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October 28, 1999

To: Members of the Executive Board

From: The Acting Secretary

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

Attached for the information of Executive Directors is a paper, prepared jointly with the staff of the World Bank, on the steps that are being taken to introduce Poverty Reduction Strategy Papers. Given the high degree of public interest in this issue, it is proposed that this paper be placed on the Fund's website. It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by 1:00 p.m. on Monday, November 1, 1999. In the absence of objection, the steps will be posted on the Fund's website.

The very short period for the lapse of time consideration is necessary as a similar notice is being simultaneously issued 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)

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Department Heads



INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Poverty Reduction Strategy Papers—Status and Next Steps

Prepared by the staffs of IMF and the World Bank

Approved by Jack Boorman and Masood Ahmed

October 28, 1999

1. Following the Interim and Development Committees' endorsement of the approach to poverty reduction embodied in the introduction of nationally-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 nationally-owned and reflect the outcome of an open participatory process involving governments, civil society, other relevant international institutions and donors, as envisaged under the Bank's Comprehensive Development Framework. Such processes are likely to take time to carry out. Similarly, not all data necessary for the design and implementation of outcome-oriented strategies are now available 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. This introduction would take place pragmatically alongside—and without disrupting—ongoing Fund and Bank-supported operations or decisions under the HIPC Initiative. There would therefore be a period of transition during which PRSPs would be developed; the strategies that are presented during this period may not have all the desired characteristics of those that would be generated through a complete process leading to a PRSP, but would include a plan and timetable for reaching this goal. Inevitably this will be a process of experimentation and learning-by-doing for all parties.

3. Initial efforts will focus on supporting the development of nationally-owned 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.

4. An informal 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. We are looking at ways in which to invest this working group with a more formal institutional structure. Under the broad guidance of this working group, the following steps have been, or will shortly be, taken.

- A joint letter from both managements will be 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 assistance to low-income countries.
- Resident representatives of the Bank and the Fund will arrange meetings (joint where possible) 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 nationally-owned PRSP. As noted, the initial focus of this work would include countries expected to qualify for assistance under the HIPC Initiative; 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 possibility of posting progress reports on individual PRSPs, including the consultative process involved, on individual country and Bank and Fund websites.
- Discussions of the new approach will be held with 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 HIPC Initiative briefings with MDBs 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 are in regular contact 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 have been raised worldwide.
- A paper, prepared jointly by Bank and Fund staff will be issued to the Boards in November. It will flesh out implementation modalities of the PRSP including, for example, the need for poverty assessments, a broad-based consultation process, specific policy intentions, and transparent and accountable fiscal systems to monitor spending. The paper would set out transition arrangements for progress to a PRSP, including procedures for phasing out the PFP and the documentation to be provided before fully-fledged PRSPs are available. The paper would also provide the basis for more specific guidance to staff.
- A separate paper to be issued to the Fund's Board in November will discuss 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. A paper on changes in the ESAF-HIPC Trust to implement changes to the HIPC Initiative will be issued by early November.
- Similarly, a separate paper for the Bank's Board, to be prepared in November by OPS in collaboration with other Bank Group units, will discuss linkages between the PRSP, the CDF, and Country Assistance Strategies; and the roles of the different parts of the Bank Group (e.g., IFC, MIGA, etc.).
- 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.

