

# Introduction: Origin and Objectives of the PRSP and the PRGF and Scope of the Evaluation

The IMF and the World Bank introduced the Poverty Reduction Strategy Paper (PRSP) approach in 1999 to strengthen their approach to providing assistance to low-income countries, including both new financial assistance and debt relief under the enhanced Heavily Indebted Poor Country (HIPC) Initiative. The new approach was accompanied by the transformation of the Enhanced Structural Adjustment Facility (ESAF)—the IMF’s concessional lending window—into the Poverty Reduction and Growth Facility (PRGF), with a view to giving a more central role to pro-poor growth considerations in the design of IMF-supported programs in low-income countries.

The purpose of this evaluation is to assess the effectiveness of the Poverty Reduction Strategy (PRS) approach, especially as a framework for the role of the IMF in low-income countries and for the delivery of IMF concessional assistance, the IMF’s own contribution to the approach, and the PRGF.<sup>1</sup> Since actual progress toward the objective of poverty reduction can only be assessed over a longer-term horizon, our evaluation focuses primarily on intermediate outcomes, especially changes in policy processes and policies, not on final outcomes. The evaluation assesses whether the approach is bringing about the fundamental process changes expected of it—both in the countries themselves and in the two Bretton Woods institutions (BWIs) and whether some course corrections might be needed at this stage. A parallel evaluation of the PRS process from the perspective of the World Bank’s role has been undertaken by the Operations Evaluation Department (OED) of the World Bank.<sup>2</sup>

<sup>1</sup>In this report, we will use the acronym PRSP only when referring specifically to the document itself. In all other cases, we will use the term Poverty Reduction Strategy (PRS).

<sup>2</sup>In accord with the terms of reference for the evaluation, we have not attempted to assess a number of important issues concerning the PRS where the primary responsibility lies with the World Bank. The terms of reference for the evaluation are available on the IEO’s website ([www.imf.org/ieo](http://www.imf.org/ieo)). The OED’s Approach Paper is available at [www.worldbank.org/oed](http://www.worldbank.org/oed).

## Origin and Objectives of the PRS Approach and the PRGF

Adoption of the PRS framework and the conversion of the ESAF into the PRGF signaled a shift in approach by the BWIs in their support for low-income countries. The PRS approach drew on key elements identified in earlier work, including the Comprehensive Development Framework (CDF) developed by the World Bank, as well as on the debate that took place on strengthening the link between debt relief and poverty reduction.<sup>3</sup> It was also intended to address concerns identified by internal and external evaluations of the ESAF and the related Policy Framework Papers (PFPs). These reviews concluded that PFPs had largely failed to reach their objectives and highlighted a number of problems with ESAF-supported programs: (i) lack of national ownership; (ii) weaknesses in the analytical and empirical bases of the social policy content of programs; and (iii) insufficient attention to trade-offs involving policy choices that imply significantly different paths for growth and social welfare.<sup>4</sup>

Thus, the new approach was intended to strengthen country ownership, enhance the poverty focus of country programs, and provide for stronger collaboration between the BWIs and more broadly among de-

<sup>3</sup>The framework for the approach was introduced in two background documents for the September 1999 Annual Meetings of the World Bank and IMF (1999a and 1999b). A suggested approach for the development of PRSPs and the role of the IMF and World Bank staffs were discussed in World Bank and IMF (1999c).

<sup>4</sup>For example, the *External Evaluation of the ESAF* (IMF, 1998, p. 36) noted that: “The predominant view—and many ministers and senior officials echoed it with some disappointment—is that although initially the PFP process had held great promise, it has become a rather routine process whereby the Fund brings uniform drafts (with spaces to be filled in) from Washington, in which even matters of language and form are cast in colorless stone. Many senior officials expressed the view that the PFP has become so uniform that it is difficult to distinguish one from the other.”

velopment partners in supporting country efforts. Other intermediate objectives included greater public accountability and an improved setting of priorities and design of public actions.

The new approach focuses on developing a country-driven process with broad-based participation, to evolve a comprehensive strategy for poverty reduction based on a long-term perspective. Five underlying principles were enunciated that would guide the process in each country (Box 1.1). The process leads to the development of a PRSP with three purposes:

- for the country, to lay out realistic but challenging poverty objectives, along with the policies needed to achieve them;
- for the BWIs, to provide a suitable basis for their concessional lending; and
- for other development partners, to offer a key instrument around which to organize their relationship with low-income countries.

Initially, there were no specific standards laid down that PRSPs were expected to meet. The idea was that the more general the approach, the better it could be tailored to different country needs, so that even though low-income countries face tremendously diverse conditions, they would in principle all benefit from the approach. Subsequently, in response to countries' requests for greater clarity, a number of "expectations" were outlined (e.g., in guidelines for JSAs to be prepared by IMF and World Bank staff) regarding the contents of PRSPs, but countries were free to pick and choose, at least in theory (Box 1.2).

To underline the dynamic nature of the PRS process, it was emphasized that the production of a PRSP would not be a one-off exercise, but an iterative one, starting with an interim-PRSP, leading to a full PRSP, followed by annual PRSP progress reports and, after three years, a new PRSP, with results from implementation and monitoring feeding back into formulation of the subsequent strategy papers.

For the IMF, the fact that PRGFs would be anchored in a country-owned policy framework was expected to be a major improvement over the ESAF. Seven key features were identified that would distinguish PRGF-supported programs from those supported by the ESAF. (These are discussed in more detail in Box 4.1.)

The policy papers introducing the new initiatives stressed (i) the need to be realistic about what could be achieved in the near term; (ii) that the degree of progress would depend on initial starting conditions and the nature and content of PRSPs would vary from country to country—as would the participatory process involved in their creation; and (iii) that the process would be a dynamic one—as over time both countries and donor institutions should learn by

### Box 1.1. Underlying Principles of the PRSP Process

1. *Country-driven* involving broad-based participation.
2. *Results-oriented* and focused on outcomes that benefit the poor.
3. *Comprehensive* in recognizing the multidimensional nature of poverty and in the proposed policy response.
4. *Partnership-oriented* involving coordinated participation of development partners.
5. Based on a *long-term perspective* for poverty reduction.

doing. However, there was no doubt that the new approach was intended to mark a significant change in the IMF's role and way of doing business in low-income countries.

### Initial Experience with the New Approach

As of March 2004, 37 countries, almost half of the PRGF-eligible total of 77, had completed a full PRSP (Table 1.1). A third of these had also produced their first PRSP progress reports, and 5 countries had more than one progress report. Of the full sample of PRGF-eligible countries, about two-thirds have so far had arrangements under the PRGF.

The initial experience was reviewed in reports on Progress in Implementation, which were initially prepared on a six-monthly basis, and since September 2002, on an annual basis. Each of these reports provided an opportunity to clarify expectations in some areas—with a strong focus on the contents of the documents to be produced by countries. In addition, a more comprehensive review of the PRS approach, discussed by the Boards of the IMF and World Bank in March 2002, incorporated extensive inputs from external stakeholders.<sup>5</sup> It also led to the identification of a number of "good practices" expected to enhance the effectiveness of the approach, directed not only to countries engaged in the PRS approach but also to the donor community and the BWIs.

All of these reports concluded that progress under the approach was "encouraging" and judged it to be "on track," although the criteria on which these judgments were based were not spelled out and progress was not measured in a systematic way across coun-

<sup>5</sup>See IMF (2002b).

### Box I.2. Defining Characteristics of Poverty Reduction Strategy Papers

The JSA guidelines state an “expectation that, although the specific content of PRSPs will vary widely across countries, a PRSP will include four core elements:”

#### *Core elements*

1. Description of the participatory process.
2. Poverty diagnosis.
3. Targets indicators and monitoring systems.
4. Priority public actions.

In addition, the JSA guidelines indicate a series of topics that PRSPs are expected to consider. The most relevant to the IMF’s areas of responsibility are:<sup>1</sup>

#### *Four pillars (of priority public actions)*

1. Macroeconomic framework.
2. Pro-growth structural and sectoral policies.
3. Policies for social inclusion and equity.
4. Governance and public sector management.

#### *Analytical building blocks*

1. Assessment of the impact of past policies on growth and poverty.
2. Analyses of the key constraints to growth and poverty reduction.
3. Analyses of the sources of growth.
4. Poverty and social impact analysis.

#### *Building blocks of the macroeconomic framework*

1. Macroeconomic program (including growth projections and key fiscal choices).
2. Financing plan.
3. Prioritized action plan.
4. Costing of the action plan.

<sup>1</sup>The guidelines note that “it is not expected that all PRSPs will address thoroughly all of the questions listed.”

**Table I.1. Status of PRSPs and PRGF by Region, March 2004<sup>1</sup>**

	Number of Countries	Interim PRSP	PRSP	First PRSP Progress Report	Second PRSP Progress Report	Third PRSP Progress Report	PRGF <sup>2</sup>
Africa	35 (12)	26 (10)	19 (12)	7 (7)	3 (3)	1 (1)	28 (12)
Asia and Pacific	18 (2)	5 (2)	5 (2)	1 (1)	0	0	7 (2)
Europe	2 (1)	2 (1)	1 (1)	1 (1)	0	0	2 (1)
Middle East and Central Asia	13 (4)	8 (3)	8 (4)	1 (1)	1 (1)	0	9 (4)
Western Hemisphere	9 (4)	4 (3)	4 (4)	2 (2)	1 (1)	0	5 (4)
<b>Total</b>	<b>77 (23)</b>	<b>45 (19)</b>	<b>37 (23)</b>	<b>12 (12)</b>	<b>5 (5)</b>	<b>1 (1)</b>	<b>51 (23)</b>

<sup>1</sup>Includes all (77) PRGF-eligible countries—the total has not changed since the late 1990s. Cases from the sample of 23 countries with full PRSPs as of end-2002 are in parentheses.

<sup>2</sup>Countries with an active PRGF-supported program as of March 2004.

tries, except in the sense of reporting increasing numbers of Interim PRSPs (I-PRSPs), PRSPs, and PRSP Progress Reports (PRSP-PRs) completed. The September 2002 “Progress in Implementation” re-

port also made clear that “substantial challenges” remained in the following areas: building capacity, opening up the policy dialogue, aligning external assistance behind national strategies, integrating the

### Box 1.3. Some Common External Criticisms of the IMF's Role in the PRS<sup>1</sup>

In considering the messages emerging from this evaluation, a review of the main external criticisms of the IMF's role in the PRS/PRGF initiatives can be helpful.

Most external critics generally begin with a recognition that the PRS process represents a significant step forward, notably in opening up new spaces for policy dialogue and giving various groups, including civil society representatives, greater access to policy debates previously closed to them.

Focusing on issues most directly relevant to the IMF, the main criticisms on *process* are:

- There has been too little broadening of the participatory debate on macroeconomic policy, although specific country experience varies. Even within governments, the debate is generally too narrowly based.
- The policy discussions and decision-making processes are often not well-embedded in existing political structures (e.g., role of parliaments is too limited).
- Alternative policy options—especially ones that deviate from the so-called “Washington Consensus”—are rarely explored. Donor (and, in the macroeconomic area, IMF) priorities still drive the process too much.
- PSIA of key macroeconomic policy proposals are rarely undertaken and do not represent a significant ex ante input into policy formulation.
- The linkage to the HIPC was partly responsible for rushed procedures that reduced the value added of the new approach.

<sup>1</sup>See, for example, Buirra (2003); Coyle and Evans (2003a and 2003b); Evrard (2003); Gomes and Lawson (2003); Killick (2002); Richmond and Ladd (2001); Oxfam (2003); and World Development Movement (2001).

On PRS *content* and the design of PRGF-supported programs, the main criticisms are:

- The PRGF still drives the PRSP on the macroeconomic framework and related policy issues.
- Program design is still insufficiently oriented toward poverty reduction. (However, different observers emphasize different priorities; some focus on the need for programs to expand further pro-poor spending on key social sectors (health, education, and so on), while others criticize an insufficient emphasis on strategies to improve incomes of the poor, as part of an alternative growth strategy.)
- Programs target too much reduction in fiscal deficits and inflation, to below thresholds at which there is clear evidence that further macro-stabilization is good for the poor and growth.
- The IMF is still seeking to impose conditionality that is not derived from the country-driven PRS.
- The IMF is guilty of “aid pessimism.” There are usually two distinct strands to this accusation: (i) programs are designed around projected reductions in aid flows, perhaps driven by an overall desire to reduce aid dependency. (ii) Macroeconomic frameworks in the PRSP/PRGF do not (but should) begin from a “needs-based” approach that takes as its starting point what external resources are needed to help countries progress toward achievement of the MDGs. Consequently, the IMF is failing to perform its “catalytic” role of signaling to donors what aid would be required to truly make a difference in reaching the MDGs.

This brief summary suggests that part—but not all—of the criticism of the IMF's role reflects differences of view about the underlying objectives. In particular, it is clear that a number of external observers—including various I-NGOs—have a more radical view of the objectives of broad-based participation, the desirable approach to catalyzing “need-based” aid, and the scope of the IMF's contribution to these activities.

PRS into budgetary priorities, and implementing the strategies outlined in the PRSPs. Throughout these reports, calls were made for flexibility in implementation and realism on near-term expectations of changes.

There have also been numerous external reviews of different aspects of the PRS approach. These external reviews reflect widely divergent expectations about what the new approach is meant to deliver, how quickly, and with what contributions from each group of stakeholders, in particular the BWIs themselves. A number of criticisms directed at the IMF emerged and we discuss them in our evaluation (see Box 1.3).

## The Links Between Policies, Growth, and Poverty Reduction

Since the evaluation is about how the IMF can help countries improve their prospects for growth and poverty reduction, it is worth emphasizing at the outset that knowledge of the links between policies and growth remains limited and understanding of the links between policies and poverty reduction even less so. While we do not propose to present a comprehensive literature review, there appears to be broad—albeit not universal—support for the following messages:

- There appears to be a robust association between reduction in absolute poverty and sustained, strong growth.
- Some policies and factors do seem to be associated with growth and, with somewhat less certainty, also with poverty reduction. These include macroeconomic stability (albeit with differences about when stability is achieved—for example, at what threshold inflation ceases to be a problem); investment in health and education; and openness to international trade.<sup>6</sup> However, it is important to avoid overly simplistic causal interpretations of statistical associations. For example, while there is evidence that successful economies (in terms of both growth and poverty reduction) tend to be more open, this outcome is not necessarily assured simply by pursuing market-oriented trade policies; it may require a combination of circumstances and preconditions in which trade policies are only one and not necessarily even the most important factor.
- Good institutions and a favorable environment for private-sector-led development linked to a proper system of incentives are generally favorable for growth.<sup>7</sup>
- Country-specific analyses and policy choices are essential for two types of reasons. First, optimal growth/distribution strategies aiming at poverty reduction in a given time frame would differ depending on initial conditions (e.g., starting levels of inequality) and on the composition of growth.<sup>8</sup> Second, to understand the linkages between the policies discussed above and growth/poverty reduction requires a good understanding of the macro-micro linkages in a particular country context, including the nature of country-specific institutional characteristics that determine the efficiency of markets.<sup>9</sup>

<sup>6</sup>See, for instance, Berg and Krueger (2003); Cashin and others (2001); Srinivasan (2001); Khan and Senhadji (2000); Winters (2000); and Fischer (1993).

<sup>7</sup>Rodrik and Subramanian (2003); Easterly (2003); IMF (2003d); and Frankel (2002).

<sup>8</sup>See, for example, Bourguignon (2003), who notes that, if the objective is poverty reduction, changing the distribution of income may be of relatively greater significance for middle-income inegalitarian countries than for low-income egalitarian countries.

<sup>9</sup>See, for example, Lucas (2002, p. 72): “Simply advising a society to ‘follow the Korean model’ is a little like advising an aspiring basketball player to ‘follow the Michael Jordan model.’ To make use of someone else’s successful performance at any task, one needs to be able to break this performance down into its component parts so that one can see what each part contributes to the whole, which aspects of this performance are imitable of these, and which are worth imitating.” The importance of country-specific circumstances probably accounts for the limited robustness of many cross-section regression findings on the links between policies and growth.

These considerations suggest that policy design poses complex problems. Homegrown policy debates—and more country-specific analytical work as an input to these debates—have the potential for improving the understanding of policy constraints and macro-micro linkages in particular country circumstances.

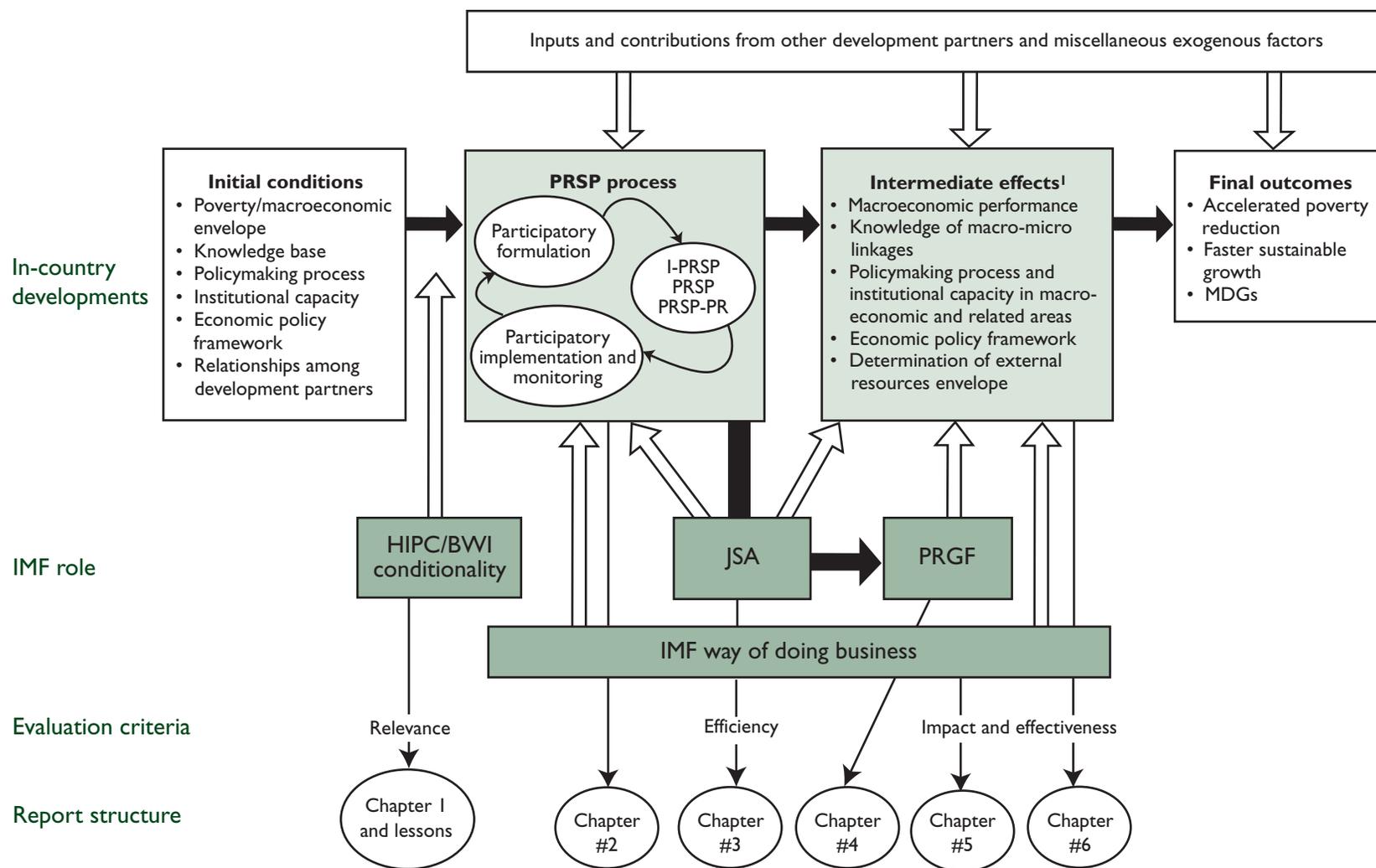
## Scope and Methodology of the Evaluation

A few important considerations influenced the scope of the evaluation, all dictated by a need to keep it reasonably focused and consistent with the IEO’s comparative advantage:

- The evaluation concentrates on those dimensions of the PRS initiative that are directly relevant to the IMF’s mandate, the role of the IMF in the process, and the PRGF. Clearly though, the ultimate success or failure of the new approach depends on a much broader set of factors, including contributions from many partners in addition to the IMF.
- The evaluation focuses on the experience of countries with full PRSPs, based on the assumption that this experience has the greatest potential for generating lessons of importance for the IMF’s role in the future.
- At this relatively early stage, the evaluation cannot cast much light on long-term outcomes for growth and poverty though some information is available on short-term growth outcomes. The main focus of the evaluation is on inputs (the PRS process and the way in which PRGF-supported programs are formulated), outputs (i.e., PRSP contents and PRGF-supported program design) and intermediate effects (i.e., what institutional and policy changes has the new approach brought about and how well is the PRS linked to domestic budgetary and other country decision-making processes). It must be emphasized that existing policy papers provide little guidance as to how these changes are to be measured. Therefore, in carrying out our evaluation, we had to define indicators and benchmarks ourselves. This inevitably involves an element of judgment, but it is indispensable if the evaluation is to be objective.
- We do not address issues associated with the financing of the PRGF Trust Fund.<sup>10</sup>

<sup>10</sup>For a discussion of these issues and various options for the future structure of the PRGF instrument, see IMF (2004a).

**Figure I.1. Logical Framework of the PRSP Approach and IEO Evaluation of PRSPs and PRGF**



Note: The figure represents the logical framework of both the PRSP approach and the IEO evaluation of the PRSP and PRGF. As can be seen from the figure, we do not propose to examine final outcomes in detail. The evaluation proposes to examine the effectiveness of the approach by looking at the observable effects of the new policy framework on a range of variables relevant to the IMF mandate, and accounting for these effects by assessing (i) whether the initiative is implemented efficiently (both by country and as far as IMF inputs are concerned) and (ii) whether its design was relevant to address initial conditions.

<sup>1</sup>Intermediate effects are expected across the whole range of conditions faced initially. Here we focus on the areas relevant to the IMF mandate.

**Table I.2. Country Case Studies for Evaluation<sup>1</sup>**

	HIPC Case?	Human Development Index Ranking <sup>2</sup>	Year of Full PRSP Completion	Year of "New" PRGF	Number of PRSP Progress Reports <sup>3</sup>	Number of Years of Implementation of PRSP <sup>3</sup>
<b>Joint IEO/OED</b>						
Mozambique	Yes	170	2001	*	1	2.3
Nicaragua	Yes	118	2001	2002	2	2.3
Tajikistan	No	112	2002	2002	0	1.1
Tanzania	Yes	151	2000	2000	2	3.1
<b>IEO only</b>						
Guinea	Yes	159	2002	2001	0	1.4
Vietnam	No	109	2002	2001	1	1.6
<b>OED only</b>						
Albania	No	92	2001	2002	1	1.6
Cambodia	No	130	2002	*	0	0.9
Ethiopia	Yes	168	2002	2001	1	1.3
Mauritania	Yes	152	2000	2003	2	2.9

\*New arrangement approved under ESAF regime in 1999.

<sup>1</sup>The IEO only and OED only case studies do not attempt to assess the role of the other parent institution, but do cover a number of issues of joint relevance. We will draw upon the "OED only" case studies in this report wherever they contain relevant information.

<sup>2</sup>According to UNDP (2002).

<sup>3</sup>As of end-2003.

One way of thinking about the scope of the evaluation would be in the context of a logical framework diagram (see White (1999) for an example of this approach). Figure 1.1 gives a broad indication of the different stages.

The evaluation mainly uses the following *types of evidence*:

- In-depth country case studies. The IEO undertook six country case studies, four of which were done jointly with the OED. An additional four case studies were undertaken by the OED alone (Table 1.2). The case studies were chosen to reflect diverse regional experiences, economic performance, and stages of the PRSP process.
- Each of the case studies involved field visits to consult with a broad range of national stakeholders, interviews with Fund and Bank staff, and a detailed review of both internal and public IMF documents.<sup>11</sup> The four country case studies undertaken jointly with the OED involved joint field visits and the preparation of a single country report. The coverage of topics varies between case studies, with IEO-alone cases re-

fraining from discussing Bank-specific issues, and OED-alone case studies refraining from evaluating IMF performance. However, the methodology applied was similar in all cases, which allows us to draw upon, where appropriate, evidence from all of the case studies.

- Cross-country analysis of countries with "full" PRSPs and of countries with PRGF-supported programs. Most of the analysis focused on the 23 countries that had completed their PRSPs by end-2002.<sup>12</sup> This analysis involved both quantitative and qualitative comparisons across countries. The latter inevitably involved some subjective judgments, but wherever possible we systemized these judgments by disaggregating them and then rating each issue according to a common scale, drawing upon standard codifications of what we would expect to see to warrant a particular rating. The purpose was to provide as much uniformity as possible to the overall cross-country judgments.
- A survey of a broad range of stakeholders in each of the case study countries, using a common survey format (see Annex 1).

<sup>11</sup>In addition, a joint IEO/OED workshop, hosted by the UN Economic Commission for Africa, was held in Addis Ababa on January 13–14, 2004 at which government and civil society representatives from the case study countries as well as several other countries discussed the case studies and the key messages emerging from the evaluation.

<sup>12</sup>The end-2002 cut-off was chosen in light of the terms of reference of the IEO, which call upon it not to interfere with ongoing operations. In addition to the case study countries, this sample includes Bolivia, Burkina Faso, The Gambia, Guyana, Honduras, the Kyrgyz Republic, Malawi, Niger, Rwanda, Senegal, Uganda, Yemen, and Zambia.

- A survey of IMF mission chiefs and resident representatives involved in the PRS and PRGF processes.
- Evaluations of aspects of the PRS process by other groups as well as evidence submitted directly to the IEO in connection with this evaluation.<sup>13</sup>

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<sup>13</sup>Evidence that was prepared specifically as inputs to the evaluation included Oxfam (2004) and CIDSE/Caritas (2004). Other evaluations that we have drawn upon are listed in the references.

The rest of this report is organized as follows. Chapter 2 discusses how the PRS principles are being applied in practice and presents an assessment of the contents of PRSPs. Chapter 3 discusses the role of JSAs. Chapter 4 discusses the PRGF and a number of program design issues. Chapter 5 assesses the IMF's way of doing business. Chapter 6 considers whether the new approach is making a difference vis-à-vis the intermediate and, where possible, final outcomes. Background details are provided in a number of annexes. The detailed country case studies will be available as separate documents.