

INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND INTERNATIONAL MONETARY FUND

**Review of the Poverty Reduction Strategy Paper (PRSP) Approach:  
Main Findings**

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## **Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings**

### **I. INTRODUCTION**

1. In December 1999, the Boards of the World Bank and the IMF approved a new approach to the challenge of reducing poverty in low-income countries based on country-owned poverty reduction strategies. These strategies were expected to be country-driven, results-oriented, comprehensive and long-term in perspective, and foster domestic and external partnerships in line with the principles that underpin the Comprehensive Development Framework (CDF). They were to be embodied within a Poverty Reduction Strategy Paper (PRSP), which was expected to serve as a framework for development assistance beyond the operations of the Fund and Bank. At that time, Directors called for a joint assessment of implementation of the PRSP approach by end-2001 drawing on contributions from member countries, international agencies, other aid providers, and civil society.<sup>1</sup>

2. **In the last two and a half years, there has been widespread acceptance of the PRSP approach.** Today, in some 60 low-income countries these broad-based, country-led processes are taking hold and have helped promote a more open and inclusive national dialogue on the most effective policies and public actions for poverty reduction. And the approach has increasingly been embraced by countries' external development partners. Because it is based on the two pillars of country self-help and support from the international community, the PRSP approach promises to make development assistance more effective.

3. **Many low-income countries are taking charge of their own future and recognizing the importance of instituting and maintaining sound policies and their own efforts.** In adopting the PRSP process, low-income countries are putting poverty reduction at the center of their development strategies. For many countries, the development and implementation of broad based national poverty reduction strategies is a process of "learning by doing." But, in doing so, PRSPs are leading to better informed decision-making and more effective use of public resources, and serving as a framework for better coordination of the support from development partners.

4. **Complementing the greater poverty focus of public resources is a growing emphasis on the policies that will accelerate growth and thus make this reduction in poverty sustainable over the long haul.** National poverty reduction strategies recognize that sound growth requires investment, not least in human capital and infrastructure, as well as the right

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<sup>1</sup> Separately, Fund Directors called for a review of the Poverty Reduction and Growth Facility (PRGF) that would also include contributions from external parties, to be done in parallel with this review. See Review of the Poverty Reduction and Growth Facility: Issues and Options, SM/02/51, February 15, 2002.

macroeconomic and structural policies, good governance, and healthy institutions. Countries are seeking to build an improved investment climate, to compete in world markets, and to foster development that is less dependent upon official financing in the long-term. But the process is not a one-way street.

5. The international community, too, has a critical role to play by increasing aid, opening its markets to developing country exports, and phasing out trade-distorting subsidies. These are essential complements to the efforts of those countries that are implementing effective poverty reduction strategies and to the alignment of development assistance with national strategies. It is only through such concerted actions by rich and poor countries alike that the fight against poverty can be effectively sustained and the challenge of meeting the Millennium Development Goals (MDGs) for 2015 can be met.

6. It is clear, however, that the development of PRSPs is a major challenge for low-income countries, both in terms of analysis and organization. Besides managing a complex policy dialogue with development partners, low-income country governments have to put together an integrated medium-term economic and poverty reduction strategy, complete with short- and long-term goals and monitoring systems; these are a set of tasks that few industrial countries could systematically do well. And, in many countries, these tasks must be managed with limited technical and institutional capacity and in ways that reinforce—rather than undermine—existing national institutions, processes, and governance systems. Thus, there is a need to have realistic expectations about the PRSPs that are being developed.

7. **More importantly, strategies alone are not sufficient—they must be followed up by actions.** Countries must follow through on the policy commitments laid out in the PRSPs. Donors must provide the promised technical and financial support in a timely fashion and in a way that does not impose undue administrative costs on the recipient country. Civil society organizations must cooperate with governments and coordinate their actions to achieve the commonly shared poverty reduction objectives set out in the PRSPs. And all involved must realize that the challenges facing many of the PRSP countries are difficult and complex and the links between actions and outcomes are sometimes imprecise. For this reason, attainable short-term targets are needed and monitoring procedures must be developed, so that all partners know whether the country is moving along the right track. **The Bank and the Fund will play a catalytic role in launching PRSPs, but ultimately the success of countries' poverty reduction strategies will depend on the action of countries themselves and the concerted aide of all their development partners.**

## II. HOW THE JOINT STAFF REVIEW WAS CONDUCTED

8. **This review has been open and inclusive, with a concerted effort to elicit the views of low-income country governments, development partners, and other stakeholders.** The focus of the review has been on countries' experience to date in developing, implementing, and

monitoring their PRSPs, recognizing that most countries are still at the early stages of the process. In carrying out the review, Bank and Fund staff drew on four main inputs:

- **country contributions from PRSP teams and national civil society organizations (CSOs)**, including at four regional PRSP events which brought together countries in Africa, Europe and Central Asia, East Asia, and Latin America;
- **external views** from development partners and other stakeholders (including civil society groups) regarding their experience with the PRSP approach, communicated through some 50 papers and a series of seminars and outreach activities;
- **Bank/Fund staff contributions**, including *thematic reviews* of key aspects of the approach (participatory processes, poverty diagnostics, human development, rural and infrastructure, and cross-cutting issues such as gender, environment, and conflict), *summaries of Executive Directors' views* of the approach and of individual country experiences, and an *issues paper* prepared as background for the international conference; and
- **an international conference on the PRSP approach in January 2002**, which brought together representatives from 60 low-income countries, their external development partners, and representatives from civil society to discuss their views about how to strengthen the developmental impact of the approach.

9. Since 1999, ten countries have completed their first full PRSP and three countries have completed their first annual PRSP implementation progress reports. Some 42 countries have also completed their interim poverty reduction strategy papers (I-PRSP) and 7 countries have subsequently submitted their PRSP preparation status reports for consideration. Although the pace of completing full PRSPs has been slower than initially expected, there is now a sufficient basis to begin learning and to apply the lessons of this emerging experience, recognizing that it is still in its early stages.

10. **This paper highlights the main findings and recommendations of the review. A more detailed account of the early experience with I-PRSPs and full PRSPs is presented in a companion paper.**<sup>2</sup> The next section presents the main messages. Section IV discusses various emerging good practices from the early experience of countries and development partners which can serve to enhance the process and content of other country-owned strategies, as well as to help ensure that assistance activities are appropriately aligned behind these strategies. Section V reviews priorities for knowledge and capacity building in low-income countries. The paper concludes with

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<sup>2</sup> Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs, SM/02/54, and SecM2002-0086, February 15, 2002.

issues for discussion by Executive Directors on actions that the Bank and Fund can take to enhance the impact of the PRSP approach.

### III. MAIN MESSAGES

11. The central message emerging from this review is that **there is broad agreement among low-income countries, civil society organizations and their development partners that the objectives of the PRSP approach remain valid** and that the PRSP process can improve joint efforts aimed at poverty reduction. Moreover, it is generally recognized that **there have been improvements over time in both process and content** as countries have moved ahead with preparation and then implementation. This has been the case for countries that started at very different points, indicating that the PRSP process has been quite adaptable to different country circumstances.

12. There is also widespread agreement on four key achievements of the PRSP approach to date:

- a **growing sense of ownership** among most governments of their poverty reduction strategies, and both government representatives and many civil society organizations from diverse settings have voiced their commitments to this process and its objectives;
- a **more open dialogue** within governments and with at least some parts of civil society than had previously existed. Some CSOs are increasingly mobilized and have gained capacity to participate in the preparation and monitoring of the implementation of the PRSP, and favorable “second round” effects may be anticipated;
- a **more prominent place for poverty reduction in policy debates**, extending beyond social sector interventions with data collection, analysis, and monitoring becoming more systematic; and
- **an acceptance by the donor community of the principles of the PRSP approach**, from major UN organizations (for example, UNDP and WHO) to bilateral donors (including the Canada, Denmark, France, The Netherlands, and the United Kingdom), and the prospects are good that PRSPs will lead to stronger partnerships with countries and better donor coordination.

13. This consensus is underpinned by several **main themes** which were most recently reinforced at the international conference on the PRSP approach:

- the **importance of country ownership** as a guiding principle;

- a **recognition that the focus should now shift beyond process** to content and implementation, and the **importance of improving the understanding of the linkages between policies and poverty outcomes**;
- the **importance of utilizing and building local capacity** in core areas needed for effective poverty reduction strategies;
- the **need for realism** in the setting of goals and targets, as well as in managing expectations, both within countries and among their development partners;
- the **importance of openness and transparency**, both within each country and in international development partnerships;
- the **importance of flexibility** to allow for different country starting points;
- the **desirability of debate** about alternative policy choices; and
- the **importance of patience and perseverance** with implementation.

14. There is substantial scope for countries to improve both the preparatory process and the content of their national strategies. In order to lay stronger foundations for the PRSP approach over the medium- to long-term, the Review suggests that good practice at the country level would include a high, near-term priority to: (a) improving public expenditure management (PEM) systems; (b) placing greater emphasis on, and building capacities for, monitoring and evaluation; and (c) strengthening and institutionalizing participatory processes with respect to a broad range of domestic stakeholders, as well as development partners.

15. For the Bank and the Fund, a key consideration is how to strike the right balance between pushing for more rapid achievement of the full potential of the PRSP approach and ensuring realism in light of country capacity constraints and the need for the process to be country driven. As a general proposition, the staffs' view is that, given the primary importance of country ownership, **the PRSP approach requires flexibility so that both the process and the content of poverty reduction strategies can vary across countries in light of national circumstances**. Therefore, any measures that would set more specific and rigid guidelines should be considered with caution.

#### IV. PRSP DESIGN AND IMPLEMENTATION: KEY FINDINGS

16. While it is premature to draw any firm conclusions about the development impact of the PRSP approach, there are nonetheless a range of good practices by countries and their development partners. This section reviews the key findings of the review, and highlights instances of good practice which are summarized in bullet form at the end of each section. In reality, there are only a few concrete cases where such practices are in place and **the staff does not expect that these examples could be generalized across all countries in the short- to medium-term** for

the reasons outlined above. They will be of varying relevance for different countries depending on specific circumstances. The aim here is to provide useful illustrations and directions for countries and partners and not to establish further guidelines on requirements for PRSPs. The examples of good practice are typically accompanied by recommendations for the Bank and Fund that indicate specific actions that could be undertaken by the two institutions.

### **A. Interim PRSPs**

17. At the outset, the Boards recognized preparing a full PRSP could take more than one year. In such cases, countries were requested to prepare an I-PRSP, which the Boards would consider together with a joint staff assessment. I-PRSPs were intended to be short documents that described a country's current poverty situation and policies, and presented a plan for preparing a full PRSP.

18. The shift away from Bank/Fund staff authored policy framework papers (PFPs) to country-authored I-PRSPs has been a major achievement. While the quality of I-PRSPs has varied, the preparation of I-PRSPs has served a useful purpose by encouraging countries to take stock of existing data and policies, to launch a broader process of rethinking current strategies, and to produce time-bound roadmaps for the preparation of their first full PRSP. In many cases (e.g., Mongolia and Nicaragua), I-PRSPs were longer than expected, as countries put forward quite comprehensive documents. At the same time, however, the roadmaps were sometimes relatively weak with respect to plans for participatory processes (e.g., Senegal); plans to fill data gaps (e.g., Sierra Leone) and the proposed institutional arrangements for the PRSP (e.g., Moldova and Tajikistan). This appears to have been due to both an unclear understanding about the intended nature of an I-PRSP, coupled with pressures imposed by HIPC and/or PRGF timetables.

19. Although I-PRSPs were initially viewed as a transitional device, they may still be useful in many of the nearly three dozen low-income countries that will need to prepare PRSPs for access to Bank/Fund concessional lending and/or debt relief.<sup>3</sup> For future I-PRSPs, the following good practices and recommendations are relevant:

#### ***Good practices for countries***

- **Preparing an I-PRSP which focuses on establishing a good roadmap and realistic timetable** for preparation of the full PRSP; and
- **including key agencies, sectoral ministries and civil society** in I-PRSP preparation.

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<sup>3</sup> These include several small island countries, some IDA/IBRD blend countries, several conflict-affected countries, as well as countries that are presently in arrears to either of the two institutions and/or do not presently have the track record to gain access to PRGF resources.

*Good practices for development partners (including the Bank and the Fund)*

- **Encouraging countries to keep their I-PRSPs short and well focused;** and
- during I-PRSP preparation, **clarifying expected support in preparing for the full PRSPs.**

*Actions by the Bank and the Fund*

- **Retain the option for countries to prepare I-PRSPs** as the basis for access to Bank/Fund concessional assistance for countries not immediately in a position to prepare a full PRSP.

**B. PRSP Participatory Processes**

20. **The open and participatory nature of the PRSP approach is regarded by many as its defining characteristic and its most significant achievement.** PRSPs have often led to an improved dialogue within the various parts of governments and between governments and domestic stakeholders. There is some evidence that the active involvement of civil society has influenced PRSP content, particularly in drawing attention to social exclusion, the impoverishing effects of poor governance, and specific policy issues, such as the elimination of school fees in Tanzania and health fees in Uganda. The challenge for most countries is to move away from *ad hoc* consultations to more institutionalized forms of dialogue.

21. **The role of Parliaments in the preparation, approval, and monitoring of country strategies has generally been limited,** and is a concern that has been expressed by a number of development partners (including the Utstein Group of bilateral donors and the E.C.). There is however some good practice: where individual parliamentarians have been involved (e.g., Honduras and Nicaragua), or where progress in implementation will be reported to parliament along with the budget, as in Mozambique, for example.

22. **Various concerns have been expressed about the lack of involvement of specific groups in the participatory process. While the patterns differ across countries, CSOs that were out of favor with the government; local government officials; private sector representatives; trade unions; women's groups; and direct representatives of the poor are among the groups that have not always been fully involved in the PRSP process.** Concerns have also been expressed by civil society groups as to whether governments are limiting participation to information sharing and consultation, and whether civil society can extend its role in the decision making process beyond targeted poverty reduction programs to the macroeconomic policy and the structural reform agenda, especially trade liberalization and privatization.

23. **The PRSP process is also intended to promote stronger partnerships between countries and donors.** Although a number of donors were frustrated by their initial lack of

involvement, by mid- to late 2001 most donors indicated that they have been able to engage in PRSP preparation at the country level. Some donors, however, feel that the PRSP process has been dominated by the Bank and the Fund, in part because they were unable to engage jointly in the dialogue with government during Bank and Fund missions, as well as because they felt that Joint Staff Assessments (JSAs) drew the government's attention away from alternative views. Others have been concerned about the lack of commonly-accepted modalities for formal donor consideration of PRSPs outside of the discussions of the Bank and Fund Boards.

24. **Some observers have suggested the need for clear and strict standards for participation** (for example, on the role of parliaments) in order to ensure that the goals of broader country ownership and increased government accountability could be met. On the other hand, **many governments have stressed that the PRSP process should not involve “political conditionalities,”** and that the donor and the CSO community are ill-equipped to make judgments in this domain. Others have noted that the circumstances among countries vary so greatly that global standards or guidelines are neither desirable nor feasible. Based on experience to date, the following good practices could usefully be pursued to improve the quality of the participatory processes being undertaken in countries:

*Good practices for countries*

- **Sustaining key aspects of participation**, including information sharing and openness of decision-making and debate about alternative policy choices, so that dialogue with non-governmental stakeholders can be routinely conducted by governmental institutions;
- **linking to and building on existing processes and institutions, including the involvement of parliaments, cabinets, and sectoral ministries in PRSP preparation** at appropriate stages;
- **involving all significant stakeholder groups** in the participatory process, such as civil society, including the private sector, and donors, and making particular efforts to reach out to traditionally marginalized groups;
- **making PRSPs and related information available and understandable** to local civil society;
- **improving mechanisms for feedback** to local participants in the PRSP process, as well as **reporting in PRSPs concerns expressed by key stakeholders**; and
- **presenting draft PRSPs to donor round tables or Consultative Group meetings** before transmission to the Bank and Fund Boards.

*Good practices for development partners (including the Bank and Fund)*

- **Providing timely and constructive feedback to PRSP teams**, both early in the process and when the PRSP is completed, but resisting extensive comments on drafts that could undermine ownership; and
- **supporting capacity building of civil society** to engage substantively in the process.

*Actions by the Bank and Fund*

- **Make the whole country team operationally relevant to the PRSP**, with dialogue on the PRSP being undertaken on most missions, not only “PRSP missions;”
- **provide advance notice of mission timing and purpose** to stakeholders and other development partners; and
- **indicate in Joint Staff Assessments whether staff have received views from civil society and/or donors on a country’s PRSP**, including on the participatory process.

**C. Conflict-Affected Countries**

25. **A number of low-income countries are currently, or have recently been, affected by conflict.** Several, including Armenia, Azerbaijan, Bosnia-Herzegovina, Cambodia, Guinea Bissau, Rwanda, and Sierra Leone have prepared I-PRSPs and are working on their full PRSPs. In all of these countries, adequate progress towards cementing the peace and establishing security is necessary prior to embarking on the PRSP process with meaningful participation from all stakeholders. However, since poverty, exclusion, and poor governance underlay many conflicts, the PRSP process itself can make an important contribution to furthering peace and preventing future conflict. Countries emerging from conflict frequently face particularly acute poverty that is complicated by internally displaced populations, war-wounded and demobilization of combatants, disrupted production and social infrastructure, and a weak security situation.

26. While countries may be able to prepare an I-PRSP shortly after conflict has subsided, they face additional constraints in preparing a full PRSP: a weak administrative capacity, including poor data; a continued weak security situation, and a fractured social and political environment. As they emerge from conflict, these countries often face a high degree of political and economic uncertainty that can impede preparation of a full PRSP. In such cases, it may be necessary to delay the PRSP until conditions are more settled. Nonetheless, reconstruction priorities and strategies need to remain flexible, so as to ensure that they do not subsequently constrain or clash with the priorities and strategies outlined in the full PRSP.

27. A key issue for the review was **whether the existing PRSP framework is sufficiently flexible for the special needs of conflict-affected countries.** Where a country is still embroiled

in an intense conflict it is obviously difficult to see how the PRSP process can be undertaken. More generally, however, the emerging consensus of key stakeholders is that the framework was adequate and in several cases to date has been quite valuable, but that special emphasis is needed in certain areas to ensure its effective implementation in conflict-affected countries. In addition to those mentioned elsewhere, good practices for conflict-affected countries and their development partners include the following:

*Good practices for countries*

- **Describing in PRSPs as to how conflict-related problems and constraints are being addressed;** and
- **focusing on the public actions and institutions most urgently needed** to rebuild core government systems and trust in public institutions.

*Good practices for development partners (including the Bank and Fund)<sup>4</sup>*

- **Improving donor coordination and timeliness of external support** for conflict-affected countries; and
- **supporting country efforts in formulating strategies** for conflict analysis, prevention and peace building.

*Actions by the Bank and the Fund*

- **Sensitize Bank and Fund country teams to the special needs of conflict-affected countries,** offering to pilot promising post-conflict analysis when requested; and
- **flexibly apply the JSA Guidelines** in conflict-affected countries, especially in terms of the expected extent of participation, the quality of poverty diagnostics, and degree of detailed articulation of priority public policies.

**D. Improving Poverty Diagnostics, Targets and Indicators, and Monitoring and Evaluation**

28. In most countries, **the preparation of PRSPs has involved useful steps toward better poverty data and diagnostics, helped to clarify national targets and indicators for poverty reduction, and increased attention to monitoring and evaluation.** Many countries have identified and started to fill important gaps in their data about poverty and inequality, and have

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<sup>4</sup> The Bank is presently carrying out related work on Low Income Countries Under Stress (LICUS), which will be discussed by the Bank Executive Board's Committee of the Whole in late March 2002.

begun to strengthen the institutional arrangements for on-going data collection and analysis. All the PRSPs have included short-term and longer-term targets for economic growth, for reductions in the number of poor (in terms of income poverty measures), and for improvements in education and health. And all have included plans to improve monitoring and evaluation capacities, although these are seldom detailed.

29. **Despite this progress, the experience to date has also highlighted a number of weaknesses in poverty data and analysis, and in target setting.** Quantitative survey data are sometimes out dated and/or not sufficiently frequent and comparable to permit analysis of trends. While many PRSPs set long-term targets for poverty reduction, these are sometimes overly ambitious. Some stakeholders have argued that the MDGs should be uniformly included in PRSPs as national goals, whereas others stress the need for national goals to be set against the MDG backdrop, but be realistic in light of country circumstances.

30. **Poverty and social impact analysis (PSIA) of major policies and programs has typically not been undertaken as part of PRSPs**, for reasons to do with national capacity constraints and its inherent technical difficulties. The data and capacity needs are formidable and serious methodological issues remain unresolved, despite some analytical advances in this area. Nevertheless, as reiterated by both civil society groups and donors during the Review, there is a need for development partners to assist countries in being more systematic in undertaking analysis of poverty and social impacts of major policy choices. This is likely, for example, to enhance the focus on equity concerns related to the distribution of assets as well as differences in access to services. Given variations in data availability and capacity among countries, undertaking such analyses will necessarily involve adopting a flexible approach with a variety of instruments and techniques that take account of country circumstances, data and time constraints, and the specific policy issues being considered. Progress in this area will also necessarily be gradual and involves using existing techniques more systematically with respect to analyzing the impacts of major policy reforms, developing ways to improve the applicability of new analytical techniques, and improving the information base.

31. Work in the Bank is quite advanced on summarizing knowledge on PSIA methodology and its application to the analysis of policy reforms, and providing practical guidance to staff. A preliminary version of this guidance material is expected to be available for public comment by the time of the 2002 Spring meetings. A staff learning program will be designed based on the approaches described. At the same time, the Bank's Research Group has been working on identifying the relevance and practicality of a number of new approaches, including extending existing models to analyze distributional issues. That work will be integrated over time into the guidance material and learning programs. The Bank is supporting specific applications of PSIA in collaboration with development partners.

32. Vis-à-vis the Fund, the Bank is the lead agency on PSIA since these analyses focus on structural and social issues which are within the Bank's core areas of expertise.<sup>5</sup> The Bank provides upstream advice and analysis to countries through its economic and sector work, such as poverty assessments, and through its country programs and projects as laid out in the CAS. The increasing focus on analyzing poverty and social impacts will have possible implications for country programs (such as shifts in the analytical work program), particularly for the Bank since there will be a need to help countries for the foreseeable future until national capacity is in place.

33. To inform future poverty monitoring, there has been a substantial effort on the data collection front and **the measurement of final poverty outcomes/impacts is taking a substantial leap forward in most countries**. However, **PRSPs often lack good intermediate indicators to help track the implementation of public programs**. At the same time, **the institutional structure for monitoring has not always been clearly defined**. There are some notable exceptions however, including Honduras, where monitoring of the PRSP will greatly benefit from a newly established institute on statistics; and many countries, including Mozambique, have plans to include CSOs in monitoring.

34. Based on country experience to date, the following could be considered as good practices to improve the quality of poverty diagnostics, targets and indicators, and monitoring and evaluation:

*Good practices for countries*

- **Developing the institutions required for improving monitoring and evaluation** and reporting on plans and associated assistance requirements in the PRSP;
- **analyzing the poverty and social impact of major programs and policy actions;**
- **setting realistic targets for growth and poverty outcomes**, including the MDGs among national goals when relevant, and customizing targets to country circumstances; and
- **developing appropriate intermediate indicators** to enable timely monitoring of performance and feedback, to complement measurement of poverty outcomes.

*Good practices for development partners, including the Bank and Fund*

- **Contributing to coordinated assistance** in support of poverty diagnostics and PSIA;
- **providing timely and appropriate analytical work** for key areas of the PRSP, and prepared, whenever possible, jointly with the government; and

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<sup>5</sup> Strengthening World Bank-IMF Collaboration on Country Programs and Conditionality, August 24, 2001.

- **providing sufficient resources for technical assistance in support of capacity building** for PRSP design and monitoring.

*Actions by the Bank and the Fund*

- The **Bank will take the lead in assisting countries in carrying out poverty and social impact analysis of major policy reforms**, including in applying existing techniques more systematically, in building capacity, and in undertaking research to improve the applicability of new analytical techniques over time. Fund staff will generally draw on these analyses to assess the impact of PRGF-supported programs and contribute to macroeconomic aspects of such analyses.

**E. Clarifying Priority Public Actions**

35. **A good strategy requires prioritization, both in the choices of policy measures and in the allocation of public expenditures.** This implies limiting—and sequencing—the set of policy measures to those which can most likely be achieved, given human resource and political constraints, over the time horizon of the strategy. Prioritization implies recognition of budget constraints and a willingness to reallocate budgets from lower priority to higher priority sectors and sub-sectors. A good strategy should also specify what is to be done, by which institution, and within what approximate timeframe. Specificity requires clarity, not details, about the means to the stated objectives or end. Given clear prioritization and specificity, a PRSP would not only serve as a useful instrument for coordination and monitoring by government and civil society, but also to better guide external development partners in aligning their programs with the PRSP.

36. **While the first set of full PRSPs represent a significant effort to bring together into a single document the full set of public actions that countries intend to pursue to reduce poverty, they generally are weak regarding the *prioritization* and *specificity* of these actions.** Some defined a limited set of broad areas for action, but then went on to propose an array of measures in each area. Others have imposing lists of measures with little sequencing or ranking. While there are numerous positive examples of specificity of priority public actions, many of the PRSPs had little or no information about what was to be done, by whom, and when. The key to effective prioritization is for countries to fully cost their proposed actions within a medium-term expenditure framework (MTEF) that takes into account the existing fiscal constraint and that is consistent with the overarching need for macroeconomic stability and fiscal and debt sustainability. Weak prioritization thus reflects limited country capacity to cost programs and policies, and limited public expenditure management capacity. It is also partly the product of the demands generated by donors and by domestic constituencies through the participatory process.

37. **In all of the early PRSPs, countries recognized the paramount importance of macroeconomic stability to growth and poverty reduction and put forward macroeconomic frameworks that were consistent with these twin objectives.** There were also examples of

fiscal flexibility (e.g., Mauritania) where a relaxation in the fiscal stance would be accommodated in the event that additional concessional assistance was forthcoming. In several cases, countries put forward macroeconomic and structural policies that were similar to those of the recent past, since their PRSPs were building on existing policy frameworks that continued to be the most effective way of ensuring sustained growth and poverty reduction. **There were, nonetheless, various shortcomings in the macroeconomic frameworks put forward in the early PRSPs, both in terms of presentation and content.** Some countries (e.g., Albania and Burkina Faso) included only a limited discussion of their macroeconomic frameworks, while others (e.g., Mozambique, Tanzania, and Uganda) could have elaborated more on the linkages between their macroeconomic and structural policies and poverty reduction.

38. **All of the early PRSPs included ambitious growth targets and could have benefited from a sharper analysis of the likely sources and levels of growth.** Given the importance of vulnerability to external shocks in several of these countries (e.g., Bolivia, Mauritania, and Uganda), their PRSPs could have usefully put forward an appropriate set of macroeconomic policies to reduce the risks of these shocks and/or to ensure debt sustainability. Finally, sound alternative macroeconomic scenarios and related structural policy choices and trade-offs could have also been made more explicit, including the ex ante specification of contingency spending plans in the event of higher/lower than expected resource flows.

39. **An important aspect of prioritizing public actions for poverty reduction is increasing the allocation of public spending for poverty-reducing activities while reducing unproductive expenditures.** Recent Fund staff analysis indicates that full PRSPs are associated with an increased emphasis on sectors important for reducing poverty, including social sectors, rural infrastructure, and water supply (although exact definitions vary by country). For example, spending on health and education is projected to increase significantly as a share of GDP and total government spending and in real per-capita terms in PRSP countries.<sup>6</sup> However, few PRSPs adequately define poverty-reducing spending, fully cost priority public actions and targets, and discuss the impact of alternative fiscal policy choices on the poor. **Mobilizing domestic resources in support of countries' poverty reduction strategies has been recognized by countries and partners as a priority, both to augment support for priority spending and to reduce aid dependency.** The early PRSPs, however, were generally revenue neutral and, with the exception of Mozambique, typically did not discuss revenue measures.

40. **Key cross cutting issues—such as gender, HIV/AIDS, good governance, and rural development—have been addressed, to varying extents across countries.** The coverage of

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<sup>6</sup> This indicator is imperfect, as not all public education and health spending is poverty reducing. It is also important to note that the reallocation of budgetary expenditure will only translate into improved poverty outcomes if there are corresponding improvements in budget execution and access for the poor, and a number of PRSPs have included reforms in these areas.

**gender** issues was generally good in education and health, but tended to be much lower in other sectors. Attention to gender issues also tended to decline as countries moved from diagnosis to actions and from actions to monitoring. The treatment of **HIV/AIDS** pandemic, which has grown from being a health issue to a serious challenge to development, has tended to be weak in most PRSPs, although some countries (including Madagascar and Mozambique) are making good progress in developing poverty-AIDS analyses. All the early PRSPs highlighted **governance** concerns, often as a result of public consultations. Several countries, including Burkina Faso and Mozambique, have highlighted good governance as a principal PRSP objective. All the PRSPs also explicitly discussed the problem of **corruption** and included strategies to address some dimensions of this problem. Most PRSPs, however, did not present a systematic diagnosis of the key governance challenges, and failed to set out intermediate indicators to monitor progress on governance reform. **Rural development** has been incorporated in PRSPs as a cross-cutting thematic issue, with interventions frequently targeted towards increasing access to and the productivity of natural assets (like land and water), to complement efforts to improve rural education and health. However, the discussion of rural issues tends to be generic and brief, and the institutional framework for their implementation is generally vague, so that it is difficult to assess the specific content or the poverty focus of the actions proposed.

41. **All the PRSPs to date have emphasized that access to services are a key concern for the poor. Improving access to education, especially at basic levels and in rural areas, has been a key priority**, and the PRSPs reflect a range of measures to improve efficiency and quality of schooling. Similarly, **there is a consistent focus on health outcomes, and on diseases of the poor, alongside efforts to improve access to health services**. For example, all the African PRSPs to date have indicated an increased emphasis on primary health care, with efforts to balance the objective of improved quality of services against distributional concerns motivating fee exemptions for certain services (e.g., for immunizations in Mauritania). **The degree of focus on social protection programs varies, and is largest in the ECA region and in Latin America**, where countries have clearly diagnosed the sources of household risk, and the PRSPs address a broad range of social protection issues as a coherent part of their overall poverty reduction strategy.

42. **In general, PRSPs have acknowledged the primacy of the private sector for growth, and thus for poverty reduction, although the extent of treatment of related structural issues varies across countries**. They also generally recognize that the private sector, often through small and medium enterprises, and rural based production, will be critical for income generation. Significant attention has been given to marketing issues, with Mozambique and Uganda's PRSPs seeking improved market information systems, improved access to markets and strengthened marketing channels and infrastructure. Several PRSPs have discussed intended privatization of public utilities, including Burkina Faso, Mauritania, and Nicaragua, although the depth of discussion varies considerably. **Several PRSPs include a focus on improving the environment for small and medium enterprise development**, and a number also have **an explicit focus on the expansion of credit and savings opportunities for the poor. All the**

**PRSPs include interventions to improve access to rural credit. An important element in the growth strategies of PRSPs has been the development of infrastructure, through expanded public provision and/or structural reforms.** Mozambique's PRSP, for example, gives priority to the most densely populated and poorest regions in planned investments to improve the road network and expand access to energy and water. In general, **the focus on infrastructure is concentrated in rural areas.**

43. While **all full PRSPs have supported the desirability of trade openness in broad terms, the majority has dealt with the underlying issues in a fairly limited way.** None of the PRSPs have dealt systematically with past experience of trade reforms, but several PRSPs (including Albania, Honduras, and Mozambique) have included specific measures in support of trade promotion and liberalization. Only in Honduras and Mozambique was there an attempt to clarify the link between these reforms, and growth and poverty reduction.

44. Based on country experience to date, the following could be considered as good practices to assist countries on the policy front:

*Good practices for countries*

- **Discussing in detail in PRSPs the macroeconomic framework** (including a comprehensive set of tables) and **reviewing the sources of pro-poor growth** underpinning projections;
- **developing alternative macroeconomic scenarios in PRSPs, including contingency spending plans and measures supporting alternative revenue paths**, in light of uncertainty regarding growth projections, and projected revenue paths;
- **including policies to reduce the risks from external shocks** and/or to ensure debt sustainability;
- **exploring options to improve the efficiency of services** that are of key relevance to the poor;
- **improving prioritization of policies and including appropriate levels of specificity** about proposed actions;
- **analyzing and considering the links between sectoral issues** (e.g., the impact of education on health outcomes) **and cross-cutting issues** (e.g., gender and the environment) in developing priority public policies;
- undertaking an **upstream review of governance and institutional development problems** early in the PRSP process, with inputs from donors and civil society, in order to

build consensus among various stakeholders on the main governance challenges to poverty reduction; and

- **developing institutional capacity of sectoral ministries** in core PRSP skills including public expenditure management, poverty diagnostics and monitoring and indicators).

*Good practices for development partners (including the Bank and Fund)*

- **Fostering civil society capacities** for establishing priorities, benchmarking, and monitoring progress on governance;
- **continuing to invest in tools about sectoral and governance-poverty links**, and support adaptation to specific country settings, and support dissemination of good practice;
- **providing support—particularly to line agencies—to prepare sectoral strategies** based on the PRSP approach; and
- deepening current efforts to understand more fully the linkages between policy actions and pro-poor growth. This needs to take place at the country level, through economic and sector work, complemented and supported by relevant international research efforts, including at the Bank and the Fund.

*Actions by the Bank and the Fund*

- **Bank/Fund will devote sufficient resources to support training, economic sector work, and technical assistance** in key areas, including costing poverty measures and in developing methodologies for assessing intersectoral trade-offs between policies and in analyzing the sources and patterns of growth.

## F. Public Expenditure Management

45. **In many countries, current PEM systems are too weak to support a meaningful presentation of the overall public expenditure program in the PRSP and to monitor implementation.** For HIPC countries, these common weaknesses in current PEM systems have been confirmed most recently by a Fund-Bank study of their capacities to track poverty-reducing spending, though, of course, HIPC countries (or low-income countries more generally) are not the only countries with weaknesses in their PEM systems.<sup>7</sup> Government budgets in low-income countries typically lack comprehensiveness and meaningful functional classifications of expenditures, and seldom provide sufficient detail about allocations to programs that are targeted toward poverty

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<sup>7</sup> See Joint Bank/Fund Board paper on Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries, SM/02/30 and IDA/SECM2002-0030, January 30, 2002.

reduction. Budget data often exclude donor-financed projects (even when they are a large component of expenditures) and typically exclude extra-budgetary activities and sub-national spending. Budget execution often differs significantly from budget allocations. Auditing systems are extremely weak. And medium-term expenditure frameworks (MTEFs) are the exception rather than the rule. Yet, PRSPs to date have sometimes included only broad references to the need to improve PEM systems, generally without sets of specific measures for doing so. And, even where improvement plans have been enunciated, they may not be embraced broadly throughout government, or the capacity to implement programs may be weak. Expectations should, therefore, be realistic about the time needed to develop institutional capacity for PEM systems in PRSP countries.

46. While recognizing that improvements in PEM systems will take time, **the importance of improving PEM systems and presentation of the public expenditure program has been highlighted by both domestic stakeholders and donors**, who regard these as essential for improving the overall effectiveness of development policies and programs and as an important entry point for improving governance in general. Increasing importance is being attached to developing and implementing detailed plans for improving PEM systems, such as those being developed by HIPC governments with Fund and Bank assistance. Also, many donors have stressed PEM as a means to increase accountability for external assistance, including debt relief, and to justify shifting to budget support. Based on country experience to date, the following could be considered as good practices to strengthen PEM systems:

*Good practices for countries*

- **Outlining in PRSPs an assessment of the current state of PEM systems and realistic plans for improving them.** Looking ahead, for HIPCs, these plans could be derived from the Assessments and Action Plans for tracking poverty-reducing spending as these become available; and
- where a medium-term budget instrument/process does not exist, **outlining plans for how MTEFs are being developed.**

*Good practices for development partners, including the Bank and Fund*

- **Providing sufficient resources for technical assistance in support of capacity building** for PEM in ways that are responsive to country needs and constraints, supportive of national capacity, and coordinated across donors.

**G. Improving the Integration of PRSPs into Other Decision-Making Processes**

47. **In general, there is commitment and involvement in preparing the PRSP at the highest levels of government.** There has also been a tendency to shift the responsibility for poverty reduction to Ministries of Finance so that such policies are more closely linked to national

budget decisions. This, together with greater emphasis on the link between growth and poverty reduction, has been an important trend associated with the PRSP approach.

48. **In some countries, however, the extent to which the PRSP is integrated within existing decision-making processes has been problematic.** Initially, this was because the I-PRSP timetables were driven primarily by HIPC and PRGF schedules. In some countries, there was uncertainty about how the PRSP exercise should be related to previously established government planning or national strategic exercises. In many countries, sectoral ministries have been less fully involved in PRSP preparation than would have been expected, and this may have implications for implementation.

49. Given the diversity of country circumstances and institutional arrangements and the importance of country leadership, a specific approach to better integration cannot be prescribed. However, it may be useful for governments to reassess the timing and linkage of their PRSPs to enhance the likelihood of effective integration and mainstreaming with other government processes. Based on country experience to date, the following could be considered as good practices to improve the integration of PRSPs with existing decision making processes:

#### *Good practices for countries*

- **Integrating PRSPs** (and annual PRSP implementation progress reports) with other government decision making processes, especially with the budget; and
- including in PRSPs **information about the institutional arrangements** for preparing and implementing strategies, including the role of parliament.

#### *Good practices for development partners, including the Bank and Fund*

- **Respecting and aligning assistance with national cycles** for government decision making, particularly annual budget cycles.

### **H. Improving Donor Alignment and Harmonization**

50. **Donor alignment and harmonization of donor processes are crucial to sustaining the PRSP approach.** In part, the approach has been designed to overcome long-standing problems of poor donor coordination, weak country ownership of donor-financed programs, and the fragmentation of governmental programs and institutions caused by multiple, and often inconsistent, donor aid delivery and management policies and procedures. To overcome these problems, donors must take very seriously the challenge of aligning their programs with countries' PRSPs. If this challenge can be met, PRSPs will become effective instruments for countries to gain better control over external assistance. This will help reduce the administrative burden on recipient countries, reduce the transaction costs of development assistance and enhance development effectiveness, and streamline their documentation and reporting requirements.

51. **Nearly all donors have agreed in principle to align their programs with PRSPs, but much remains to be done to achieve this objective.** The dominant view among governments in low-income countries at the recent international conference was that they should take the lead in donor coordination and alignment and that donors need to accept and defer to such government leadership. They recognized that donor alignment would be facilitated if PRSPs provided greater prioritization and specificity of public policies, but asked donors to exercise self-discipline and not force their own agendas on countries. Programmatic lending (including Sector-Wide Approaches and general budget support) is potentially an important instrument for alignment which should be actively used when circumstances warrant. However, many donors remain cautious about such support given weak public expenditure and fiduciary management systems. **There is considerable scope for alignment with PRSPs even without programmatic lending.**

52. Although achieving donor alignment and harmonization around countries' PRSPs is a challenge for the entire donor community, **the Bank and the Fund have a special responsibility to demonstrate their own willingness and ability to do so.** For the Bank, the key step is to align its Country Assistance Strategies (CASs)—in timing and in substance—with PRSPs.<sup>8</sup> This has already been adopted as Bank policy and is being put into practice as full PRSPs are finalized. The Bank has decided that, beginning July 2002, it will normally not prepare a new CAS until an IDA country has completed its PRSP. The principle that CASs in IDA countries will normally be based on PRSPs is explicitly set out in the new draft CAS guidelines for staff. The challenge now is to ensure that in future CASs the Bank's program is aligned with the PRSP, to strengthen, in combination with other donors, the Bank's support to the government's poverty reduction efforts. A second challenge is to align lending operations' conditionalities and the policies they support transparently in line with PRSP priorities. The Poverty Reduction Support Credit (PRSC) is a Bank instrument designed (specifically) for supporting PRSP implementation. Although there are only two new CASs that have been prepared building on PRSPs (Uganda and Burkina Faso) and PRSCs have been approved for only three countries (Uganda, Vietnam, and Burkina Faso), early indications are that the CAS can be effectively built on countries' PRSPs and that, within the CAS framework, the PRSC will become an effective complement to other IDA instruments in supporting the implementation of a country's poverty reduction strategy. Reports to the Boards on PRSP progress in implementation will include information concerning the alignment of CASs with PRSPs in countries that have completed their full PRSPs.

53. For the IMF, the key challenge is aligning the PRGF with countries' PRSPs, which is the focus of the PRGF review. While a good start has been made in incorporating the key features of

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<sup>8</sup> CASs are country-specific business plans for the Bank which, in the case of low-income countries, will be based on the priorities set out in the country's PRSP.

PRGF into program design, there is scope for deeper implementation and for clarifying the linkages between PRGF arrangements and PRSPs.<sup>9</sup>

54. The Bank and the Fund have made important strides in inter-agency coordination. At the operational level, this includes joint or parallel PRSP-related missions and the preparation of Joint Staff Assessments (JSAs), and streamlining conditionality in lending instruments, complemented by the operations of a Joint Implementation Committee (JIC) at the central level.

55. Based on experience to date, the following good practices could be pursued to improve donor alignment behind countries' poverty reduction strategies:

*Good practices for countries*

- **Involving donors in PRSP preparation** through, for example, including donor representatives on PRSP working groups;
- **actively leading coordination and alignment of the local donor community;** and
- **disclosing lending and granting documents** associated with the PRSP approach (i.e., PRGF, PRSC, and SAC for the Bank and Fund, and similar operational documents for other donors).

*Good practices for development partners, including the Bank and Fund*

- **Aligning donor “business plans” with PRSPs**, including performance triggers and conditionality, and justifying the choice of instruments against PRSP objectives;
- **using Consultative Groups and similar fora**, as well as DAC “peer reviews,” to identify alignment issues;
- **developing lending operations’ conditionalities and policy support** transparently and **encouraging governments to open up discussions on lending instruments to broader consultations** with domestic stakeholders, as well as other branches of government, including parliament;

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<sup>9</sup>The seven key features of PRGF-supported programs are broad participation and greater ownership, embedding the PRGF in the overall strategy for growth and poverty reduction, budgets that are more pro-poor and pro-growth, ensuring appropriate flexibility in fiscal targets, more selective structural conditionality, emphasis on measures to improve public resource management/accountability, and social impact analysis of major macroeconomic adjustments and structural reform. See SM/02/51, Review of the PRGF: Issues and Options, February 15, 2002.

- **actively seek to reduce the heavy burden on countries of accessing donor aid**, through eliminating duplicative and overlapping reports, harmonizing and simplifying procedures at both the country and international level, and strengthening countries' capacities and systems around a framework of commonly-agreed standards;
- **exploring the expanded use of programmatic lending**, including Sector wide Approaches (SWAs), when country circumstances warrant; and
- **providing country authorities with information on a timely basis** about medium-term aid commitments and debt relief, and **improving the predictability and timing of aid flows**.

#### *Actions by the Bank and the Fund*

- **Build on recent progress** in aligning the Fund's PRGF with countries' poverty reduction strategies;
- **align the Bank CAS to a country's PRSP** once the PRSP is completed;
- **use PRSCs as a key complement to other Bank instruments to support PRSP implementation within the CAS framework;**
- **publish country documents in the language that the document was transmitted;**
- **enhance transparency** by allowing authorities to voluntarily disclose their documents in support of Bank/Fund lending (i.e., letters of intent and associated memoranda of economic and financial policies for the PRGF at the Fund, and letters of development policies for the PRSC at the Bank) immediately after they are circulated to Executive Directors (EDs), but before EDs discuss the lending operation. Directors will discuss this issue and its broader implications in the context of the upcoming transparency review at the Fund, with parallel discussions at the Bank (in the context of the first progress report on disclosure implementation in FY 2003).
- **strengthen internal review of lending programs** to ensure that policies and conditionalities are derived from the PRSP; and **streamline conditionality**.

#### **I. Balance Between Speed and Quality for HIPCs**

56. One of the most common criticisms of the PRSP approach is that **governments, especially HIPCs, are induced to prepare their strategies too quickly and that this has compromised the quality of the strategies** with respect to both technical content and the breadth of country ownership. Some governments and NGOs have urged the Bank and the Fund to delink decisions under the Enhanced HIPC Initiative from PRSPs so that there is no delay in receiving debt

relief and/or making it irrevocable, whereas other PRSP countries, some donors and CSOs view delinking as reducing the likelihood that debt relief would be well used and excessively weakening the incentive to complete and begin implementing a PRSP. For HIPC countries that begin to receive interim debt relief from the Decision Point on the basis of I-PRSPs, the key question is whether or not to eliminate or change the current requirement of one year's satisfactory implementation of a full PRSP in order to receive the irrevocable debt relief at the Completion Point.<sup>10</sup> In this connection, it should be recognized that, for many HIPC countries, the annual debt relief received during the interim period between the Decision and Completion Points is a substantial share of the annual debt relief after the Completion Point. Hence, these countries do not need to rush completion of their PRSP, thus compromising the quality of their strategies, for the sake of increasing flows of debt relief. However, this is not true for some countries (Chad, the Gambia, Mauritania, and Niger) for which a large part of the debt is held by creditors that do not provide any interim debt relief, or for which the debt service profile is lower right after the Decision Point than 2-3 years later.

**57. The Bank and Fund will retain the presumption of a one-year period of satisfactory PRSP implementation before the Completion Point.** Should there be a future country case which merits some flexibility in timing, prior to that Completion Point, the staffs will prepare a separate note laying out the conditions under which such flexibility would be applicable.

## **J. Future Monitoring**

**58. Effective implementation of countries' PRSPs is more likely to occur when there is regular monitoring, evaluation, and revision of the strategy.** With this in mind, the current PRSP guidelines envisage that governments—through a participatory process—would prepare annual implementation progress reports and then, every third year, a full revision of the PRSP. Only three countries (Burkina Faso, Tanzania, and Uganda) have implemented their PRSPs for at least one year and have prepared annual implementation progress reports. No country has yet faced the task of updating its full PRSP.

**59. The value of regular monitoring of PRSPs at the country level is widely accepted by countries, CSOs, and development partners, and the annual reports to date have been useful and informative for both the governments as well as partners. Yet, concerns have been raised about progress reports and periodic updating of strategies,** most notably that requiring annual progress reports would impose an excessive burden on governments. Others have expressed concern that the three-year cycle for updating a PRSP may be difficult in some cases in

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<sup>10</sup> For the “retroactive” countries that had achieved Decision Points under the original HIPC Initiative framework, which include Benin, Bolivia, Burkina Faso, Guyana, Mali, Mozambique, Senegal and Uganda, completion of the full PRSP—not one year of implementation—is a trigger for the Completion Point. The requirement for “non-retroactive” countries, which include Honduras, Mauritania, Nicaragua, Tanzania and others is completion of the full PRSP and one year's satisfactory implementation thereof.

light of national capacity constraints and/or traditional planning cycles. Also, in cases where there is a change in government, there is at present no clear procedure about how a new government should indicate its intentions with respect to an existing PRSP. Questions of relevance and updating may also arise in the wake of major changes in country circumstances—such as a large change in its terms of trade or a large-scale natural disaster—although the inclusion of contingency spending plans in PRSPs in the event of likely shocks would seem most appropriate. Based on experience to date, the following could be considered as good practices to facilitate the implementation and updating of PRSPs without putting an unmanageable burden on countries:

*Good practices for countries*

- **Preparing and publishing annual progress reports with forward-looking policy matrices** in parallel with annual budget preparation;
- **deciding on appropriate periodicity (up to five years) for revision of subsequent full PRSPs in line with existing cycles for the country's development plans;** and
- **publicly announcing a new administration's intentions** with respect to the country's existing PRSP subsequent to the change in government.

*Actions by the Bank and the Fund*

- **Maintain the requirement that countries prepare annual PRSP progress reports,** but reducing the administrative burden by asking governments to focus on any key results, the status of implementation and, where appropriate, revisions to the strategy (**and develop guidelines for annual progress reports to that effect**);
- **each country should decide on the appropriate periodicity for updating its PRSP** within a range of two to five years and, in each PRSP, indicate the timing of the subsequent PRSP; and
- **have staff assessments give greater emphasis to evaluation of risks to implementation,** including the PRSP's projected growth rates, and its treatment of vulnerability to external shocks, shortfalls in external financing flows.

60. **In addition to national monitoring, the international community needs to continue to monitor the experience of low-income countries and their development partners in implementing the PRSP approach.** The progress reports on PRSP implementation jointly prepared by Bank and Fund staff, as well as the present joint staff review, are examples of such monitoring exercises. A number of other development partners and civil society organizations are closely monitoring implementation of the PRSP approach. **The staff recommend that a subsequent PRSP review be carried out before the 2005 Spring Meetings,** by which time it is now expected that the majority of countries will be implementing their first full PRSPs and two to

three will be in the process of completing their second full PRSPs. While the Fund's Office of Independent Evaluation (IEO) and the Bank's Operations Evaluation Department (OED), will report directly to their respective Executive Boards on progress at that time, development partners are also encouraged to jointly organize a comprehensive review of implementation of national poverty reduction strategies, to which Bank and Fund staff could provide inputs.

61. While semi-annual progress reports to the boards of the two institutions were useful and prudent during the initial stages of developing the PRSP approach, the staffs believe that with the approach now well established, **annual progress reports would be more appropriate** at this time. It is therefore proposed that the next report on progress in implementation of the PRSP approach occur at the time of the 2002 Annual Meetings and be prepared thereafter on an annual cycle.

## V. PRIORITIES FOR KNOWLEDGE AND CAPACITY BUILDING IN LOW-INCOME COUNTRIES

62. **Lack of capacity, and the inability to use existing capacity effectively, remain important constraints to the preparation, implementation, and monitoring of PRSPs in many countries.** Not only government capacity, but that of other stakeholders needs to be augmented so that they can engage in policy dialogue. A concerted effort is necessary on the part of both countries and their development partners to increase learning and the dissemination of good practices and to enhance the knowledge base and understanding of growth and poverty reduction. Wide dissemination, in several languages, of this paper and the companion paper on the PRSP review, coupled with a short pamphlet on the good practices highlighted during the review, could be a useful first step to share the lessons to date about the PRSP experience amongst countries, their development partners, and Bank/Fund staff. Looking ahead, to meet the more general challenge of building capacity and addressing knowledge gaps, the key priority areas include:

- Increasing **learning and dissemination of good practices** regarding the PRSP approach, and in particular, **opportunities for learning among PRSP countries**, including:
  - Continuing annual regional learning events, but shift to more “applied technical learning” focused on specific topics (e.g., sources of growth, PEM, PSIA);
  - developing learning events for staff on appropriate roles in PRSP preparation and implementation, as well as to share good practices and recent innovations in such areas as growth analysis, investment climate assessments, PEM and PSIA; and
  - fostering “communities of practice” to complement face-to-face events in key areas, like poverty analysis, and utilizing the web and other appropriate technologies.
- Enhancing **research and analysis** efforts in support of key aspects of the PRSP approach, including by building longer-term capacity in countries to undertake such analysis locally, with a focus on sources of pro-poor growth; linkages between macro and structural/sectoral

- policies and poverty outcomes; analysis of the poverty and social impact of public policies; and addressing vulnerability and external shocks.
- Augmenting **appropriate technical assistance** resources, including fuller utilization of local expertise, in support of PRSP preparation, implementation, and monitoring, particularly in the areas of:
    - Data collection and management in line with international standards and codes, including the General Data Dissemination System (GDDS);
    - monitoring and evaluation;
    - macroeconomic analysis for governments and for civil society;
    - public expenditure management (PEM);
    - poverty and social impact analysis (PSIA); and
    - setting priorities, including improved methodologies for “costing” for assessing inter-sectoral trade-offs between policies.

## VI. CONCLUDING NOTE

63. This paper began by affirming that there has been widespread acceptance of the PRSP approach and by setting out a series of key messages and good practices. It is broadly recognized that the development and implementation of PRSPs is an ambitious challenge for low-income countries, both in terms of analysis and organization. Continuing efforts are therefore needed to learn and share good practices among countries. There is also a need for patience, perseverance, and realism about what can be achieved in the short-run, while helping countries build the capacities to implement sound policies and monitor progress over the medium- and long-run. Development partners, too, must redouble their efforts to align their development assistance behind national strategies, harmonize their procedures, and reduce transactions costs. In particular, industrial countries have a critical role to play by increasing aid, opening their markets to developing country exports, and phasing out trade-distorting subsidies. While the Bank and the Fund will play a catalytic role in launching PRSPs, the success of countries’ strategies aimed at improving the lives of the poor will ultimately depend on the actions of countries themselves and the concerted aid of all their development partners. It is only through such concerted actions that the challenge of meeting the MDGs for 2015 can be addressed.