

Implementation of the PRS Approach in Areas Relevant to the IMF Mandate

Key Messages

The design of the PRSP approach incorporates critical but largely unrecognized internal tensions: the PRS is to be country owned, but BWI policy assessments still obviously play a major role in financing decisions; it is to present strategic country aspirations, but also provide a sufficiently detailed operational guide for policymaking and external support; and it is to be country driven but meet various BWI-driven process requirements. An understandable desire to preserve flexibility has resulted in ambiguity about the intermediate objectives and hence the benchmarks against which to measure progress.

The result has been that, in practice, the underlying incentives focus too much on procedures and specific documentation, and that there are considerable divergences in expectations about what the initiative is meant to deliver.

PRS processes have generally been country driven to a much greater extent than previous approaches. However, BWI procedural requirements are widely felt to have too much influence. In a minority of countries, PRS processes are beginning to become sufficiently entrenched in domestic institutions to be self-sustained. In most cases, however, the PRS process is a long way from being one that adapts to unanticipated developments and where monitoring of implementation feeds back into policy design.

Participatory processes of varying nature and scope have been launched in all countries. Despite ambiguity about what such processes can or should deliver, in most cases stakeholders viewed them as an improvement over past practices. They have typically succeeded in improving poverty diagnostics and also, to an uneven extent, in improving transparency, public accountability, and influencing choices on public expenditure priorities. Their role in the area of macroeconomic and related structural issues has been marginal to date.

PRSP contents reflect value added over previous strategies in terms of comprehensiveness, results orientation and long-term perspective, although significant scope for progress remains even in “good practice” cases. The analytical bases of PRSPs are typically weak, most notably with regard to the macroeconomic framework and policies to promote growth.

Insufficient prioritization, inadequate costing, and a tendency to avoid controversial structural reform issues mean that most PRSPs do not yet provide an adequate framework for making strategic decisions on key trade-offs. An additional consequence is that PRSPs generally do not provide an adequate basis to guide the design of IMF-supported programs.

In some cases, progress is being made over time in ameliorating these various shortcomings, mainly in countries that have begun embedding the PRS process in domestic institutions.

In this chapter, we examine how the PRS approach unfolded compared to original expectations, looking first at the PRS process and then at the contents of the PRSP document. Before turning to these assessments, we discuss briefly some internal tensions underlying the approach. The impact of the PRS approach on the broader policy formulation process and on policies actually implemented is discussed in Chapter 6.

Tensions Underlying the PRS Approach

There are three potential tensions in the design of the approach. Reluctance to address explicitly the various trade-offs they involve has led to vagueness in some important aspects of the design. First, there is a tension between the principle that PRSPs should be country driven, and the externally imposed requirement for “broad-based participation,” which must be associated with an underlying—but unexpressed—judgment that existing political processes in the recipient countries are inadequate in some sense. This raises questions as to how the participatory process is supposed to mesh with existing domestic political processes and when these processes would be judged sufficient in and of themselves. Most observers would agree that, as a practical matter, policy processes in these countries would benefit from opening up to broader groups, especially those representing the disadvantaged, but there are obvious dangers in pushing participatory processes that supplant or bypass existing institutional structures. Recognizing this problem, the policy papers do not specify what broad participation should imply but only that the process should be managed by the country.¹

Second, there is a tension between the two functions assigned to PRSPs, namely to present the strategic aspirations of the country with respect to poverty reduction and growth and to provide a sufficiently detailed operational strategy to enable the assistance programs of the BWIs to be anchored in the PRSP. This tension is reflected in debates over the nature of

¹Ambiguity about precisely what is expected from countries reflects the lack of a mandate for the BWIs to impose a specific political “test.” Regarding the IMF, this reluctance derives in part from the principle under international law that an international organization only has the powers specifically conferred upon it in the relevant treaty. To the extent that the IMF’s expressed purposes (i.e., in Article I) are of a purely economic and financial nature, this has been interpreted to imply that the Fund should not interfere in political issues within member countries. In addition, the IMF’s Articles of Agreement make reference to respecting “the domestic social and political policies of members” in its surveillance of members’ exchange rate policies (Article IV, Section 3(b)).

the PRSP as a document and its audience. Is it meant to be a broad “strategic vision” paper emphasizing aspirations and strategy in general terms, with the general public of the country as primary audience or is it meant to be a more detailed operational road map, with government policymakers, BWIs, and bilateral donors as the primary audience? The tension became evident as subsequent preparation of various guidelines—beginning with those for Joint Staff Assessments (JSA) of PRSPs—elaborated on the expectations and of what PRSPs should contain. The result has been a quite complicated “architecture” of expectations/requirements (see Box 1.1 in Chapter 1) and, as we shall see, an excessive focus on BWI-oriented procedural aspects in actual implementation.

Third, there is a tension between the emphasis on country ownership of policies and the role of BWI policy assessments. This tension shows up in the question of how far the “policy space” should be broadened. While the initiative is meant to encourage the exploration of alternative country-driven policy options, there is still the basic requirement that the IMF (and the World Bank) must satisfy themselves on the soundness of country policies and the implicit assumption that they can help improve outcomes by influencing policy choices through (i) policy advice, drawing on good analysis and cross-country experience; and (ii) conditionality designed to monitor mutually agreed outcomes. A further potential aim is to encourage internal decision making in favor of reforms judged desirable by the BWIs. The latter aspect sits less comfortably with some notions of ownership, but the apparent conflict can be reconciled if there is a sufficient widening of the policy space to allow genuine ownership consistent with mutual agreement.

These unresolved tensions have led to considerable flexibility in implementation and variation across countries, which is desirable especially in the beginning. However, they made it harder to derive concrete benchmarks on what changes in processes the approach was trying to achieve. They also created great divergences in expectations on what some parts of the approach are meant to deliver, thereby exposing the IMF to criticism, especially from I-NGOs, that it is only paying lip service to some aspects of the initiative (e.g., ownership and participation).

The PRS Process

We analyze the PRS process on the basis of the relevant key principles, focusing first on the extent to which it is country driven and then on the implementation of the principle of broad-based participation.²

²Implementation of the partnership principle, insofar as it relates to the IMF’s role, is discussed in Chapter 5.

To what extent are PRS processes “country driven”?

Original policy papers do not define the notion of “country driven” but the spirit of the papers suggests that the definition has to do with how much control national stakeholders have over the structure, schedule, and outputs of the PRS process. We look at three types of evidence: (i) how the process was organized; (ii) stakeholders’ own perceptions; and (iii) to what extent the process became self-sustained beyond the formulation of the initial strategy document. In making this assessment, one needs to bear in mind the situation prevailing prior to PRSPs, when BWI concessional lending was supposed to be based on Policy Framework Papers (PFPs), which by the late 1990s had become widely criticized as not being country driven.

PRSP formulation process

In most of the country case studies the drafting of the PRSP was done by nationals of the country.³ In three cases (Albania, Cambodia, and Nicaragua), the nationals in charge of drafting the PRSP were donor-funded consultants, which might have implied some donor control over the agenda. Indeed, in those three cases, the authorities complained about pressures from their international partners. By contrast, in Mozambique, the authorities refused any direct “support” from donors. In other cases, the authorities received some support from their development partners and indeed sought their feedback at various junctures in the process, but reported no complaints about feeling pressured by the latter.

Initially, the timing of the PRS process generally did not take into account domestic political cycles and planning processes but was driven by the timetable of the HIPC Initiative or, in non-HIPC countries, by the procedural requirements of the PRGF.⁴ In two cases (Albania and Ethiopia) the PRSP happened to come at a very opportune time—in the sense that the country was ready and willing to engage in the formulation of a comprehensive poverty reduction and growth strategy—but this was fortuitous. In Vietnam, the PRSP followed the adoption of a new socioeconomic development plan, which provided the basis for several elements of the PRSP, although their priorities were not

well aligned. In several other cases, the timing of the PRSP proved to be a source of difficulties. In Nicaragua, there was a change of government shortly after the completion of the PRSP, bringing into office a team that did not endorse key aspects of the strategy. Lack of ownership by the incoming government critically diminished the relevance of the initial process. However, there was eventually a broader debate on key aspects of the development strategy (Box 2.1). By contrast, in Albania, many stakeholders interviewed reported that the PRSP provided an element of stability through a protracted political crisis and four changes of government. In Tanzania, the PRS process overtook the formulation of a homegrown external assistance strategy and led to it being temporarily set aside. Formulation of the latter strategy resumed later, although its purpose was modified somewhat to reduce redundancy with the PRSP.

Several countries in our sample had a well institutionalized planning tradition at the onset of the PRS process but the latter generally unfolded through different channels than these planning exercises, without integration of the outputs (Mozambique being one exception). The relationship between these traditional plans and the PRSP was unclear. In Cambodia and Vietnam, for instance, the PRSP was claimed to be the action plan operationalizing the National Development Plan. In practice, however, the plans are the more important strategic documents in the eyes of the authorities.

The role of parliaments in approving the PRSP was uneven: of the 29 PRSPs produced up to July 2003, the final draft of the document was formally sent to parliaments in only 13 cases, but was not always debated—let alone approved. In only 3 of the cases was the PRSP reviewed by a parliamentary committee.⁵

Stakeholders’ perceptions

In all country case studies, the authorities confirmed that the key initial driver for embarking on a PRSP process was the fact that it was a necessary condition for getting access to debt relief under the HIPC Initiative and/or to concessional lending from the IMF and the World Bank. However, in some of the cases (Albania, Ethiopia, Guinea, Mauritania, and Mozambique) the authorities rapidly came to perceive the exercise as an opportunity rather than an imposition. Tanzania also adapted the approach to its own needs, even though it was initially viewed as crowding out similar domestic initiatives.

³In most cases, the bulk of the drafting was done in English, with only final outputs translated in the local language. In Guinea and Vietnam, original drafts were in the official language. In Tajikistan, the I-PRSP was translated into Russian and served as a basis for some of the subsequent consultations.

⁴Access to PRGF resources (whether approval of a new arrangement or completion of a review) is conditional upon a country’s issuance of an I-PRSP, PRSP preparation status report, PRSP, or PRSP Progress Report in the previous 12 months.

⁵Among the 10 country case studies, the final PRSP was formally approved by parliament only in Mauritania and Tajikistan. A more detailed account of the role of parliaments in the PRSP process is given in Eberlei and Henn (2003).

Box 2.1. Change of Government and Modification of PRSP Strategy: The Case of Nicaragua¹

The Nicaragua case provides an interesting example of how “country ownership” interacted with a change in government. In the fall of 2002, the new Bolaños administration sought to modify the strategic priorities introduced by the previous government with the launch of a draft new development strategy. This initiative sought to change public expenditure composition in line with the new government’s vision on how to foster growth and employment creation. In essence, the debate revolved around the “growth pillar” of the PRSP and the new government’s greater emphasis on investment in areas that they viewed as having greater growth potential, but which were not always where the poor were found.

The government’s initiative, however, was marked by tensions in the process. The launching of the new strategy coincided with the agreement on a new PRGF-supported program and a new World Bank Country Assistance Strategy (CAS)—both of which were linked to the strategy in the earlier PRSP. The government felt constrained in its ability to pursue a revised strategy, while donors had expected the PRSP to bring a more

lasting policy framework, and were concerned that the new strategy had not been subject to sufficient participatory debate. Interestingly, the intention to modify the growth pillar was not a significant topic of debate during the electoral campaign, which raises obvious questions about the degree of integration of the PRS process with existing political mechanisms.

As a result of the mixed reception, the government decided to strengthen the original draft and broaden the consultation process. A planned Consultative Group meeting was postponed, and a consultation process on a shorter, revised document was set up. The authorities presented a revised growth strategy document during the Consultative Group meeting in October 2003. Moreover, the government indicated its intention to hold a workshop in early 2004 with stakeholders to discuss how to modify the PRSP based on the new strategy. Although still ongoing and too early to assess the outcome, recent developments point to changes in the right direction, including wider consultation and the broadening of policy dialogue.

This experience illustrates some of the potential tensions between different principles of the PRSP framework, notably between ownership—and the provision of greater policy space to the government—and other objectives such as partnership and participation.

¹The background case study on Nicaragua provides a more comprehensive discussion.

The IEO/OED survey reveals interesting differences across groups on the extent to which the PRSP was driven by national stakeholders—from a clearly positive assessment by government stakeholders, to a negative one by I-NGOs and a neutral one by donors and local civil society. In 3 countries out of 10 (Mozambique, Nicaragua, and Tanzania), the average assessment across stakeholder groups was negative, whereas it was positive on average in the other cases.

Implementation and sustainability of the PRS process

A key test of the extent to which a PRS process is country driven is how it evolves beyond the formulation of the first full PRSP, in particular, whether the PRSP is being implemented and monitored, and whether it becomes as originally intended, a “living document,” periodically modified in the light of experience. A more demanding test is whether the process is sustained once there are no financial incentives directly attached to it. We examine each of these issues in turn.

As far as implementation is concerned, the case studies indicate that there was frequently a drop in

momentum immediately after the finalization of the PRSP, but implementation of some aspects proceeded relatively soon in most cases.⁶ However, to the extent that a PRSP incorporated preexisting donor-funded program and reform strategies, implementing these aspects does not represent a particularly noteworthy development. Moreover, the very comprehensiveness of PRSPs and frequent lack of specificity and prioritization of their policy orientations also made it relatively easy to relate any new policy undertaking of the government to the PRS (see Box 2.2 on Guinea for illustration).

More generally, any assessment of implementation depends critically on the quality of monitoring and reporting systems. Reflecting the initiative’s emphasis on results orientation, most PRSPs envisaged ambitious monitoring systems, based on a large number of indicators. Actual institutional arrangements for monitoring PRS implementation have been set up in many of the case studies, sometimes building on existing structures (Albania, Ethiopia, and Mozambique), in other cases involving newly

⁶This is true even in cases where implementation was initially disrupted by political developments (e.g., Albania and Nicaragua) or by interruptions in aid flows (e.g., Guinea).

Box 2.2. A Case of Observing PRS Principles Without Achieving Its Objectives: The Guinean PRSP

The Guinean PRSP, prepared by senior civil servants following a broad-based participatory process, was generally well regarded by the BWIs as a document, in the sense that it makes a comprehensive diagnosis of poverty, and presents a well-articulated strategy that takes a long-term perspective, is reasonably results oriented, and reflects some prioritization efforts.¹

As a process, however, the PRS did not outlive the formulation of the PRSP itself. Dissemination of the PRSP within the country has been very restricted, so that there is little awareness—let alone ownership—of its contents. The participatory infrastructure set up for the formulation of the PRSP has been largely dormant since its completion, with the exception of two thematic groups, one focused on culture and communication, the other on evaluation and monitoring. The latter, however, only has a consultative role, and two years after the completion of the PRSP there are no well-defined transparent arrangements for the monitoring of PRS implementation. Mechanisms to update the PRSP are also lacking, and—with some exceptions in the year following the completion of the PRSP—the policy formulation process is driven by other considerations.

¹The participatory process was broad in the sense that it included direct popular consultation at the grassroots level and involved representatives of civil society and donors in thematic working groups and occasional workshops. However, it did not lead to a meaningful policy debate in most areas, especially with respect to the macroeconomic framework and related structural reforms.

The PRSP had little impact as a strategic guide (especially in the macroeconomic and related areas), for the following reasons: (i) The macroeconomic framework outlined in the PRSP was superseded by events (including exogenous shocks, deviations from policy commitments, and withdrawal of external assistance) even before the PRSP was finalized. It was not subsequently updated to reflect changes in the external environment; nor did it incorporate contingency scenarios or broad orientations indicating how trade-offs should be resolved in the event of a changed environment. (ii) The PRSP was insufficiently prioritized, in the sense that the priority actions envisaged exceed both the capacity of the country to deliver and the resources available. In some areas, there is also a disconnect between the priorities outlined in the PRSP (e.g., governance) and the government's actual agenda. (iii) The PRSP initially had some links with the medium-term expenditure framework (MTEF) and, through it, the budget, but the budget actually implemented reflected only loosely PRSP priorities. (iv) The PRSP failed to discuss in any operational way structural reforms considered key for an improved macroeconomic performance, such as state-owned enterprise reform.

For reasons largely unrelated to the contents of the PRSP, the donor community has remained unwilling to provide financial support commensurate with the PRSP's needs and assumptions. The PRGF-supported program approved in 2001 went off track a few months after the PRSP was reviewed by the Boards of the BWIs, and the PRSP has not proved a useful guide to discussions between IMF staff and the authorities on ways to bring it back on track.

dedicated units (Cambodia, Nicaragua, Tajikistan, and Tanzania). In most countries, these institutional arrangements have yet to produce usable data, reflecting in part acute capacity constraints and difficulties in prioritizing indicators.⁷

The main evidence on which to base an assessment of PRS implementation are the PRSP Progress Reports (PRSP-PRs) that countries are required to prepare on an annual basis in order to have continued access to PRGF resources. The guidelines for JSAs of PRSP-PRs note that “with a view to minimizing the administrative burden on countries, it is expected that the reporting on progress could be integrated within regular government processes and be presented as short summary documents. The exact timing of the annual report is flexible, and could also change over time in order to become consistent with national

reporting and decision making processes.” However, PRSP-PRs issued to date suggest that, in practice, countries have not made use of the flexibility provided, nor in most cases have they integrated the preparation of PRSP-PRs with their own budget process. For instance, in Mozambique, the authorities wish to align substantive updates and revisions of the PRSP to the domestic political cycle, and they find it unfortunate that the production of a PRSP-PR follows a cycle driven by external procedural requirements.

As of February 2004, 12 countries had issued at least one PRSP-PR.⁸ Many PRSP-PRs report good progress in the implementation of relevant structural reforms, often in the areas of public expenditure management, decentralization and privatization, and

⁷Issues related to monitoring of poverty and related indicators are discussed in greater depth in the parallel OED evaluation.

⁸Out of the 23 countries with over a year of experience under a PRSP. The 12 countries are Albania, Burkina Faso, Ethiopia, Honduras, Malawi, Mauritania, Mozambique, Nicaragua, Niger, Tanzania, Uganda, and Vietnam. Five of these countries have issued a second PRSP-PR and two have issued a third.

Box 2.3. Too Much Paperwork?

The focus of the PRSP initiative on document production imposes a heavy burden on both country authorities and IMF staff. As the list below shows, both are asked to produce a series of papers with partially overlapping purposes and issues coverage. For the authorities, these paperwork requirements coexist with those of “homegrown” processes (e.g., budget documents, medium-term expenditure frameworks, and development plans).

Documents relevant to the PRS/PRGF initiative that are periodically produced by:

Country authorities	IMF staff
I-PRSP	PRGF staff report
PRSP	Article IV staff report ²
PRSP Progress Report	Joint Staff Assessment (JSA) of PRSP ³
Preparation Status Report ¹	JSA of PRSP Progress Report ³
LOI/MEFP	Comfort/assessment letter ¹
	HIPC-related reports (three types) ^{2, 3}
	Country Strategy Paper ¹
	Ex post assessment ¹
	Progress in Implementation Report ^{3, 4}
	Global Monitoring Report ^{3, 4}

¹Document to be produced only under specific circumstances, that is, not systematically required.

²Periodicity and other rules regulating the production of these documents are independent of the PRSP/PRGF initiative, but they are nonetheless highly relevant and have a high potential for overlap.

³Produced jointly with the World Bank.

⁴These reports are initiative-wide, but build on country-specific data. Their main authors are not the country teams responsible for the production of other reports listed.

in the setting up of working institutional arrangements to monitor PRS implementation. Only one country (Nicaragua) reported progress against annual quantitative targets.

The extent to which PRSPs are “living documents” varies considerably. At one extreme, the institutional arrangements that produced the PRSP have largely dried up (e.g., Guinea). At the other end of the spectrum, Tanzania has set up a process that allowed it to fill gradually the major gaps in its initial PRSP while also adapting it to changes in the macroeconomic environment. Mozambique has also made progress in institutionalizing the process. In between, most of the countries that have prepared PRSP-PRs have used it as an opportunity to update the initial strategy, often adding substantively to the original paper with regard to diagnostics (e.g., as the results of large-scale surveys became available) or with respect to specific sectoral strategies (e.g., in Mauritania, Nicaragua, and Vietnam).

To summarize, the extent to which PRS processes have been country driven varies substantially. In all cases, the primary driver was initially access to debt relief and concessional assistance, but in a number of cases country ownership appears to have strengthened over time. The extent to which the process has taken root, and brought about changes, also varies across sectors, being typically slimmest with respect to the

formulation of macroeconomic policies. Among the four country case studies that had reached their completion point under the HIPC Initiative at the time of writing, two (Mozambique and Tanzania) seem to have established processes now sufficiently entrenched that they are likely to be self-sustained.

Excessive documentation requirements

Another important message on PRS processes emerging from our evaluation—and one that was emphasized by both country authorities and IMF staff—is the excessive paperwork burden (see Box 2.3). Indeed, paperwork seems to have increased, rather than diminished, over time.

How effective has “broad-based participation” been in PRS processes?

What does “broad based participation” mean?

As noted above, the original policy papers were deliberately not very precise on what is meant by broad-based participation and there are a number of different concepts of participation in the literature. McGee and Norton (2000), for example, propose a ladder of degrees of participation consisting of (i) information dissemination; (ii) consultation (involving

Table 2.1. Possible Categories of Participation and Their Objectives

Possible Objectives of Participation	Is Objective Explicit in IMF Policy Documents?	(Minimum) Degree of Participation Required to Achieve Objective
A. Better design of poverty reduction/growth strategies A1. From improved diagnostics A2. From richer policy debate (considering broader range of alternatives)	Yes	Information exchange Consultation
B. Improved policy implementation B1. From enhanced accountability B2. From enhanced ownership /broader consensus	Yes	Information exchange Collaborative decision making
C. Empowering disadvantaged groups C1. By fostering a sense of inclusion C2. By strengthening the voice and influence of the poor in the domestic balance of power	No	Information exchange Collaborative decision making

a two-way flow of information); (iii) collaborative decision making; and (iv) initiation and control by stakeholders.⁹ The degree of participation needed within this hierarchy depends upon the objectives sought. The matrix in Table 2.1 identifies different levels of objectives and indicates the level of participation relevant for each objective while also indicating whether the objective is explicitly mentioned in IMF policy documents. A review of IMF policy papers suggests that only objectives listed under A and B in the matrix are expected intermediate outcomes of the PRS/PRGF initiative. “Empowerment” receives more emphasis in external commentaries, but is not included among the explicit objectives of the initiative. Consistent with the concern not to impose a political test on countries, the JSA guidelines call for the staff to describe, not assess, the participatory process—with any assessment left to the Executive Boards, although the criteria on which such an assessment would be made are nowhere defined explicitly. In practice, the IMF Board rarely makes such an assessment. In the absence of specific standards, governments typically understood participation as information sharing or, at best consultation, with some variations across topics (see Annex 5 for details on the case study countries).¹⁰

⁹Other authors, while retaining similar categories, prefer defining participation as a continuum of approaches (e.g., Robb and Scott, 2001). The PRSP Sourcebook describes participation as “the process through which stakeholders influence and share control over priority setting, policy-making, resource allocations and access to public goods and services.”

¹⁰The idea of specific “standards” for participation appears to have been rejected during discussions in the early stages of the initiative, for two reasons. First, as in other areas, it was felt that imposing norms across countries would run against the initiative’s emphasis on country-driven processes; second, that such cross-country guidelines or standards would be meaningless because of

What has participation achieved in macroeconomic and related areas?

Clearly, the appropriate or even feasible degree of participation will vary according to country circumstances (in particular, their “starting point” in terms of openness of the policy debate and literacy of the population), but also depending on the topic at stake. Thus, the yardstick of success is at least as much progress from the starting point as distance from the ultimate objective. With this in mind, we assess the impact of participation on policy issues where the IMF has primary responsibility among the BWIs.

Did participatory processes contribute to a better design of poverty reduction strategies? Most case studies suggest that the participatory process was instrumental in reaching a good diagnosis of poverty and in choosing related indicators to be included in the PRSP, by bringing out previously underemphasized dimensions such as vulnerability and other nonincome aspects of poverty. Beyond this admittedly important element, the impact of the participatory process on final strategies was generally not large, at least in areas of primary concern to the IMF.¹¹ It contributed to determining broad priorities in the composition of public expenditures in a number of cases and influenced policies in a few other areas (e.g., user fees for primary

the wide differences found between country contexts and political systems (a notion that is supported in the literature on participation). However, it is hard to see how at least clarifying what was expected from the participatory process (along the lines of the “ladder” discussed above) would have imposed more limits on the accommodation of country specificities than the current approach.

¹¹This is reinforced by the broader sample. Only about one-fifth of the 23-country sample of PRSPs note any impact of the participatory process on policies.

schools) in several countries. In three of the case studies (Guinea, Mozambique, and Nicaragua), stakeholders noted that the prominence of governance in the strategy was a result of the participatory process. Beyond these specific examples, there is little evidence of a substantive impact of participatory processes on the macroeconomic and related structural policy choices embedded in PRSPs.¹² In a number of cases, some important but controversial structural policy issues did not surface in the broader debate around the PRSP (see the section “Contents of PRSPs in Macro-Relevant Areas.”). Consistent with these findings, our survey of PRSP stakeholders revealed that stakeholder groups outside of government disagree that alternatives were fully explored, and also generally disagree that the final document was modified to accommodate some of their viewpoints.

What was the impact of PRS participatory processes on accountability and ownership? In most of the cases studied, stakeholders felt that the participatory process leading to PRSP formulation represented a significant improvement over past practices, in particular by enhancing the transparency of government policies and access to government representatives. It also fostered a sense of inclusion that was new for many stakeholders. This effect was often short-lived, reflecting the ad hoc nature of the process, but it raised expectations that could, in some cases, be a driving force behind more sustained improvements in accountability going forward. Indeed, a number of civil society stakeholders we interviewed stressed that, viewed in a dynamic context, the process had opened up new windows to influence policy formulation and to provide feedback on implementation, which they viewed as a major value added even if the results had been more evident in some areas (e.g., some sectoral policies) than others. The case studies also suggest that the process created strong ownership of the strategy at least within the relatively narrow circle of those directly in charge of managing the PRSP formulation process. Ownership at the broader government level subsequently strengthened in many cases as implementation proceeded, at least in “priority” ministries (e.g., Albania, Ethiopia, Guinea, and Tanzania), but it remained elusive in other parts of government (especially at the local levels) and in large parts of civil society.¹³

¹²In several cases, a further broadening of the debate and of the policy space did occur over time, but the outcome was not necessarily reflected in the PRSP itself. This is discussed further in Chapter 6.

¹³This latter finding broadly echoes the conclusion reached, among others, by Booth (2003).

What were the main obstacles to more effective participation?

In most cases, the debate was not framed in a way that was conducive to effective participation in the sense that participants were generally not made aware of key data and analytical underpinnings and of the trade-offs at stake, nor were they explicitly asked to prioritize their preferences. Moreover, the format of consultations limited participants’ ability to provide substantive inputs, in particular: lack of access to information before the meetings and of follow-up afterward; limited lead time to react to drafts submitted (especially in Cambodia and Guinea); implicit constraints to open expression of views by stakeholders (Cambodia, Guinea, Mauritania, and Vietnam); and, often, the advanced stage at which inputs were sought, implying little or no scope for discussion of alternative options and trade-offs.¹⁴ Furthermore, in most cases, some key stakeholder groups (e.g., parliamentarians, the poor, and the business sector) did not take part in a meaningful way (see Annex 5 for details).

Participatory processes typically did not address all building blocks of the PRS in the same depth, with policy areas of primary concern to the IMF receiving the least attention. Poverty diagnostics were usually extensively covered, but macroeconomic policy and structural reforms were typically side-stepped or not discussed in any depth, with the important exception of the composition of public expenditures (Box 2.4). Still less participation and policy debate appears to have occurred in countries facing immediate macroeconomic stabilization challenges. Indeed, there was generally not even “information sharing” on some sensitive policy issues (e.g., bank restructuring and its fiscal consequences in Mozambique and Nicaragua). Many of these issues would be difficult to address substantively in “town-hall” type meetings, but except in a few cases there was little experimentation with other approaches to broadening the debate on macroeconomic issues (e.g., through involvement of local research groups, and more systematic discussion in relevant parliamentary committees). Countries where steps had been taken to establish more institutionalized processes did better in this respect (although as the Tanzania case suggests, even here there were limits to civil society involvement. We will return to this in Box 4.2). Not surprisingly,

¹⁴Similar problems are reported in external reviews of the PRSP experience in Bolivia, Cameroon, Ethiopia, Honduras, Mozambique, and Nepal (see, for instance, Stewart and Wang, 2003). While in most cases the pressure imposed by the schedule of the HIPC Initiative was reportedly an important factor, it cannot be an explanation for other cases.

Box 2.4. Was Macroeconomic Policy Discussed in the Participatory Process? Insights from Case Studies¹

Tanzania. Initial consultation involved some discussion of expenditure priorities but not of the broader macroeconomic framework or trade-offs involved. The situation changed dramatically afterward, with key macroeconomic issues now being debated in open forum in the Public Expenditure Review (PER) working groups. NGO involvement in those debates remains limited, however, at least in the macroeconomic area.

Mauritania. Limited involvement of NGOs in the activities of the working groups dealing with macroeconomic issues, due to lack of interest and capacity.

Mozambique. Macroeconomic policy not on the agenda of public consultations, but some issues surfaced nonetheless from NGO inputs, such as trade protection, industrial subsidies, and access to credit.

Guinea. One of six multi-stakeholder thematic groups set up to do the groundwork of PRSP formulation was dedicated to macroeconomic policy and growth sectors. Its participants reported having regular and active discussions throughout the PRSP formulation process. However, by their own account, these discussions were not very substantive. In particular, the overall macroeconomic framework in which the PRSP would be embedded was not discussed, nor were policy alternatives

or trade-offs. The main output of these meetings was to spell out broad policy objectives such as increasing domestic revenue mobilization, keeping inflation low, and enhancing the availability of micro credit.

Vietnam. Macroeconomic policy and some related structural reforms were not put on the agenda of consultations by the organizers of the process (notably the World Bank and I-NGOs, with the approval of the authorities) partly because they were not viewed as priority issues given prevailing macroeconomic stability.

Tajikistan. One of nine multi-stakeholder working groups set up to do the groundwork of PRSP formulation was dedicated to “macroeconomic management” and there was some discussion of macroeconomic issues in the consultation process. In particular, the poverty assessment report prepared by the NGO umbrella group does contain a number of recommendations related to macroeconomic policy, focused on transparency in public finances, tax policy, exchange rate management, and the fight against inflation. These inputs suggest there is scope for broadening participation in macroeconomic policy discussions.

Ethiopia. Discussions of the macroeconomic framework were generally viewed by stakeholders as insufficiently participatory, although they broadly acknowledged that the framework represented a step forward from earlier approaches.

Cambodia. The macroeconomic policy sections of the PRSP were not subject to any significant consultation with civil society representatives.

¹Countries are listed in chronological order of completion of their PRSP (more recent last). Here, we define macroeconomic policy as including key medium-term macroeconomic assumptions, fiscal policy, the objectives of monetary policy, exchange rate, and related structural reforms (including reform of state-owned enterprise (SOE), financial sector reform, and trade policy).

therefore, most nongovernmental stakeholders surveyed disagreed that the macroeconomic framework of the PRS was derived in a participatory manner.

The participatory process related to the formulation of the PRSP was conducted as an ad hoc exercise in most cases, not as one that would need to be sustained overtime. As a result, an initial drop-off in the level of participation generally occurred following completion of the PRSP. Efforts to disseminate the strategy to the general public once adopted have been limited.¹⁵ In some cases (e.g., Albania, Mauritania, Mozambique, and Tanzania), this was fol-

lowed by a gradual pickup at the monitoring and implementation stage, often as governments started preparing a PRSP-PR. In those cases, the development of participation was a dynamic one—gradually deepening over time as governments learned the advantages of such processes and various civil society groups began to identify various “entry points”—in particular the budget process—where they could have an influence on the decision-making process. In most other cases, however, the tapering off of participation has continued.¹⁶

In sum, the objectives requiring only information exchange (such as improved diagnostics, enhanced accountability, and greater sense of inclusion) were

¹⁵As of July 2001, of the 36 PRSPs and I-PRSPs documents produced by non-Anglophone countries, only 25 existed in an official language version and out of these 25, 17 were not published by the member country or by the IMF. Among the case studies, Mauritania and Tanzania are noteworthy exceptions. Resource constraints appear to have been an important factor in at least some cases.

¹⁶Across the 10 country case studies, civil society stakeholders surveyed generally disagreed that the government had continued to engage them in the PRS process beyond formulation. There was no apparent correlation between these perceptions and the maturity of the process.

often met to some extent. However, progress with respect to the objectives requiring a deeper form of participation—that is, richer policy debate and enhanced country ownership, strengthening the voice of the poor, and so on—was much less and was also uneven across countries and policy areas, with the least impact on issues where the IMF is more directly concerned. Some degree of institutionalization of the process seems essential to ensure continued stakeholder involvement and capacity building over time.¹⁷ However, this also raises difficult questions on how to integrate the ad hoc PRS process with traditional democratic institutions, which, no matter how flawed initially, should take over the responsibility for the participatory process after a transition phase. In this connection, the very limited involvement of parliaments in PRS processes to date remains a cause for concern.

Contents of PRSPs in Macro-Relevant Areas

We now turn to an assessment of the contents of the PRSPs in the areas most relevant to the IMF mandate based on a desk review of the 23 PRSPs and additional insights from the 10 IEO/OED case studies and external evidence.¹⁸ We assess PRSP contents against four sets of criteria: first, compliance with the underlying PRS principles (see Box 1.2); second, whether the contents are so uniform that they imply conformity to BWI-driven policy approaches; third, the expectations and suggested characteristics established by the JSA guidelines; and finally, suitability as a basis for an IMF-supported program.

Compliance with underlying PRS principles

Comprehensiveness

The principle of comprehensiveness applies both to the definition of poverty, and the policy agenda envisaged to tackle it. Our evaluation suggests that the principle has been implemented with greater success in the former area. The survey of stakeholders in case study countries indicates broad agreement that PRSPs make an adequate diagnosis of both the nature and causes of poverty. The case studies also revealed that stakeholders typically felt that the PRS approach had added value in this respect. JSAs also consider this area to be one of PRSP's main strengths in over two-thirds of cases.

¹⁷See Eberlei (2002) for a discussion of the defining characteristics of a fully institutionalized participatory process.

¹⁸Our focus here is on the PRSPs as documents. The impact of these documents on policymaking is discussed in Chapter 6.

Our assessment is much less positive with regard to the comprehensiveness of the policy agenda embedded in PRSPs. While virtually all PRSPs (in the 23-country sample) discuss growth, human capital development/social services delivery, and governance, these areas are generally not covered in the same depth. In most countries, significant efforts had already gone into defining strategies in the areas of health and education prior to the PRSP, resulting in more fully fleshed out strategies in these areas. There was typically much less emphasis on the broader obstacles to growth or on strategies in sectors such as agriculture or infrastructure. In some cases (e.g., Mozambique, Nicaragua, and Tanzania), strategies in the latter areas were completed post-PRSP. Strategies for private sector development were frequently underdeveloped. Fox (2003) notes that even though virtually all PRSPs assign a key role to the private sector as an engine of growth, less than a fifth outline concrete commitments in that regard (among the case studies, Vietnam is a noteworthy exception). Similarly, trade liberalization is an issue that, although of significance for growth and poverty, was discussed in some detail only in a minority of PRSPs.

Another problem revealed by the case studies is that the various components of the strategy are often poorly integrated, in the sense that the linkages and synergies between them are not fully discussed and that they do not necessarily fit in the macroeconomic framework of the PRSP. For example, in the minority of cases where it is spelled out, the total of expenditures required to implement all the parts of the strategy often exceed by far the available resource envelope (the Cambodia PRSP offers one of the starkest illustrations). Furthermore, in most cases, comprehensiveness was achieved at the expense of realism and operational relevance owing to a failure to prioritize the policy agenda (see next section).

Results orientation

Virtually all PRSPs discuss monitoring indicators and/or arrangements. Nevertheless, this area is identified by JSAs as a key weakness in 60 percent of PRSPs. A frequent problem revealed by our case studies is that the indicators and monitoring arrangements contemplated in PRSPs far exceed the administrative capacity to collect and analyze the underlying data (e.g., in Cambodia, Ethiopia, Guinea, and Vietnam)—a process that is very resource intensive and, realistically, will take many years to institutionalize in most countries. Furthermore, indicators are typically better defined for health and education strategies than in other areas, where inputs or process-based indicators tend to dominate, or indicators are simply lacking (e.g., in the area of structural reforms or governance). In some cases, there is no straightforward relation be-

tween the indicators monitored and the targets of the PRSP.

The most important obstacle to a greater results orientation of PRSPs is the still tenuous nature of links to the budget and medium-term expenditure frameworks (MTEF). Over half of the full sample of PRSPs lacked such links initially; among our case studies, only 4 countries out of 10 foresaw links in their PRSP, at least for expenditures in designated “priority sectors” (Albania, Ethiopia, Guinea, and Mozambique). In other cases (e.g., Tanzania), such links were successfully developed *ex post*. Where links between the PRSP and the MTEF existed on paper from the start, their effectiveness was weakened by the fact that the MTEF was itself only loosely connected with the budget actually implemented (e.g., in Guinea).¹⁹ In Vietnam, efforts to establish a MTEF are only just beginning. These weaknesses reflect a combination of limited costing and prioritization in PRSPs and the poor state of public expenditure management generally—an issue we return to in Chapter 4.²⁰

Despite these difficulties, interviews conducted as part of the case studies suggest that bringing some degree of results orientation to poverty reduction/development strategies has been one of the main value added of the PRSP approach.

Long-term perspective²¹

Our survey of PRSP stakeholders suggests a general agreement (in 8 countries out of 10) that PRSPs provide an adequate road map to long-term goals, although I-NGOs and donors tend to be more skeptical than domestic civil society and government stakeholders. However, our evaluation suggests a more negative assessment. The linkages between medium-term, operational targets and longer-term ones are generally not well specified. In particular, most PRSPs do not provide an effective guide to how the strategy will need to be modified if the macroeconomic framework is disrupted, a decision that depends on how critical trade-offs are handled. We return to this issue later.

Are PRSP contents so uniform as to suggest implicit BWI-driven policy standards?

While the JSA guidelines and the PRSP Sourcebook are explicitly not prescriptive, outside critics

¹⁹The approach taken in Uganda—to publish these documents as backing for the annual budget—seems to be the best one.

²⁰Bevan (2004) provides a more detailed elaboration of these issues.

²¹Other aspects of this issue, including linkages between the PRSPs and the MDGs, are addressed in the OED evaluation.

have argued that there are implicit standards that countries feel obliged to abide by to ensure that the BWIs endorse their PRSPs.²² We tested this hypothesis by reviewing the contents of the 23 PRSPs completed by end-2002. A high degree of uniformity could suggest the existence of implicit standards constraining the extent to which PRSPs can truly be country driven.

The desk review of 23 PRSPs does suggest some degree of uniformity, but not to such an extent as to prove the existence of implicit standards.²³

- All PRSPs contemplate measures to increase domestic revenue mobilization, although the means envisaged vary by country: some mention side-by-side general increases in revenue, improvements in tax administration, broadening the tax base, and reforming tax legislation, while others choose to emphasize one or several of these avenues.
- A little over half the sample also considers measures on the expenditure side: in two cases, expenditure cuts; in other cases rationalization of expenditures or improvements in public expenditure management, alone or in combination.
- As regards key structural measures defined at a high level of generality, common themes do emerge: almost two-thirds of PRSPs envisage some form of privatization, and a little under half give some emphasis to financial sector reform (liberalization) and decentralization. The vast majority of PRSPs also put some emphasis on improving public sector governance. The coverage of all these areas in PRSPs may well reflect encouragements to that effect found in the JSA guidelines and the PRSP Sourcebook. Likewise, coverage of so-called cross-cutting issues, such as gender, environmental sustainability, and HIV-AIDS, was gradually mainstreamed after their absence in the first generation of PRSPs attracted repeated criticism from the Boards of the BWIs and was also mentioned in several of the staff reports on Progress in Implementation. But

²²Strictly speaking, the IMF and the World Bank do not “approve” the PRSP. However, for countries to receive concessional lending (and, where relevant, debt relief) from them, the Boards of both institutions have to determine that the PRSP constitutes a credible poverty reduction strategy and a sound basis for their lending operations. In practice, most external stakeholders either are unaware of this subtle distinction, or regard it as irrelevant or misleading, in the sense that the positive signal from the BWIs is critical for external assistance in support of PRS implementation to materialize.

²³The desk review involved recording in a matrix (not reported here) the following two elements for each PRSP: (i) key fiscal measures; and (ii) key structural policy measures in macro-relevant areas.

the policy choices made under these headings are country specific.

- PRSPs vary with respect to some fundamental policy choices. For instance, while a majority envisages a reduction of the role of government in the economy, about a third do not. In the area of trade policy, about a third of PRSPs envisage policies that directly contradict the policy advice given in the PRSP Sourcebook.²⁴

There is also a widespread perception that the prominence given to governance in many PRSPs owed much to donor pressures. However, the case studies indicate that this high profile also accurately reflected the views expressed by many stakeholders during the PRS process.

While this evidence on content does not suggest an externally driven blueprint, perhaps of greater concern is what is *not* in the PRSPs. The case studies suggest that a number of issues that might be politically sensitive or where the authorities and the BWIs may have diverging views are given only a cursory treatment. Trade policy and state enterprise reforms were common examples; another area skirted over was issues associated with bank restructuring (e.g., in Nicaragua), although in this case there are practical reasons—avoidance of bank runs—why broader public debate would have been difficult. In any event, the fact that these issues were not dealt with adequately in the PRSP often led to “downstream” problems when the same issues arose in the context of PRGF negotiations. (We will trace through the impact of the policy debate on specific policy outcomes in Chapter 6.)

Conformity to expectations set out in JSA guidelines

Analytical basis

According to the JSA guidelines, PRSPs are expected to contain four key analytical elements: an assessment of the impact of past policies on growth and poverty reduction; an analysis of the key constraints to growth and poverty reduction; an analysis of the sources of growth; and poverty and social impact analysis of the key policies contemplated.

Most PRSPs are rather weak in their coverage of these aspects. No PRSP in the 23-country sample that we evaluated has all four analyses, and the largest group (43 percent of the cases) provides only one of the four elements. Two PRSPs (Burkina Faso

and the Kyrgyz Republic) that were accepted as providing a sound basis for concessional lending had none of these analytical elements. Of the four components, PSIA (loosely defined) is the least frequently found (in only 2 cases out of 23). Assessments of past policies and analyses of the sources of growth were the most frequent—undertaken in about half of all cases—but in a somewhat cursory way in most cases. Analyses of the key constraints to growth and poverty reduction are present to some extent in only 30 percent of PRSPs, with typically more emphasis on obstacles to poverty reduction than to growth.

It is important to recognize that these types of analyses are very demanding in terms of data availability and technical capacity and it is perhaps not surprising that the analytical basis is an area of weakness in most initial PRSPs. However, this weakness may limit the validity and relevance of the strategy adopted. Encouragingly, PRSP Progress Reports suggest that in several cases (e.g., Ethiopia, Nicaragua, and Tanzania) work is under way to remedy these knowledge gaps, but most PRS processes have not generated prioritized action plans on what the BWIs themselves should be doing to help fill these gaps.

Prioritization, costing, and financing

JSAs identify costing, financing, and prioritization as one of the main weaknesses of PRSPs in two-thirds of the 23 cases. Costing of action plans is frequently attempted, but is usually partial and rudimentary.²⁵ Over a third of PRSPs lack a financing plan and/or a prioritized action plan.

The case studies reinforce these messages. While all PRSPs contain a policy matrix outlining elements of an action plan in various areas, these are frequently little more than wish lists resulting from the aggregation—without prioritization or costing—of the preferences expressed by various stakeholder groups in the participatory process (e.g., in Albania and Cambodia). Clearly, with practically no knowledge of the respective poverty impact of various measures and only imprecise estimates of their costs, it is difficult to achieve a meaningful prioritization of the action plan. In some cases, efforts have been made to assign degrees of priority to the various objectives of the PRSP, but the large number of “high-

²⁴See Ladd (2003). This review also concluded that most PRSPs skirted many of the fundamental strategic choices involving trade policy.

²⁵Bevan (2004) distinguishes three levels of PRSP “costing”—corresponding to rising standards: (i) wish lists of aspirations accompanied by tentative expenditure estimates where possible; (ii) aggregative and extrapolative expenditure estimates; and (iii) activity-based budgeting, based on unit costs. He concludes by stressing the very preliminary nature of what has been achieved in PRSPs against these standards, even in the strongest cases.

priority” objectives limits the practical value of this effort (e.g., in Guinea), and the actions considered to achieve each of these objectives are not, themselves, prioritized. Often, prioritization and costing are more advanced in “priority sectors” (typically health, education, and infrastructure) than in other areas. PRSP Progress Reports (for the whole sample of PRSPs) suggest that little progress is made in improving the prioritization and costing of PRSP action plans in the years following the completion of the full PRSP—Mozambique being a “good practice” exception.

Diagnosis of implementation constraints

Most PRSPs fall short of expectations in discussing risks and implementation constraints. Less than one-fifth of cases provide such a discussion, even though our case studies indicate that administrative capacity constraints are severe and constitute a serious risk to implementation. Other risks, such as disruptions in aid flows or exogenous shocks, are also rarely discussed in detail, even though most countries experience them with some frequency. This assessment is echoed by our survey of PRSP stakeholders: in 6 countries out of 10, a majority of stakeholders surveyed do not agree that the targets and plans outlined in the PRSP are realistic, with I-NGOs and donors being the most skeptical groups.

Suitability as basis for IMF-supported programs

As noted at the beginning of this chapter, the PRS initiative has established relatively few concrete benchmarks, in terms of intermediate objectives for changes in processes, against which progress of the initiative could be systematically assessed. Since PRGF-supported programs are supposed to be embedded in the PRSPs, one potential benchmark of particular importance to the IMF suggests itself: do PRSPs provide an effective strategic guide for policymaking in macroeconomic and related areas that would provide a suitable basis for IMF-supported programs? Existing IMF policy documents do not define explicitly which, among all of the expected or suggested components of a PRSP, are critical for them to constitute a sound basis for a PRGF-supported program. Our case studies suggest that the following characteristics are essential if PRSPs are to play this role:

- A macroeconomic framework (i.e., growth projections, revenue and expenditure projections, and balance of payments) that is realistic, internally consistent, and incorporates reasonable cost estimates for identified priority actions. It

should also identify how policies will be adjusted in response to unanticipated shocks;²⁶

- A clearly articulated growth strategy, mindful of the trade-offs likely to arise and of their implications for poverty reduction.
- Prioritized public policy actions in macro-relevant areas, in particular related to the major structural policies that have been an issue in the past.

Very few PRSPs had satisfactory macroeconomic frameworks. In only 4 out of the 10 case studies (Albania, Vietnam, Mauritania, and Tanzania) did PRSPs present a realistic macroeconomic framework. In the case of the latter two countries, this was obtained by explicitly adopting in the PRSP the same framework as in the pre-existing PRGF-supported program. In the 6 other cases, the original macroeconomic framework was either superseded by events by the time the PRSP was discussed by the Board (Tajikistan, Guinea, Mozambique, and Nicaragua) or unrealistic (Ethiopia) or incomplete (Cambodia). In these cases, there was an understanding that annual PRSP Progress Reports would provide an opportunity for revisions of the macroeconomic framework.

In none of the 10 country case studies were alternative scenarios explored in the PRSP, and only in Cambodia did the PRSP consider, to a limited extent, the downside risks to the framework and their macroeconomic implications.²⁷ In most cases there were no contingency plans identified or even broad orientations outlined to indicate how the framework might be adjusted in response to adverse or favorable shocks.²⁸ Interestingly, these weaknesses were noted candidly in the respective JSAs, but did not prevent the staffs from reaching the unqualified conclusion that the PRSPs constituted sound bases for IMF and World Bank concessional lending. (We return to this issue in Chapter 3.)

²⁶The idea is not for a PRS to offer detailed contingency plans attempting to address every possible type of shock that might arise, as experience shows that this is unrealistic and ineffective. Rather, the PRSP should set key strategic orientations that would provide guidance in solving the trade-offs that arise when policy adjustments are needed.

²⁷Among the 23 countries that completed a PRSP by end-2002, only three (Niger, Rwanda, and Senegal) presented fully fleshed out alternative scenarios. Madagascar is another more recent example.

²⁸The medium-term macroeconomic framework of the Tajikistan PRSP, for instance, was judged by staff to be conservative and therefore the JSA recommended to the authorities that they should flesh out a higher case scenario. In Guinea and Vietnam, the PRSP outlined broadly what additional expenditures would be undertaken in the event of higher resource availability. In the case of Guinea, the baseline scenario itself was optimistic, so the value added of an even more optimistic alternative scenario was limited.

Box 2.5. Why Is It Proving So Difficult for the PRS Approach to Provide an Effective Operational Road Map on Macroeconomic Policy?

The evaluation suggests several reasons why the PRS approach has generally not been successful in using the new way of doing business implied by the PRS principles to generate a strategic guide to policymaking on macroeconomic issues.

1. *Problems of transition.* Many countries already had IMF-supported programs before their PRSP was finalized, and in these cases the macroeconomic strategy and framework was generally taken from the program and incorporated into the PRSP. Over time, more PRSPs are preceding the PRGF-supported programs, which would be the normal sequence (see Chapter 5).

2. *Capacity weaknesses,* especially in costing, public expenditure management, and budgetary processes. These weaknesses can be remedied over time, and some progress has been made but expectations need to be based on realistic assessments of each country's initial capacity in these areas. Major improvements will almost certainly take significant time.

3. *Insufficient change in the IMF's way of doing business.* The IMF's internal procedures have adapted, but there continues to be substantial differences between "average" and "best" practice. Moreover, the least change—in terms of exploring ways of opening up the policy debate to consider alternative options—has occurred in those circumstances where the IMF's role is likely to be most critical (e.g., in "difficult" cases where immediate macro-stabilization concerns are at the forefront). This suggests that additional efforts may be needed to apply the PRS principles in such cases, even when the PRSP itself is imperfect. We discuss these issues further in Chapter 5.

4. *Reluctance to address some controversial but macroeconomically critical issues in the PRS process.* Part of the solution to this and the preceding issue is to have clearer "rules of the game" on the nature of the policy debate.

5. *The nature of some macroeconomic policy issues makes it difficult to generate an effective, lasting operational guide.* Most low-income countries face especially volatile environments that complicate longer-term macroeconomic planning.¹ Consequently, detailed quantitative macroeconomic frameworks typically have a short shelf life. This means that discussions on how macroeconomic policies should respond to such shocks will inevitably take place at a much higher frequency than can be managed by the broader-based processes meant to drive the overall PRS. To be an effective operational guide, the broader strategy would need to incorporate guidance—in effect, contingency plans—for how to handle trade-offs in such circumstances. But there are deep political economy reasons why governments are reluctant in practice to spell out such contingency plans in advance.² The frequent result is that decisions on such matters are left within the traditional narrowly based framework of program negotiations.

6. *The operational role of the macroeconomic framework in the PRS is ambiguous.* In particular, it is unclear how the tension between "needs based" and "realism" aspects are to be resolved (see Chapter 5).

¹For example, according to IMF (2004a) between 1992 and 2001, the average size of a negative commodity price shock (i.e., the decline in real price from the preceding year) was 22 percent for low-income countries and 16 percent for other developing countries. Such shocks also occurred with greater frequency in low-income countries. Low-income countries also suffer from more frequent and more costly natural disasters.

²This is illustrated by the fact that many discussions within the IMF on different aspects of program design call for a better specification of contingency plans as a means of dealing with uncertainty, but that such exhortation is rarely heeded in practice.

Most PRSPs also fell short of the requirement to articulate a comprehensive growth strategy and structural reform priorities. Either the policy agenda in some or all of the relevant areas lacked detail (Cambodia, Guinea, Nicaragua, and Tanzania), or it was insufficiently prioritized (e.g., Ethiopia and Mozambique), or both (Albania and Tajikistan). Only in Vietnam was the policy matrix found to be suitably detailed and prioritized, although even in this case some key issues (e.g., the pace and content of state enterprise reform and related program conditionality) resurfaced during program negotiations, reflecting disagreements between the authorities and IMF staff on the relative importance of key objectives.

Thus, none of the PRSPs for the 10 case studies would have met fully our suggested benchmark of providing a sound basis for design of a PRGF-sup-

ported program. See Box 2.5 for some possible reasons why. The survey of staff involved in PRSP/PRGF countries confirms these findings. Asked to assess various factors hindering the ability to align PRGF-supported programs on PRSPs, respondents almost universally responded that policies discussed in PRSPs are too imprecise to be an operational guide. Many also considered the lack of realism of macroeconomic frameworks as a key impediment to such alignment.

There is, however, some evidence of progress over time. A majority of PRSP-PRs indicate progress in the definition of the macroeconomic framework (especially in Albania, Mauritania, and Nicaragua). Progress in articulating an operational growth strategy and structural reform plans has been less frequent. Among the case study countries,

only Tanzania and, to some extent, Mozambique seem to have made substantive progress in that direction.

To conclude, the weaknesses identified in the first round of PRSPs were probably unavoidable given the learning process involved in their formulation. Moreover, although most still fall well short of expectation, there is a wide recognition that they are generally a significant improvement over previous BWI-fostered approaches (notably the PFP). The greatest changes in both processes and content so far have been with regard to various sectoral policies

(including health and education) and public expenditures. Changes in processes have been less in areas of macroeconomic policy formulation, and this is reflected in the contents of most PRSPs. “Good practice” cases—especially those where the PRS processes have begun to be embedded in domestic institutional arrangements—indicate continued progress, but in most cases the approach has not yet generated the sort of country-driven strategic frameworks in these policy areas that would help guide shorter-term decision making or provide an effective basis for the design of PRGF-supported programs.