large enough macroeconomic impact to derail the PRGF-supported program; the latter will also be specified in the PRGF-supported program.

44. In general, endorsement of an interim PRSP (see Section VI.C below), a PRSP or a PRSP progress report by Bank and Fund Boards concurrently or within the preceding 12 months would be a prerequisite for approval of a new PRGF arrangement or completion of reviews under existing arrangements. If the most recent PRSP or PRSP progress report is more than 12 months old, the staff would propose Board completion of a review provided, *inter alia*, a timetable is agreed for completion of the PRSP or PRSP progress report. Even beyond the phase-in period, for post-conflict countries, countries hit by a natural disaster, or countries entering directly into a new PRGF program without a recent previous PRGF arrangement, an interim PRSP would be sufficient to underpin the first request for Board approval of the arrangement. A PRSP would then generally be expected for staff and management to recommend approval of the review covering the second year. It is proposed that eventually the use of interim PRSPs would be phased out as most countries would be expected to produce PRSPs. The appropriate timing of this phase out would be recommended later in the light of progress in producing PRSPs. All new PRGF arrangements would require a current PRSP or interim PRSP as described above.

45. In addition, since decisions on PRGF arrangements may take place some months after endorsement of the underlying PRSP or PRSP progress report, Fund management would recommend approval of PRGF arrangements, and completion of reviews, only if they consider that the implementation of the PRSP remains satisfactory, after consulting with Bank staff and management. In cases where implementation had gone off track, the management recommendation would require identification of sufficient credible remedial measures to put the poverty reduction strategy back on track. All other operational aspects of the terms and conditions under the PRGF—eligibility, access levels, resource commitments based on a three-year arrangement, reviews and phasing—will remain unchanged from the ESAF.

C. The Transition Period

46. A number of governments have begun to take the lead in the process of developing PRSPs. In addition, Governments are being called upon to develop concrete plans and timetables for the elaboration of a PRSP. However it will take time to elaborate, through broad-based

¹¹ See the companion paper, *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues* (forthcoming) for a detailed discussion.

participation, the robust strategies geared to attaining monitorable poverty reduction. In view of this—and the Interim and Development Committees' call for the Bank and Fund to bring as many HIPC as possible to their decision points before end-2000—the staffs envisage a period of transition during which PRSPs would be developed without disrupting ongoing concessional assistance from the Bank and Fund to low-income countries, including under the HIPC Initiative. During this period of transition, poverty reduction strategies will evolve and improve over time, as all parties learn from their own experience and that of other countries.

47. The transition period would also entail a phased introduction of PRSPs and a corresponding elimination of the Policy Framework Paper (PFP). During this period, the Boards of the Bank and the Fund would see somewhat different country documents in individual cases, with the form and content of these documents reflecting the degree of progress towards a PRSP. Nevertheless, in all cases, substantive work on producing the PRSP is expected to begin. The following three distinctions are envisaged:

- PFPs that had already been prepared, or were at an advanced stage of preparation when the new framework for poverty reduction was approved, will be submitted to the Boards in line with existing procedures for PRGF arrangements. However, these PFPs will also describe governments' intentions for the production of a PRSP, to the extent that these had been discussed before the PFP was finalized. With the exception of the PFPs for country programs in this category¹², no further PFPs will be produced.
- For countries that are not in a position to prepare a PRSP at the time of (i) their HIPC Initiative decision points,¹³ (ii) Fund Board approval of new PRGF arrangements or the review of annual programs thereunder, or (iii) Bank Board review of their Country Assistance Strategies (CAS), Bank and Fund teams will work with the Government on the production of an **interim PRSP** which would be accompanied by a staff assessment and would need to be endorsed by both Bank and Fund Boards. The interim PRSP would include the following:
 - An interim report prepared by the Government, presenting its commitment to poverty reduction and the main elements of its poverty reduction strategy consistent with the extent of diagnosis that has been conducted. This would include commitments to a timeline and a consultative process by which the PRSP will emerge with support from the Bank, Fund and other partners.
 - A jointly agreed three-year macroeconomic framework and three-year policy matrix, both of which will focus on poverty reduction. It will also be explicitly noted that these

¹² The Gambia, Guinea, Rwanda, Uganda, Vietnam and the Kyrgyz Republic.

¹³ With the exception of decision points documents for Mauritania and Uganda which were already under preparation before this paper was produced; in these cases, a plan for the preparation of a PRSP is contained in their respective HIPC Initiative documents.

policy commitments and targets for the outer years are tentative and will need to be revised when the interim document is replaced by a PRSP.

- In the near term, it is recognized that governments may have differing levels of preparedness to set out elements of their growth and poverty reduction strategies. In some cases over the next few months, therefore, the content of the interim PRSP could be limited to a government statement expressing commitment to reducing poverty, to an outline of the nature of the poverty problem and of government strategies to tackle the problem, and to a timeline and process for preparing a PRSP together with a matrix and macroeconomic framework.

48. As noted, in all these cases, substantive work on helping the Government prepare its poverty reduction strategy should begin. Moreover, progress towards a PRSP on the timetable committed to by the authorities would be monitored. The staffs will also encourage country authorities to agree to the posting of reports describing progress in the preparation of the PRSP, including the consultative process involved, on individual country and Bank and Fund websites. Interim PRSPs would be submitted to both Boards for endorsement—along with a joint staff assessment—allowing Directors to comment, inter alia, on the government's timetable and plans for producing a PRSP.

49. The length of the transition period would vary according to country circumstances, including the starting position and progress in developing a poverty reduction strategy. It is envisaged that, for the majority of countries, it would take a period of two years or less to elaborate a PRSP. In general, it is expected that—in line with the expectation that a PRSP could be produced in two years—countries would submit only one interim PRSP before moving to a PRSP a year later. Even when the deadline for requiring PRSPs as a basis for Bank and Fund concessional lending is passed, the staffs propose that an interim PRSP could provide the basis for concessional lending to countries hit by conflicts or natural disasters or with a prolonged interruption in Bank/Fund support.

50. During the transition to a PRSP, processes for the production of PRSPs would also be evolving. By definition, it is unlikely in the initial elaboration of an interim PRSP that governments will generally be able to provide for, as broad a representation of the poor, or civil society more generally, as would be expected in the longer-term. In the early stages, consultation may, for example, be focused on the issue of the structure and timing of the participatory process itself rather than the strategy to be developed. Subsequently, an interim PRSP may be able to provide details of the emerging but as yet incomplete strategy.

VII. PRSPs AND THE HIPC INITIATIVE

51. In principle, countries seeking assistance under the HIPC Initiative should have a PRSP in place at the decision point under the HIPC Initiative. However, especially for earlier cases under the HIPC Initiative, requiring completion of a PRSP could unduly delay the decision point. With this in mind, the Boards of the Bank and Fund have accepted on a transitional basis that a country can reach the decision point without having agreed a PRSP provided that the country concerned shows a commitment to poverty reduction and to developing a PRSP on a timely basis. This would in general be reflected in the interim PRSP. In line with this approach as noted above, HIPCs would be expected to have at least an interim PRSP in place at the decision point.

52. Interim PRSPs prepared for decision points would include a discussion of the nature and locus of poverty in the country, comparisons with social indicators for other HIPCs, and of the progress that has been made in reducing poverty and defining a comprehensive poverty strategy. The papers would propose, for Directors' consideration, the key policy reforms, including in the areas of poverty reduction, that would serve as triggers for reaching the completion point.

53. The general approach is that all countries should have adopted a PRSP in a participatory process,¹⁴ and made progress in its implementation, by the completion point—when debt relief is provided unconditionally under the HIPC Initiative. This implies, at minimum, a satisfactory first annual progress report on the implementation of the PRSP as described in Section VI above. There is a tension, however, between this general approach and the desire for early delivery of assistance under the Initiative, particularly to the countries that have already reached their decision and completion points.

54. One option is to apply this approach universally to all countries, including the retroactive cases¹⁵ and provide interim relief to these countries prior to the completion points. While this would have the merit of applying the same criterion to all countries, it could be seen by the retroactive cases as leading to an unjustified delay in the receipt of assistance at the completion point under the Initiative—a delay which did not reflect the long track record of adjustment and reform of most of these countries. Under this approach, for example, it might be two years before most of the retroactive cases reached their completion points—assuming one year for the adoption of a participatory PRSP and one year for its implementation—though this timing could vary from country to country.¹⁶

¹⁴ An interim PRSP would not suffice.

¹⁵ Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, Senegal and Uganda.

¹⁶ It could, for example, be considerably more accelerated for Uganda, which could be considered to have adopted already and implemented a poverty reduction strategy with considerable civil society participation.

55. A second option would be to relax this criterion for the retroactive cases and require only the adoption (rather than the implementation) of participatory PRSPs by the completion point. Key poverty outcomes prior to the completion point could be specified in the interim PRSP—against which progress could be judged—and interim assistance could again be provided. Under this approach—with variations reflecting country circumstances—completion points could be reached in perhaps one year or so from now, though this could be significantly earlier for some of the retroactive cases.

56. If more accelerated delivery of relief is desired for countries that have already reached their completion points, or for those cases that have remained on track with their adjustment and reform efforts,¹⁷ a third option would be that a judgement could be arrived at on their overall progress in achieving poverty reduction linked to the production of an interim PRSP. This would recognize the progress these countries have made in their economic reform and poverty reduction efforts. Such an approach would permit the Boards to judge the substantive progress made in developing and implementing a poverty reduction strategy and the degree to which it is participatory. Depending on their judgement, a collapse of the decision and completion points for these countries or a relatively short period between the decision and completion points could be agreed.

VIII. ACTION BY DONORS AND OTHER MULTILATERALS

57. To be successful, a country-owned poverty reduction strategy needs to be supported by all its providers of external assistance, both multilateral and bilateral. This implies a change in the way support is provided by donors and multilaterals. Currently, many donors tend to support individual projects with substantial, often overlapping, conditions which can result in large administrative costs and uncertainty about the amounts and timing of the resource flows. It would be preferable if donors and multilaterals would participate actively in the design of the PRSP, indicate their preferences, and then make medium-term commitments in support of the strategy agreed in the PRSP. This would be reinforced by aid levels being linked to outcome indicators included in the PRSP (as was noted in the Burkina Faso pilot case—see Box 2). Action by donors to help national authorities to improve their statistics can assist this process as under the Partnership for Statistics for Development in the 21st Century (see Appendix I). Donors could also help in capacity building for both recipient governments and civil society in the participatory process. This could include technical assistance and funding for this process.

58. It would also be desirable if key multilateral institutions would become fully engaged in the PRSP process. As noted earlier, the joint managements have written to key multilaterals and the PRSP process is to be discussed at the February MDBs and IMF meetings. Regional MDBs and other multilaterals would also participate in the country level PRSP process and use the resulting country-owned strategy to guide their lending. Multilateral institutions which do not have such large lending programs—such as the UN family—have valuable expertise to offer both in helping national authorities arrange the participatory process and draw up poverty

¹⁷ Bolivia, Guyana, Mozambique, and Uganda.

reduction strategies (such as the UNDP) or in particular areas of activity/expenditure (such as the WHO).

59. Finally, as was emphasized in the July paper on modifications to the HIPC Initiative,¹⁸ poverty reduction strategies in low-income countries need to be reinforced by action by industrial countries to:

- Increase aid flows—particularly in grant form—in support of such policies with improved harmonization of aid procedures.
- Allocate existing aid across countries in line with its effectiveness in reducing poverty.¹⁹
- Provide unrestricted access to industrial country markets for export products—largely raw materials and agricultural products—of low-income countries.
- Restrain export credit lending on commercial terms to poorer countries with no such loans for military purpose and similarly restrain exports of military equipment to low-income countries.

IX. ISSUES FOR DISCUSSION

60. This paper has outlined the possible content of a PRSP, addresses the question of the participatory process by which it could be agreed, and discusses the possible implications for the Bank and Fund as well as for other development partners. However, staffs emphasize that all participants in this process will need to experiment and learn by doing. In this vein, this paper has not sought to answer all of the questions that may arise as this process is carried forward.

Directors' views are sought on:

- The possible content of PRSPs (Section III). Do Directors agree on the principles underlying PRSPs (Box 1) and the core elements which country authorities should aim to include in all/most PRSPs?
- The participatory process (Section IV). Do Directors agree with the possible objectives outlined in Box 4? How much weight should be placed on government consultations with representatives of the poor/civil society more generally?
- The role of the Bank and Fund (Section V). Do Directors support the arrangements described in Section V for close collaboration by Bank/Fund country teams? Do they agree with the proposed division of labor in supporting the preparation of PRSPs between the Bank and the Fund? Do they agree that the staffs should be actively involved in the

¹⁸ *Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative* (EBS/99/138 and IDA/SecM99-187/1).

¹⁹ See, for example, *Aid Allocation and Poverty Reduction*, by P. Collier and D. Dollar, Policy Research Working Paper 2041.

participatory process? Do Directors agree that the staff should propose endorsement (rejection) of the substantive content of the PRSP as a basis for Bank/Fund concessional lending operations without judging the adequacy of the participatory process? Do they agree that the PRSP may be published by the country authorities prior to board discussion? Would Directors welcome informal country-specific briefings as the process develops, particularly on the degree of participation? Do Directors agree that it would be appropriate to conduct a comprehensive review of the PRSP approach, with external participation, before the end of 2001.

- The links to Bank and Fund lending (Section VI). Do Directors have comments on the proposed linkages between the PRSP and Bank/Fund lending operations? Do Directors have comments on the transitional arrangements involving the use of interim PRSPs? Do they agree that, even beyond this date, countries which suffered from conflicts or natural disasters or with a significant interruption in Bank/Fund supported programs could have access to concessional Bank and Fund resources on the basis of interim PRSPs?
- The links to the HIPC Initiative (Section VII). Which option do Directors prefer for retroactive cases/countries that have already reached the decision point—the general requirement that they should have adopted and implemented a PRSP (option 1), or the agreement that they have adopted a PRSP (option 2), and/or for the retroactive cases, a broader judgement based on their progress in poverty reduction strategies and participation (option 3)?
- Action by donors and the multilaterals (Section VIII). Do Directors agree that participation in the PRSP process and support for PRSPs by donors and other multilaterals would be key to the success of the new framework? Do they agree that this will involve a significant change in current practices, as described? If so, how should these changes be best encouraged? Do Directors agree that the success of PRSPs depends also on wider actions in the areas of trade, aid, and commercial lending? If so, how can these actions be encouraged?
- It is proposed that a revised version of Sections III and IV on the content of PRSPs and on the participatory process be prepared for consideration by the Boards in the middle of next year (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. Do Directors agree with this procedure?
- Do Directors agree that this paper be posted on both the Bank and Fund websites?

Appendix I. Possible Elements of a PRSP

The contents of a PRSP are likely to vary considerably between countries and will evolve over time. This process will be aided by improved analytic inputs from the Bank and Fund and from other development partners. The elements of a hypothetical PRSP discussed below are therefore preliminary and subject to revision in the light of experience.

Obstacles to Poverty Reduction and Growth: Diagnostics

The PRSP could begin by describing the nature and locus of poverty based on existing data. To the extent possible, this should go beyond consideration of the incomes and asset holdings of the poor to include regional, sectoral, environmental, demographic and gender dimensions of poverty, and highlight linkages between the institutional structure and poverty incidence.²⁰ While the setting of goals for poverty reduction should be based on a country's conditions and priorities, to put the country in an international perspective, the paper could draw on international comparisons of key social indicators related to the International Development Goals (IDGs) (see Box A1). The PRSP could also outline the main areas where data need to be strengthened.

The extent and nature of the country's vulnerability to exogenous shocks, and the impact of such shocks on the poor, could also be assessed in the PRSP to establish the risks to the poverty reduction strategy and provide a basis to consider policies to reduce these risks.

Building upon this description, the PRSP could provide an analysis of the macroeconomic, structural, social and institutional obstacles to faster growth and poverty reduction. The impediments to faster sustainable growth should be identified and policies agreed to promote more rapid growth: such as structural reforms to create free and more open markets, including trade liberalization, privatization and tax reform and policies that create a stable and predictable environment for private sector activity. Obstacles to the poor contributing to, and sharing more fully in, the benefits of economic growth—for example, the slow growth of agriculture and the rural economy in general, limited access to essential services, and institutional obstacles that leave the poor with little voice and control over the kinds of services delivered to them—could be identified. This could include an analysis of the extent to which the poor benefit from existing public expenditures and the impact on the poor of the tax system. The PRSP could, similarly, include an assessment of the constraints to private sector activity, as this is likely to be the engine of investment, job creation and growth. In this context, the PRSP could consider

²⁰ This could draw on the extensive work by the Bank on poverty assessments and on Participatory Poverty Assessments (PPAs)—a methodology developed directly to consult the poor. PPAs have been undertaken in over 40 countries.

the constraints facing foreign investment. The analysis of obstacles to poverty reduction should also seek to draw lessons from the country's recent experience including the role played by external assistance, and identifying the reasons for the success or otherwise of policies in reducing poverty.

Box A1. International Development Goals

(Drawn up by OECD/DAC and endorsed by various UN conferences).

These goals are set for the year 2015 relative to 1990 and include:

- Reducing the incidence of extreme poverty by half;
- Reducing infant and child mortality by two-thirds;
- Achieving universal enrolment in primary education;
- Eliminating gender disparity in education (by 2005).
- Implementation of national strategies in all countries by the year 2005 to reverse trends in loss of environmental resources by 2015.

Objectives and Policies

In the light of the analysis above, the PRSP could define medium and long-term outcome-oriented targets for the country's poverty reduction strategy, and set out the macroeconomic, structural, and social policies that together comprise a comprehensive strategy for achieving these outcomes.

The PRSP could specify two sets of quantified objectives.

- First, long-term goals could be given for key poverty reduction targets. While these goals should be framed realistically in the country context, it would be helpful to the extent possible, if these goals could be compared to the IDGs (Box A1). These goals could include measures of economic progress and material deprivation (e.g., per capita income growth, and measures of both the incidence and depth of poverty), and measures of human capabilities (e.g. health and education measures broken-down by gender if possible). The selection of these outcome goals will obviously depend on the country's starting position, the analysis of poverty and the availability of relevant data.
- Second, given the long lags—both in reporting and in effects—typically associated with these outcomes, and the need to ensure shorter-term monitoring of progress, these longer-term goals could be translated into annual (or six monthly) targets covering a three-year horizon for related intermediate and proxy indicators. Thus, for example, a long-term goal for improving the literacy rate could be translated into annual (intermediate) targets covering, for example, the primary school enrollment rate. Consistent goals and targets including poverty-related goals, intermediate targets and macroeconomic projections would be set out in an Annex to the paper.

The priorities for policy action would be clearly stated and incorporated in an action plan, taking into account what is known of the linkages between different policies, their appropriate sequencing and the expected contribution of policy actions to the attainment of intermediate indicators. This is the heart of the PRSP—an action plan focusing on priorities to raise sustainable growth and reduce poverty.

These priorities would be incorporated in the overall macroeconomic framework and the budget. Thus, the envisaged costs of attaining annual improvements in intermediate indicators (for example, investments in school building, and additional teachers and teaching materials needed to raise pupil enrollment or rural infrastructure) and supporting structural and institutional reforms would, to the extent possible, be identified for at least a three year horizon. The integration of poverty reduction objectives and policies within a consistent macroeconomic framework is likely to require a process of iteration.

The trade-offs involved would be described. New spending priorities will need to be consistent with implementation capacity and non-inflationary finance. Thus the PRSP will need to consider the scope for reallocation of spending, as well as increasing the efficiency of spending²¹ and raising new revenue in a non-distortionary manner as well as the scope for more external assistance (see below).

While policies would be aimed at the ultimate objective of poverty reduction, inevitably cases will arise where necessary macroeconomic or structural measures to raise growth or reduce external or domestic imbalances may have potentially adverse short-term impacts on vulnerable groups. In such cases, the PRSP would assess such impacts and explain how additional measures have been designed to protect vulnerable groups, through, for example, the inclusion of social safety nets.

The PRSP would thus aim to present a medium-term strategy to attain poverty outcomes with faster growth as an important means of achieving this. It would specify key actions and policies consistent with this overall framework covering a horizon of at least three years. As the macroeconomic framework is an essential part of the strategy, its main features for a three-year horizon could be summarized in a table attached to the PRSP. Similarly, a timetable of key policy actions over this three-year period, including institutional reforms and technical assistance, could be included in a policy matrix. The greater the degree of specification in this matrix, the more Bank and Fund lending operations could key off this matrix and the less the need for lengthy negotiations to specify the conditions in PRGF and IDA supported operations. The policy matrix, with the help of Bank and Fund staffs, could specify the areas in which the Bank or Fund or another institution would take the lead in monitoring outcomes.

²¹ Guided for example by Bank Public Expenditure Reviews.

Monitoring Systems

Systematic monitoring of implementation, allowing experience to be gained on the relationship between actions and outcomes, is crucial to the success of the strategy. The PRSP would describe the framework and mechanisms for monitoring implementation, including the extent and planned development of participatory processes designed to strengthen accountability, the indicators to be monitored and the planned frequency of reporting and monitoring. It is proposed that an annual PRSP progress report based on the outcome of monitoring processes and other information would be prepared by the national authorities and published.

In the realm of public budgeting and expenditure control, the PRSP would include a discussion of steps to be taken to improve transparency and ensure accountability of the fiscal authorities, line ministries and, where relevant, local or district governments. Community-based mechanisms for fostering transparency and including greater community involvement in the management of local spending are likely to play an important role in this regard, especially for decentralized expenditure programs – an area that seems likely to grow in importance. The PRSP could set out an agenda of institutional reforms designed to bring overall budgetary procedures closer in line with best practices, drawing, *inter alia*, on the Fund's Code of Fiscal Transparency. This could include procedures for auditing of all public expenditures supported by transparent reporting of these audits. It could also include steps to increase the efficiency of spending.

For countries receiving assistance under the HIPC Initiative, the monitoring procedures should include a transparent reporting of savings from debt relief, and the additional poverty-reduction expenditures thus enabled. This does not imply earmarking of HIPC Initiative savings for specified uses, but only an indication of the increase in public spending on poverty reduction actions that resulted from the relaxation in the fiscal expenditure envelope permitted by debt relief. To the extent that such expenditures, including those associated with the debt relief under the HIPC Initiative, are channeled through a poverty fund, the PRSP should set out procedures to ensure that these expenditures were fully integrated into the overall budgetary framework.²²

As described above, the PRSP could include monitorable intermediate targets consistent with the strategy's longer-term goals for poverty reduction. In this context, where applicable, the PRSP should describe data deficiencies that hamper analysis and timely monitoring of performance, and how these factors have influenced the selection of indicators to be monitored. It is desirable that the PRSP describe the steps being taken to improve the quality, coverage and timeliness of data needed to track performance under this outcome-oriented approach. It should

²² A poverty fund to finance specific poverty reduction expenditures could be used to focus donor support. But, depending on how it is established and implemented and how well it is integrated into the budget, it can also create serious problems of budgetary coordination and duplication. See *Heavily Indebted Poor Countries (HIPC) Initiative—Strengthening the Link between Debt Relief and Poverty* (EBS/99/168 and IDA/SecM99-545).

also describe the role played by national and international research agencies, donors and other international institutions, in helping in this regard.²³

External Assistance

A crucial aspect of the PRSP process is to ensure that key donors, regional development banks and other IFIs support the country's poverty reduction strategy. This process should help minimize duplication of effort by both donors and recipients and improve the effectiveness of donor assistance (see Section VIII).

As part of the iterative process of integrating the country's poverty reduction strategy with its macro framework, the identification of external support—both financial and technical—is essential. A useful analysis of this could start with a stocktaking of existing external support and how it is being delivered. Ultimately, the overall financing of the poverty reduction strategy needs to take into account commitments of aid inflows and debt relief. This would include the role of IDA lending, use of the Fund's PRGF and, commitments from other multilaterals and bilateral agencies in support of the strategy.

To enhance its catalytic role, the PRSP could also include assessments of the potential impact on program objectives of both higher and lower commitments of external financial assistance over the medium-term. The PRSP could highlight the implications of different levels of external assistance for the attainment of poverty outcomes and related intermediate targets. Consideration should be given to the absorptive capacity for larger aid flows, and the macroeconomic impacts (e.g., on employment and growth) of higher expenditure on non-tradable goods such as real appreciation of the exchange rate.

The PRSP could also outline the principles of the country's external borrowing strategy and the appropriate degree of concessionality of this borrowing given current and prospective external debt levels.

The PRSP could also indicate the technical assistance and capacity-building requirements to implement the strategy setting out the possible role for multilateral institutions and bilateral donors.

²³ For example, this could reflect the agreement on November 19, 1999 to launch a shared international strategy to ensure adequate funding and support for national statistical systems—including capacity building programs for HIPC's qualifying for enhanced debt relief by end-2000. The strategy is called PARIS 21 (Partnership In Statistics for development in the 21st century) to reflect the commitment to bringing all the development partners together to make a real difference in providing statistics for evidence-based policy making. See IMF Press Release No. 99/55.

Participatory Process

In recognition of the key role of broad-based, transparent participatory processes in fostering ownership of the strategy (as discussed in Section IV) the PRSP would provide a comprehensive account of the process used. This could include a number of elements:

- A description of the process, including the format, frequency and location of consultations, and the main participants.
- A summary of the main issues raised in the consultations and the views of participants, including those of the poor.
- An account of the impact of the consultation process on the design of the strategy, including the choice of outcome indicators to be monitored under the strategy.
- A discussion of the role of civil society in the future monitoring of implementation.

Subsequent PRSPs could note feedback on the PRSP and how the experience of previous rounds of consultations resulted in modifications, especially efforts to enhance the consultative process. The views of participants on the consultation process could also be reported. Similarly, later PRSPs could report on the involvement of civil society in the monitoring of implementation.

Uganda: Poverty Reduction Strategy

Consultation Process

- In June 1997, Uganda launched the Poverty Eradication Action Plan (PEAP), following a national consultation process involving a cross-section of stakeholders (central and local government, civil society, and private sector). The PEAP provides national priorities for poverty reduction and guides sector policies.
- A poverty status report (PSR) is produced on an semiannual basis to review the implementation of the PEAP. The 1999 PSR also incorporates data from the recent Uganda Participatory Poverty Assessment Project (UPPAP). The UPPAP directly consulted poor communities on their priorities, needs, and perceptions of the quality of service delivery and government policies.
- As a result of these extensive consultations, the level of government and civil society ownership of the PEAP is high.

Policy choices

Poverty Eradication Action Plan. The PEAP presents a multidimensional analysis of poverty priorities. Examples of policy choices from the PEAP and UPPAP include the following:

- A larger weighting for the provision of domestic water in budgets at central and local levels as a result of the communities' identifying access to clean water as a priority;
- Inclusion of the constraints and priorities expressed by primary producers in the design of the National Plan for the Modernization of Agriculture; and
- A focus on security (individual, household, community, and regional) and governance as key components for reducing poverty.

Medium-term budget framework (MTBF)

- In 1998/99, the government adopted a MTBF, under which medium-term budget priorities are formulated consistent with the PEAP and medium-term financial stability. Under the MTBF, line ministries are provided global budgetary ceilings on which base their sectoral allocations. New sectoral working groups comprising the Ministry of Finance, line ministries, and technical advisors were established to help develop sectoral priorities within the expenditure limits.
- For the first time, civil society is involved in the dialogue on priorities and spending commitments.
- To better reflect district poverty priorities and to bring local governments into the medium-term expenditure process, local government officials also prepare medium-term expenditure plans.
- This process feeds into the budget framework paper and annual budgets.

Poverty Action Fund

- The government established a Poverty Action Fund (PAF) to enhance transparency and monitoring of HIPC Initiative and other donor resources for expenditure programs focused on poverty.
- The PAF has four critical features: it involves civil society in the selection of programs and projects; it is fully integrated in the budget; it allocates 5 percent of funds to monitoring; and it involves both civil society and government in monitoring the impact of PAF outlays.

Institutional changes

- Institutional changes include the increased role of districts in the development, selection, and implementation of the PEAP; strengthening of the partnership between government and civil society; and the creation of a more open political environment where previously sensitive issues (e.g., land ownership, women's empowerment, security, corruption, and governance) are now part of the policy dialogue.

Policy implementation

Decentralization of services

- Recent UPPAP findings demonstrate major differences in the poverty profile among districts. As a result, policymakers recognize the need for flexibility in determining priorities and budgets of different districts.
- Decentralization helped expedite the implementation of equalization grants to enable districts to meet locally identified poverty priorities, and the need for greater flexibility in the design of conditional grants was recognized.

District participatory planning

- Initially, the UPPAP will work directly with ten districts to strengthen their capacity to consult poor communities in the areas of district planning and budgeting.

Monitoring Intermediate Targets and Policy Outcomes

- A transparent budget process with multiple channels for accountability (local constituencies, such as local authorities, press, community groups, NGOs, and donors) is being developed. To increase the transparency in decentralized expenditure management of the PAF, advertisements are placed in the press indicating amounts disbursed to each district. In the education sector, budget allocations for schools are posted on some school notice boards. Civil society (NGOs, district official, parliamentarians, and media) meet quarterly with central government officials to discuss delivery against budget allocations.
- In addition, the Poverty-Monitoring Unit integrates annual household surveys, conducted by the Uganda Bureau of Statistics, with other data sources (e.g., participatory analysis, sector surveys, and line ministry data sources) to ensure that policy is continually influenced by poverty data and perceptions of the poor.

Ghana: Poverty Reduction Strategy

The *reduction of poverty* has been an integral part of Ghana's national development policy—Ghana Vision 2020. Towards this end, the strategy for poverty reduction which was developed in 1995, and the broad elements of which remain unchanged, lays emphasis on economic growth, integrated rural development, the expansion of employment opportunities for the urban poor, and improved access by the urban and rural poor to basic public services (education, health, water, sanitation and family planning services).

Principal objectives of the poverty reduction strategy are:- a reduction in the incidence of poverty in both rural and urban areas, strengthened capabilities of the poor and vulnerable to earn income, reduced gender and geographical disparities, and, a healthier, better educated and more productive population.

Principal elements of the strategy to achieve these objectives include:

- accelerating economic growth with equity through the use of sound macro-economic policies which emphasize employment generation
- gradually developing firm targets for poverty reduction and improving the database on poverty with a view to ensuring more effective poverty programming
- strengthening the agricultural sector by improving productivity
- broadening and deepening the manufacturing and services sectors
- increasing investment in human resources through improving the quality and access to education, health services, nutrition, water and sanitation
- encouraging the development of an indigenous entrepreneurial class
- reducing the isolation of poor communities through strengthening economic infrastructure such as roads and communication networks

A *participatory approach and consultative process* has been integral to decision making for core policy issues in Ghana, including health agriculture and poverty. The national development policy was undertaken and completed in 1994 with a consensus building workshop of all stakeholders at an Accra International Conference. The cocoa strategy —Ghana Cocoa Sector Development Strategy, April 1999—which aims at liberalizing an important agricultural sector in Ghana was developed after intensive consultations and several workshops, which included farmers, researchers, NGOs, foreign and domestic buying agents, and parliamentarians.

In order to *enhance ownership and participation*, the design of specific poverty reduction programs and guidelines are managed by a Technical Committee on Poverty (TCOP), which includes a wide range of participants including District Assembly representatives and various Ministries. The District Assemblies are encouraged to involve NGOs in the formulation and implementation of poverty reduction plans at the local level. Other initiatives which are under discussion for building grass roots ownership, include the development and monitoring of indicators for basic social service delivery at the level of District Assemblies. The objective is to increase responsiveness at the local level, while maintaining coordination and accountability at the central level.

