Poverty Reduction Strategies in IMF-supported Programs

Poverty Reduction Strategies (PRS) are central to IMF-supported economic and financial programs in low-income countries. PRS documents are prepared by governments in low-income countries. They assess poverty challenges, describe how macroeconomic, structural, and social policies and programs can promote growth and reduce poverty, and outline external financing needs and the associated sources of financing. PRS documentation requirements for IMF-supported programs were greatly streamlined in June 2015.

Background

The PRS approach was initiated by the IMF and the World Bank in 1999 in the context of the Heavily Indebted Poor Countries (HIPC) Initiative, where countries prepared Poverty Reduction Strategy Papers (PRSPs) and Annual Progress Reports (APRs) as a basis for debt reduction. IMF-supported programs for low-income countries have since relied on the PRS framework to make the objective of stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth. With the HIPC Initiative almost completed, the World Bank’s International Development Association (IDA) delinked its concessional financing support to IDA countries from the PRS approach in 2014. In June 2015 the IMF adopted a more flexible and streamlined PRS policy for its engagement with low-income countries.

Core principles of the current PRS policy in IMF-supported programs

- Maintain the link between the country’s PRS and policies under IMF-supported programs, with streamlined PRS documentation. This is important to demonstrate that policies under IMF-supported programs are consistent with the authorities’ PRS.

- Preserve the national ownership of the PRS process. Where national documents of good quality, encompassing the authorities’ PRS, exist, these will be used for documenting the country’s PRS, instead of requiring a new document for Fund purposes. Where such a document does not exist, a short document meeting at least the minimum standards (defined below) will be required.

- Provide flexibility in the scope and coverage of the PRS to reflect different country circumstances. Countries’ priorities and capacities vary greatly and should be taken into account when assessing the quality of the PRS documentation.

Forms of PRS documentation

The authorities’ PRS will be documented through an Economic Development Document (EDD) meeting the minimum standards defined below, and can take two forms: i) existing national development plans documenting countries’ PRS; or ii) a new EDD focused on elements of the PRS that are macro-relevant under an IMF-supported program (around 10-15 pages). These documentation requirements must be met in order for a low-income country to complete reviews under an Extended Credit Facility (ECF) arrangement or the Policy Support Instrument (PSI). Apart from the few countries still under the HIPC Initiative, preparation of PRSPs and APRs is no longer needed for the IMF’s engagement with low-income countries; on the same basis, Joint Staff Advisory Notes will no longer be prepared.
Contents of EDDs
EDDs must meet the following minimum standards to ensure a clear strategic platform for policies supported under an ECF arrangement or PSI:

- Include a strategy or plan, describing how poverty reduction and growth (PRG) objectives are to be achieved.
- Articulate specific policies, including macroeconomic and financial policies that would be pursued in the implementation of the strategy.
- Specify the launch date and timeframe for implementation to ensure consistency with the strategy underlying IMF-supported programs.

In addition to these minimum standards, countries are strongly encouraged to prepare EDDs through a broad-based participatory process (although this is no longer required) and conform to good practice guidelines. The description of the following elements is encouraged:

- existing poverty situation and trends;
- factors influencing poverty, including bottlenecks to poverty reduction;
- a fiscal and debt framework, with a view to prioritizing development spending needs based on a realistic assessment of fiscal space;
- spending effectiveness, focusing on how well money is spent on poverty;
- safety nets and risk mitigation; and
- participatory process.

World Bank-IMF collaboration
Staff will continue to draw heavily on World Bank expertise and advice on poverty reduction issues. To complement the EDD, World Bank staff will be asked to provide an assessment letter to the IMF Executive Board identifying strengths and risks of the member’s PRS and priority areas for attention during implementation. IMF staff will seek to review PRS implementation by the time of the fourth review under an ECF arrangement or PSI. This review will reflect consultations and dialog with country authorities and relevant stakeholders, including the World Bank.

PRS under the HIPC process
The 2015 changes in connection with IMF programs do not apply in the context of the HIPC Initiative. For the purpose of reaching the HIPC decision or completion points, countries under the HIPC Initiative would continue to be subject to the PRS documentation procedures as defined under the PRG-HIPC Initiative.