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Poverty Reduction Strategy Papers—Progress in Implementation

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List of Acronyms and Abbreviations

AAPs	Assessment and Action Plans
APR	Annual Progress Report
BWIs	Bretton Woods Institutions
CAS	Country Assistance Strategy
CODE	Committee on Development Effectiveness
CPI	Consumer Price Index
DAC	Development Assistance Committee
DfID	Department for International Development, United Kingdom
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
I-PRSP	Interim Poverty Reduction Strategy Paper
IDA	International Development Association
IEO	Independent Evaluation Office
IFI	International Financial Institution
IMF	International Monetary Fund
JSA	Joint Staff Assessment
JSAN	Joint Staff Advisory Note
LICUS	Low-Income Countries Under Stress
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
PAF	Performance Assessment Framework
PEM	Public Expenditure Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
UN	United Nations
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

STATUS OF THE INITIATIVE

Although the Poverty Reduction Strategy (PRS) approach was introduced just over four years ago, it is now seen as the country-level operational framework for progress towards the MDGs. Although implementation experience has varied with regard to process and content—both across countries as well as within individual countries' strategies—a key contribution of the PRS approach has been to focus attention on country-specific constraints to development. In many low-income countries the PRS initiative has also resulted in a sharper focus on poverty reduction, a more open participatory process and greater attention to monitoring poverty-related outcomes.

Over the past year (through end-June 2004), ten more countries have finalized full PRSPs, bringing to 42 the number of countries implementing PRSPs. Twenty-three countries now have completed one or more annual progress reports (APR).

ISSUES IN IMPLEMENTATION

The main findings of this progress report are twofold. First, countries have made good progress in addressing the more straightforward challenges inherent in the approach. For example, poverty analysis is relatively good, strategies recognize the importance of growth and macroeconomic stability, indicators lists are being rationalized, and sectoral coverage is broadening. Second, the challenges that remain are technically difficult and institutionally complex. For example, the analysis of the sources of growth and its distributional impact remains relatively weak and countries have also experienced difficulties in marrying their aspirations for the future with the resource and capacity constraints of the present in the context of their PRSPs.

To better realize the potential of the PRS approach, sustained efforts on the part of countries and their development partners are, therefore, needed to: (i) reinforce the PRS as a country-driven approach; (ii) enhance the analysis that underpins a PRS; (iii) strengthen the institutional capacity for successful implementation; and (iv) enhance aid effectiveness. Given the scope of these challenges, expectations need to be ambitious yet realistic, while capacity building and analytical support must be appropriately prioritized and sequenced at the country level.

Reinforcing a Country-Driven Approach

- Coverage of MDG topics in PRSPs is improving and some good practice has emerged in customizing MDGs to country-specific priorities. A key challenge is to strengthen country-ownership of the MDGs and to enhance the effectiveness of the PRSP as the operational framework for achieving them.

- Some countries are beginning to link the PRS to domestic decision-making processes more effectively, and to deepen the involvement of line ministries and local governments. There is also growing parliamentary involvement in PRS oversight and implementation. However, sustained efforts are needed to align the PRS process with country systems and processes.
- The PRS approach has raised awareness of the value of civil society contributions to policy dialogue. However, there is as yet relatively little evidence of a broad-based and open discussion of macroeconomic policy alternatives in PRSPs. There needs to be support for building the capacity of different groups to engage in constructive dialogue on policy options and to ensure their sustained participation in PRS implementation and monitoring.

Enhancing Analytical Underpinnings

- While many country strategies provide qualitative discussions of the sources of growth and its distributional implications, there is little specificity with regard to the necessary policy and institutional reforms. PRSPs continue to be weak in linking macroeconomic frameworks and financing requirements to medium-term goals. They seldom use alternative scenarios to map out how efforts to achieve the MDGs could be scaled up. Improving country-specific analysis will require sustained support from development partners.
- While defining pro-poor expenditures is difficult, budget allocations and actual poverty-reducing spending—as defined by countries—have been increasing. This is most notable in countries where the PRS process is more advanced, budgetary processes are stronger, and there is more concerted donor support. To sharpen the poverty reducing impact of public expenditures, it will be necessary to also strengthen the understanding of how well public programs meet the needs of the poor and what influences the quality of the services they receive.
- The use of distributional analysis to inform PRS design is increasing, partly as a result of greater country demand. There are some good examples of greater stakeholder participation in these analyses. However, more fully integrating PSIA into country strategies continues to face challenges, including weak country capacity and methodological difficulties.

Strengthening Institutional Capacity for Successful Implementation

- There has been progress in setting out policy priorities for reducing poverty, as well as in some aspects of public expenditure management. However, countries still face challenges in terms of focusing their strategies on key policy measures, sequencing these over time, reflecting them in budget allocations and execution. Deepening the links between costing of priority programs, the MTEF and the budget, aligning the PRS, and strengthening public expenditure management systems will all be needed for better prioritization.

- Monitoring indicators are being rationalized, and there is some progress in integrating indicators used for internal and external reporting. However, indicators still focus on inputs and impacts and statistical systems remain fragile. There needs to be greater attention in PRSs to tracking intermediary outputs and outcomes, coordinating donor support for strengthening statistical systems and reinforcing institutional arrangements for monitoring.

Enhancing Aid Effectiveness

- Although some countries with strong ownership of the PRS process have started to use this process to align donor assistance more effectively with country priorities, more effort is still needed to realize the potential of the PRS as a mutual accountability framework. While many recent country strategies recognize the need for more and better aid to accelerate progress towards the MDGs, there is little analysis and few details that can be used to identify and monitor donor commitments. Increasing aid volumes in support of sound country strategies and eliminating the barriers to harmonization and alignment at the country level are critical to helping countries achieve the MDGs.

NEXT STEPS

Architecture

- The PRS approach was designed as a flexible instrument, with scope for countries to adapt it to their own domestic processes and country circumstances. However, as noted by the IEO/OED evaluations, as implementation has unfolded, the strategies have not always been closely linked to domestic decision making processes, such as the budget, and to representative bodies, such as Parliaments. To help reinforce the country-driven nature of the PRS process, changes to the PRS architecture are being introduced to facilitate greater flexibility for countries as they articulate and implement their strategies, and to reduce the perception that the process is driven by requirements of the Bretton Woods Institutions. Implementation of these changes will be key in achieving the desired results.
- The JSA will be maintained, but substantially adapted to make it more useful. The concluding paragraph will be changed to promote more candid and nuanced feedback. The explicit linkage between the PRSP and BWI activities will be maintained in operational documents. The objectives and audience of the JSA will be clarified, and staff guidelines will be revised accordingly. The JSA will be renamed as the Joint Staff Advisory Note (JSAN) to better reflect its role of providing advice and feedback to the authorities and the Executive Board on a country's PRS rather than on passing summary judgment.
- On the annual progress report (APR), changes are aimed at encouraging its closer alignment with domestic processes. Given this focus, the APR and its JSAN will only be discussed by the BWI Executive Boards in exceptional cases such as where the APR elaborates a major shift in a country's PRS. The APR will evaluate performance; give a broad overview of the next year's policy intentions; and describe progress in resolving

previously identified shortcomings. Its content could be expanded to suit country needs. Governments will be encouraged to use existing domestic documents wherever feasible.

Progress Review in 2005

- Staffs plan to use next year's progress report to review key implementation issues. These issues will be identified in consultation with other stakeholders and their views will also be incorporated into the review.

I. INTRODUCTION

- 1. Although the Poverty Reduction Strategy (PRS) approach was introduced just over four years ago, it has already gained broad currency among low-income countries and their external partners as a framework for development and poverty reduction.** The international community also sees the Poverty Reduction Strategy Paper (PRSP) as the country-level operational framework for progressing toward the Millennium Development Goals (MDGs). The PRS initiative, which is grounded on the principles of the Comprehensive Development Framework (CDF), has led many low-income countries to focus more squarely on poverty reduction in formulating and implementing their development strategies; it has opened up the participatory process in many countries; and it has focused more attention on monitoring poverty-related outcomes.
- 2. Not surprisingly given the country-specific nature of the initiative, country experience across the first set of PRSPs has varied with regard to both process and content.** Some countries, such as Mozambique, Mauritania, Tanzania, Uganda, and Vietnam, have effectively built on existing development strategies, and are now in their second or third year of implementing their PRSs. Other countries, however, have had greater difficulty in organizing the participatory processes that underpin the PRS approach, or have faced more binding capacity constraints, and the pace of implementation has been considerably slower.
- 3. A key contribution of the PRS initiative has been to focus attention on country-specific constraints to more effective development.** It has heightened awareness of the need for: sound analysis to underpin policy choices and prioritization; strengthened capacity and institutions to translate that analysis into effective policy choices, to implement them, and to monitor their effectiveness; and changes in how donors interact (both formally and informally) to support a country-driven development approach. Sustained action in all of these areas is needed to more fully realize the potential benefits of the PRS approach.
- 4. The main findings of this progress report are twofold. First, countries have made good progress in addressing the more straightforward challenges inherent in the approach. And second, the challenges that remain are technically complex and institutionally challenging.** This latter point was made in last year's implementation progress report and reinforced by the findings from the recent evaluations by the IMF's Independent Evaluation Office (IEO) and the World Bank's Operations Evaluation Department (OED). The issues are not new, but they have been thrown into sharp relief as the PRS process has been implemented in a range of countries. Success of the PRS initiative will require steady progress in these areas precisely because that is what is needed for development to succeed. And, while progress will not always be easy or quick, now is the time to redouble commitment to a country-driven development approach and to fortify efforts to help countries address the range of remaining challenges.
- 5. The IEO/OED evaluations of the PRS approach conclude that the approach is relevant and that it has the potential to encourage the development of country-owned**

and credible long-term strategies for growth and poverty reduction. However, continued efforts are needed in a number of areas to realize this potential. Bank and IMF staff agree broadly with many of the findings of the IEO/OED reviews, which confirm many of the conclusions of past PRSP implementation progress reports, as well as of reviews by other partners, but staff have alternative views on some aspects of how best to meet these challenges.

6. **This progress report assesses the status of PRS implementation along several of the key dimensions highlighted by the evaluations.** The issues discussed are medium-term in nature, and, due to the more limited scope of this report, it does not put forward specific implications for the World Bank and the IMF. However, it does set forth changes to the PRS architecture to better meet the identified challenges. The IEO review also evaluates the PRGF as an instrument to support the PRS process. IMF staff will be addressing those issues separately in papers on PRGF program design and on the IMF's work program on PRSP issues.

7. **Good progress has been made in some aspects of the PRS approach.** PRSPs generally contain a relatively good analysis of poverty. The importance of macroeconomic stability and growth as the basis of poverty reduction is recognized and is usually set out in a coherent macroeconomic framework. Key indicators for measuring progress have been established, and the targets are increasingly well-defined. Similarly, most PRSPs have sharpened their focus on poverty-related expenditures, particularly in the key social sectors and increasingly in other sectors such as infrastructure, and budgetary resources have been increasingly reallocated toward these outlays. These are generally the more straightforward aspects of the approach, and progress is being observed in countries that have just formulated PRSPs, as well as those that are in the second and third year of implementing their strategies.

8. **By contrast, all countries face greater challenges in other aspects of the approach.** PRSPs underscore the importance of growth for poverty reduction, but for the most part, the analysis of the sources of growth is relatively weak, making the prospects for accelerated, pro-poor growth more difficult to assess. Similarly, the approach to private sector development is for the most part gradually being refined in the second and third years of implementation, and countries are only now beginning to address more squarely the need for productive investment in other sectors, including infrastructure, in addition to the emphasis on the social sectors.

9. **Many countries also experience difficulties in marrying their aspirations for the future with the resource and capacity constraints of the present in the context of their PRSPs.** This has led to difficulties in formulating the PRSP in terms of operationalizing the MDGs, and in linking the PRS's targets to the annual budget allocation decisions. Few countries are using alternative scenarios to address these issues, which reflects both the analytic difficulties, as well as uncertainties with regard to increased aid flows.

10. **Progress is being made in refining indicators to measure progress, but there are still major weaknesses in monitoring and evaluation systems.** Domestic demand for such systems as a means of enhancing accountability could often be strengthened. In many countries, too, the participatory process and consultative approach are still not institutionalized.

11. **Many countries continue to have difficulties in prioritizing their PRSPs.** In the absence of mechanisms for arbitrating between competing objectives, PRSPs are often a wish list with little prioritization. This has complicated the process of translating PRS priorities into budgetary policies in annual budgets and in medium-term expenditure frameworks. Moreover, few countries have fully aligned their PRS cycles with domestic decision-making processes, especially the national budget cycle.

12. **Fundamentally, donors will also need to make demonstrable progress in providing more resources and better assistance to help countries with sound PRSPs make progress towards the MDGs.** The PRS process is viewed as having increased the burdens on low-income countries, particularly in terms of reporting requirements, without providing commensurate benefits in terms of more aid and improved donor alignment, coordination and harmonization.

13. **In short, the PRS approach is still a work in progress.** It has helped to focus attention on country-specific challenges to improving development outcomes and effectively reducing poverty. It has also increased awareness of the scope of these challenges and the need for more effective development cooperation, including more aid. However, important challenges remain, and resolving them in individual countries will take considerable time and effort. In particular, efforts to strengthen capacity at the country level, both human and institutional, will continue to be critical in helping countries address these challenges.

14. **The structure of the report is as follows.** The next section provides an overview of the status of the PRS initiative. Section III selectively addresses four key dimensions that are crucial for enhancing the effectiveness of the PRS approach: reinforcing a country-driven approach; improving the analytical underpinnings; strengthening the institutional capacity for implementation; and enhancing aid effectiveness. Section IV describes specific changes in the architecture of the initiative—including adapting the joint staff assessments and strengthening the annual PRS progress reports. It also describes the planned approach for next year's implementation progress review.

II. STATUS OF THE PRSP INITIATIVE

15. **In September 1999, the World Bank and IMF agreed that nationally-owned participatory poverty reduction strategies should provide the basis of all World Bank and IMF concessional lending.** The goal was to support country-driven efforts to define and implement effective development strategies, and to increase the support of those strategies by external partners. At about the same time, the 2000 U.N. Millennium Summit led to the adoption of the Millennium Declaration and the MDGs, by which the international community could measure progress on key dimensions of development. Although the MDGs are global, their implementation must occur at the country level, through country-owned and -led development strategies that respond to local conditions and priorities. Since then, increasing attention has also been given to the need for strengthened global partnerships to accelerate progress towards the MDGs. The consensus forged at Monterrey in March 2002 called on developing countries to improve their policies and governance and on developed countries to step up their support through more and better aid and more open markets. For low-income countries, their poverty reduction strategies are the vehicle through which country policies, programs, and resources requirements are linked to the MDGs. The PRS approach provides the framework in which to make operational the responsibilities and accountabilities—of low-income countries as well as their development partners—that were framed in the Monterrey consensus.

16. **The breadth and depth of the PRS process continue to grow in low-income countries. Since the last progress report, ten more countries have finalized full PRSPs, bringing to 42 the number of countries implementing their strategies** (Table 1). Consistent with the increasing number of countries in the implementation phase, 23 countries now have one or more APRs. This past year for the first time, more APRs were prepared (21) than PRSPs.

17. **Countries are clustered into two stages. Slightly over half of the countries which are eligible for concessional resources from the IMF or World Bank are currently implementing their PRSPs.** For these countries, the average implementation period is just under two years. Of these countries, Burkina Faso, Tanzania, and Uganda have completed three APRs and have embarked on preparing a revised full PRSP (Box 1).

18. **There are about 34 countries that could become engaged in the process that have yet to complete a full PRSP.¹ Most of these countries are Low-Income Countries Under**

¹ The group of countries likely to engage in the PRS process comprises IDA-only countries, and blend countries that are more likely to seek support from the IMF under PRGF-supported programs. For blend countries not seeking PRGF arrangements, a PRSP is not necessary for access to IDA. It is expected that these countries would articulate a national poverty reduction strategy closely reflecting the principles underlying the PRS approach (World Bank, 2001).

Stress (LICUS). Of these 34, 11 have I-PRSPs, of which seven are LICUS. For the 23 countries with no I-PRSP, 18 are LICUS. The remaining five are all very small states with populations well under one million.

19. **Although the preparation of PRSPs continues to be time consuming, once countries enter the implementation phase, the time between reports tends to shorten.** Countries have taken about eighteen months to bring forward their first annual progress report (APR), and the time elapsed between APRs shortens to about fourteen months. More effectively linking the PRS process to existing domestic processes (see Sections III.A and III.C) should further reduce the burden on countries and facilitate regularized reporting.

Table 1. Countries with Full PRSPs¹

Early PRSPs May 2000-June 2002	Later PRSPs July 2002-June 2003	Recent PRSPs ² July 2003-June 2004
<i>Albania*</i>	Azerbaijan*	Armenia
Bolivia (CP)	Benin (CP)	Bosnia and Herzegovina
<i>Burkina Faso*** (CP)</i>	Cambodia	Djibouti
<i>Gambia, The* (dp)</i>	Cameroon (dp)	Kenya
<i>Guinea* (dp)</i>	Chad (dp)	Lao PDR (†)
<i>Guyana* (CP)</i>	<i>Ethiopia* (CP)</i>	Madagascar (dp)
<i>Honduras* (dp)</i>	Georgia	Moldova
<i>Malawi* (dp)</i>	<i>Ghana* (CP)</i>	Mongolia
<i>Mali* (CP)</i>	Kyrgyz Republic*	Pakistan
<i>Mauritania** (CP)</i>	Nepal	Serbia & Montenegro
<i>Mozambique** (CP)</i>	Sri Lanka	
<i>Nicaragua** (CP)</i>		
<i>Niger* (CP)</i>		
<i>Rwanda* (dp)</i>		
<i>Senegal* (CP)</i>		
<i>Tajikistan*</i>		
<i>Tanzania*** (CP)</i>		
<i>Uganda*** (CP)</i>		
<i>Vietnam*</i>		
Yemen		
<i>Zambia* (dp)</i>		

1/ Based on information available as of end-June 2004; represents dates of document completion.

2/ PRSPs completed during the past year. These documents are reviewed in this report.

*, **, and *** indicate one, two, and three APRs, respectively. Countries in italics have completed an APR during the past year, and are reviewed in this report.

(CP), and (dp) indicate countries that have reached the completion point and the decision point, respectively, under the HIPC Initiative. (†) indicates countries eligible for debt relief under the HIPC Initiative that have not yet reached the decision point.

Box 1. Next Generation of PRSs

Three countries are in the process of preparing a revised full PRSP (Burkina Faso, Tanzania and Uganda). As part of the process governments have the opportunity to reflect on experience and refine their original strategy in light of changing circumstances. A number of partners are also reflecting on issues that may arise as countries revise their PRSPs.¹

To assist in the preparation of future PRSPs, the government of Burkina Faso has created a National Poverty and Sustainable Development Observatory (ONAPAD) to monitor and assess poverty reduction activities—it will identify a set of poverty indicators to be included in the revised PRSP. The government also plans to create a new institutional system for implementing the revised PRSP, including a ministerial steering and monitoring committee, sectoral and thematic committees, a framework for coordination with development partners, and decentralized structures to monitor poverty outcomes at the regional level.

In Tanzania, there has been interest within the government to use the review process to institutionalize key PRS principles and develop them into a national development plan that has stronger Cabinet backing and greater public awareness. This presents an opportunity to widen PRSP ownership from the Ministry of Finance to all line ministries and local governments. It will also enable closer linkage with the budget.

As part of its revision plan, the government of Uganda prepared a paper on the achievements and challenges in attaining PRSP (in Uganda, the PEAP) and MDG targets. The issues raised are intended to inform the PEAP revision. According to the paper, the MDGs should and can be usefully incorporated in the revised PEAP, which will also focus on updating existing targets and setting new ones. Increased attention will be given to child and maternal mortality and to environmental sanitation. The revised PEAP will also highlight the tradeoffs which must be made between competing demands for public expenditures to meet different objectives.

¹ ODI, 2004 and Oxfam, 2004.

III. ADDRESSING ISSUES IN IMPLEMENTATION

20. **This section considers four dimensions, also identified in the IEO/OED evaluations, that are essential to effective PRS implementation.** First, it looks at mechanisms to improve how countries drive their PRS processes. Second, it selectively reviews progress towards strengthening the analytic underpinnings of poverty reduction strategies. Third, it examines progress towards strengthening the institutions needed to prioritize strategies better and monitor them more effectively. It also touches briefly on some of the special challenges faced by countries with extremely weak capacity. Finally, it focuses on how donor behavior—in terms of the level of aid and how it is delivered—can foster more effective PRS implementation.

A. Reinforcing a Country-Driven Approach

21. **Developing and assessing country ownership of a national development strategy is a dynamic, complex process, influenced by geographical, historical, political,**

institutional, and economic factors. Certain aspects of the PRS initiative further complicate matters. The tension between country ownership and the link to BWI concessional assistance identified in last year's PRSP progress report and in the IEO/OED evaluations is one such dimension that arises—as long as there are specific conditions attached to concessional lending, this tension will need to be carefully managed.² The consultative approach and participatory process bring together many stakeholders with different, sometimes competing views, leading to further tensions. The resolution of these tensions rests with continued efforts to strengthen the link to domestic processes, to enhance dialogue with various stakeholders on how the principles underlying the PRS approach can help improve development outcomes, and sustaining participation by involving the stakeholders more closely throughout the entire PRS process.

Broad Government Ownership

22. **With a global compact to achieve the MDGs by 2015, a key challenge is to strengthen country ownership of these goals and to continue to enhance the effectiveness of the PRSP as the operational framework for achieving them.** While there is no required set of indicators or goals that must be included in PRSPs, the targets specified are expected to be framed against the background of the MDGs. However, these targets need to be tailored to take into account initial conditions and national priorities, and they need to relate to a medium-term program of policy, institutional, and financing requirements.

23. **While early PRSPs often did not formulate targets in terms of the MDGs, most still had relatively good coverage of the MDG topics, and that coverage has improved over time.** Some recent PRSPs include an evaluation of progress toward each MDG indicator (Mali and Nicaragua), while others provide a qualitative assessment of the probability of their achievement, including possible constraints (Ghana and Tajikistan). In some cases, the authorities have linked national PRS objectives very closely to the MDGs (e.g., Armenia and Tajikistan). In other cases, although the PRSPs include national development goals that are broadly consistent with the MDGs, the links between MDGs and PRS goals are not clear (Guinea and Kyrgyz Republic) and/or the commitment to attain the MDGs is not linked directly to the specific policies and programs in the PRS. Countries need support in unifying their reporting on MDG outcomes with progress reporting on their PRSPs, so as not to strain their limited capacity.

24. **Customizing MDGs and relating them to country-specific goals is a technically challenging undertaking, but some good practice has emerged.** For example, Vietnam's Growth and Poverty Reduction strategy articulates the government's commitment to the MDGs, but specifies goals and strategies (the Vietnam Development Goals—VDGs) that

² However, to the extent that conditions are derived directly from the policy priorities of the recipient, as set out in a country's PRS, this tension can be reduced.

reflect extensive work to adapt progress towards the MDGs to local conditions (Box 2). The targets and objectives spelled out in Madagascar's PRS are consistent with the MDGs. The strategy uses the Millennium Declaration as one of its references, and clearly links PRS sub-programs to specific MDGs.

Box 2. Customizing the MDGs: The Experiences of Vietnam and Cambodia

A way to develop a broader consensus around key development objectives and increase government ownership is by tailoring the MDGs to respond to local conditions and priorities. Vietnam and Cambodia are at different stages of a process to customize the MDGs to local conditions.

Vietnam. The goals which Vietnam has adopted in its Comprehensive Poverty Reduction and Growth Strategy (CPRGs) are strongly related to the MDGs, but are adapted and expanded to reflect Vietnam's national challenges. Goals and targets have been customized along several dimensions.¹

Vietnam has reached, or nearly reached, some of MDGs and more ambitious goals are needed. Poverty, for example, was already cut in half between 1990 and 2000. Vietnam defined a new localized version of the poverty goal in order to motivate policy formulation over the coming years (VDG target: Reduce by 40 percent the proportion of people living below the international poverty line between 2001 and 2010).

To respond to Vietnam's priorities, the strategic focus of the VDGs is sometimes different than the MDGs. For example, although Vietnam performs well on some of the access targets that dominate the MDGs, there are urgent challenges associated with improving the quality of those services. Consequently the VDGs emphasize improving the quality of services (VDG: Universal education and improve education quality).

Vietnam sets targets aligned with its own strategic planning cycle. Vietnam's planning cycles have different start and endpoints from the MDGs. Vietnam has considered the 25-year cycle of the MDGs alongside its five and ten year planning horizons. This has allowed measures and actions to be tailored to national outcome targets for 2005 and 2010 which are, in turn, consistent with international targets for 2015.

Vietnam sets goals in some priorities areas that are not directly covered by the MDGs. For example, specific goals and targets are set on reducing vulnerability, improving governance, reducing ethnic inequality, and ensuring pro-poor infrastructure development.

Cambodia. Cambodia is at an earlier stage in the process of aligning its strategic planning documents. The National Poverty Reduction Strategy (NPRSP) approved by the Government in late 2002 has a monitoring system which focuses on inputs, outputs, and some selected indicators, based largely on data routinely collected and analyzed by the line ministries. The Cambodian MDG Report (CMDGR) developed subsequently and launched in March 2004 tracks localized MDG indicators (including some of specific relevance to Cambodia, such as mine clearance) based on aggregate data collected through the census and household surveys, as well as line ministry information systems. While the NPRS and CMDG indicators are not always consistent, a process has started to combine and streamline the two monitoring frameworks. Some progress towards this was made in the APR. The process requires further prioritizing key indicators and achieving consensus on current or baseline values and targets.

Although this process is likely to take time, as was the case in Vietnam, it has the potential to increase overall country ownership of specific development goals and the targets and indicators by which to monitor progress.

¹ Swinkels and Turk, 2004; www.vdic.org.vn.

25. **For sustainable impact, the PRS process needs to be aligned with country-specific decision-making processes and institutions.** While many PRSs have been built around existing domestic planning documents, the linkages between them are not always clear, leading to confusion and undermining ownership. Other countries have produced separate PRSPs that largely duplicate existing documents. A promising approach taken by several countries is explicitly to integrate PRS principles into existing planning processes—this approach helps to focus capacity building and institutional strengthening on domestic processes rather than externally generated ones, and also helps to streamline documentation. In its PRSP preparation status report, Bangladesh reports that its PRS will be fully integrated into its domestic planning process, and that only one planning document will be produced.³ In this year’s APR, Vietnam has signaled a similar intention for its next PRSP.

26. **When the PRS is not clearly linked to the medium-term expenditure framework (MTEF) and budget framework, its operational relevance is undermined.** A clear relationship between the PRS and the budget is critical for prioritizing the strategies and aligning policy decisions with budget allocations. One good example is the case of Nepal which is using its MTEF, backed up by an innovative annual “Immediate Action Plan” of key policies and program initiatives integrated into the annual budget process, to help implement its PRS. This has helped to make the development budget more realistic and streamlined. Funding for key PRS activities has been substantially increased. While efforts are still needed to widen and deepen the MTEF process, which so far only includes the development budget, the experience to date is promising. Issues related to aligning the PRS to the budget process are discussed more comprehensively in Section III.C.

27. **There is considerable scope to embed annual reporting on the implementation of strategies more effectively into existing domestic processes.** With a few exceptions, APRs have not served domestic reporting requirements. In many cases, producing APRs has been time-consuming, and the document orientation has not always maximized the potential value added to country authorities. To address this issue, staffs are proposing changes to the APR process (Section IV.A), to focus it more squarely on country needs and domestic processes, and to de-emphasize the production of lengthy, stand-alone documents. One case of good practice is Mozambique where the authorities have now fully integrated their annual reporting on PRS implementation into their own progress report to Parliament (the BdPES). This was achieved by enhancing the BdPES to cover a wider range of sectors and to assess outcomes more rigorously. While efforts are still needed to increase the strategic focus of the BdPES, and to improve the underlying data and sectoral analysis on which it is based,

³ The PRSP Preparation Status Report provides an update on a country’s PRS preparation in cases where a country takes longer than a year to develop a full PRSP, and where there is an operational need for an update in the context of an IMF program.

support for institutional strengthening and capacity building is now firmly embedded in domestic processes rather than in an externally generated one.

28. **While involving line ministries in the PRS process helps deepen domestic ownership, many countries have yet to do this systematically.** Line ministries are key to successful implementation and need to be involved in PRS formulation to help identify development objectives and prepare sectoral plans to achieve them. When the PRS is more closely linked to domestic processes, sectoral ministries are more actively involved in PRS implementation and in helping to tailor appropriate monitoring frameworks. One positive example is Senegal. Line ministries participated in a technical committee that formulated the PRSP, and they have continued to be active by further developing implementation action plans in their respective areas of responsibility.

29. **Many countries are finding it useful to extend the PRS process to regional or local levels, reflecting the decentralization policies that they are pursuing to enhance the transparency and accountability of local expenditures and to reinforce pro-poor service delivery.** Some countries (e.g., Pakistan) have used local or regional development plans as inputs into the PRSP. Other countries are exploring mechanisms to introduce PRS principles into local planning efforts. In Vietnam, where some of the most important decisions for poverty reduction are made by provincial governments, efforts are underway to adapt the CPRGS approach in planning and budgeting processes to the local level. In Honduras, the Local Development and Decentralization Program (PRODEL) has introduced mechanisms for ensuring municipal, *mancomunidad* (local consortia), NGO, and community organization inputs to the design and implementation of PRS interventions. Rwanda's *Ubudehe*, which is a grassroots approach used to identify and prioritize local development initiatives, informs district-level planning decisions and is reflected in aggregate plans at the national level.

30. **There are signs of growing parliamentary involvement in PRS oversight and implementation, but many countries still face significant institutional and capacity issues that impede the effectiveness of this involvement.** PRSPs have been formally presented to parliament in about half of the countries with full PRSPs. About a third of all PRSPs highlight the role which parliament is being asked to play in PRS oversight (see Box 3), either through a PRSP standing committee (Azerbaijan), or through membership in PRSP Steering Committees managed by the executive branch (Chad, Georgia). Legislative reforms are planned in Ethiopia and Bosnia and Herzegovina to facilitate parliamentary PRS oversight, and the governments of Benin, the Kyrgyz Republic, and Tajikistan are required to report regularly to parliament on budget and PRS implementation.

31. **Parliaments are also beginning to sharpen their focus on PRS prioritization, costing, policy coordination, and monitoring of poverty outcomes.** A growing number of parliaments are strengthening their capacity to monitor PRSs, MTEFs, and budget linkages, and to provide more targeted policy recommendations on the PRS to the executive branch (e.g., Burkina Faso, Cameroon). Efforts are also underway to increase the regularity of public

hearings and information exchange with constituencies, in order to refine feedback on poverty-related issues by parliaments to policymakers (Mauritania, Rwanda, and Tanzania).

Box 3. Parliamentary Oversight of Ghana's Poverty Reduction Strategy

Monitoring of poverty reduction results has emerged as a priority for Ghanaian MPs. A special Committee on Poverty Reduction has been formed to consider and report to Parliament on the content, focus, and adequacy of the Poverty Reduction Strategy. The Committee draws its membership from five standing committees which specifically address poverty issues. Through a Community Monitoring Program on Poverty Reduction, which is administered by the Institute for Policy Alternatives, Tamale, Ghana, parliamentarians are monitoring the attainment of poverty reduction results at the constituency level, and there are plans for local government officials to carry out short-term secondments to parliament in order to better understand the operation of the legislature. Ghanaian MPs are also engaged in the Capacity Strengthening Program (ACPSP) on poverty and expenditure management with support from the Canadian Parliamentary Center. The Centre for Budget Advocacy NGO is working with District Assemblies to bring citizens' voices into the budget formulation process both at district and national levels.

Sustaining Participatory Processes

32. **While the PRS approach has opened space for a broader range of stakeholders to engage in discussions related to poverty reduction and development decisions, experience across countries has been mixed.** Participatory processes have been most successful when national ownership and commitment to accountability is strong. The underlying processes have prompted greater awareness of the value of civil society contributions to the policy dialogue. To improve their ability to engage in monitoring and implementation activities, many stakeholders have engaged in cross-regional exchange of good practices in PRS monitoring and evaluation (study tours and field visits of civil society organizations from Central American PRS countries to Ghana, and from Tajikistan to Tanzania).

33. **A more diverse set of stakeholders is engaging in the PRS process, both at preparatory and implementation stages.** They seek deeper engagement in PRS implementation and monitoring phases, but frequently express frustration that the flow of information and its quality continues to fall short of their expectations. To address this concern, some countries (Armenia, Benin, and Ethiopia) are setting up PRS monitoring systems which explicitly involve central and local government, and community councils, as well as diverse civil society organizations.

34. **Experience of the past year indicates that the engagement of the private sector and trade unions in PRS formulation and monitoring continues to grow.** Business associations have been represented in PRS working groups (Cameroon, Senegal), or participate in more targeted discussions of specific issues, including public-private partnerships (Ethiopia, Mauritania, Rwanda, and Tanzania) or anti-corruption strategies (Mozambique, Uganda, and Zambia). Trade unions in Uganda and Tanzania made

recommendations on the employment generation, social protection and education reform components of the PRS, and organized labor's contribution was integrated in the more recently formulated strategies of Armenia, Bosnia and Herzegovina, and Serbia and Montenegro.

35. **Capacity building is also needed across a range of groups to strengthen their abilities to engage in constructive dialogue.** Under the PRS process, inputs to policy are increasingly requested from across the executive branch, parliaments, regional and municipal governments, and civil society, and cross-sectoral policy interventions are increasingly recognized as important to development effectiveness. However, the capacity to contribute to policymaking and to engage in a constructive debate on policy is limited, particularly among civil society organizations. This is an area where coordinated assistance from other multilateral and bilateral donors can play an important role.

36. **There is as yet relatively little evidence of a broad-based and open discussion of macroeconomic policy alternatives in PRSPs.** This may reflect a reluctance of governments to open a debate in an area where in-country capacity to formulate feasible policy options is limited. Development partners should help in building in-country capacity in this area.⁴ In cases where alternative analysis is available within countries, the BWIs should be willing to consider these views in their discussions. The World Bank and IMF should also encourage governments to open up the macroeconomic policy dialogue.

37. **Participatory monitoring mechanisms, including citizens' report cards and participatory budgeting tools, have been developed to promote the institutionalization of citizen feedback into periodic PRS assessments.** Examples include the multi-stakeholder impact monitoring systems in Ethiopia and Kenya; local-level NGO sectoral information networks in Bosnia and Herzegovina; and a coalition of NGO, academic, research, and media organizations that was formed to track and report on budget implementation in Albania.

38. **One of the challenges of PRS implementation remains the linkages between social accountability mechanisms developed to track PRS results at local government and community levels, and the official monitoring and evaluation systems developed and managed by government agencies.** Some countries with longer experience with PRS processes are merging these top-down and bottom-up processes to enhance the relevance of stakeholder feedback to policy makers, thus enabling a more effective policy response. In Mozambique and Senegal, Poverty Observatories have been established to encourage joint official and independent oversight of PRS implementation, and to serve as the basis for comprehensive review by the government with full stakeholder involvement.

⁴ The IEO/OED evaluations underscored this problem, and recommended that BWI staffs engage earlier in the PRS process to foster such debate on alternative policies. In the fall, the IMF's Executive Board will consider a paper on the IMF's involvement in the PRS process and the macroeconomic framework, in which these issues will be addressed in greater depth.

39. **Many PRSPs also reflect ongoing efforts to ensure that the priorities and needs of socially-excluded groups are assessed through PRS monitoring mechanisms.** For example, the PRS process in Cameroon, Kenya, Mauritania, and Senegal included the preparation of a legal framework to guarantee rights and design targeted programs for disabled, elderly, youth, refugee, and displaced populations. In Serbia and Montenegro, analytical work and consultation processes led by the Center for Enterprise and Economic Development resulted in the inclusion of Roma priorities in the PRSP and its related tracking mechanisms.

40. **Communication strategies around the PRSP have been generally successful in the outward dissemination of information,** but mechanisms to channel feedback from the media, parliament, local government, and NGOs levels to policymakers need to be further institutionalized. Government agencies in several countries (e.g., Cameroon, Kenya, Mongolia, Nicaragua, Senegal, and Uganda) are also working with the private sector, NGOs, community-based organizations, and media to develop dissemination strategies, improve the accessibility of public information throughout the country, and strengthen feedback channels to policy levels.

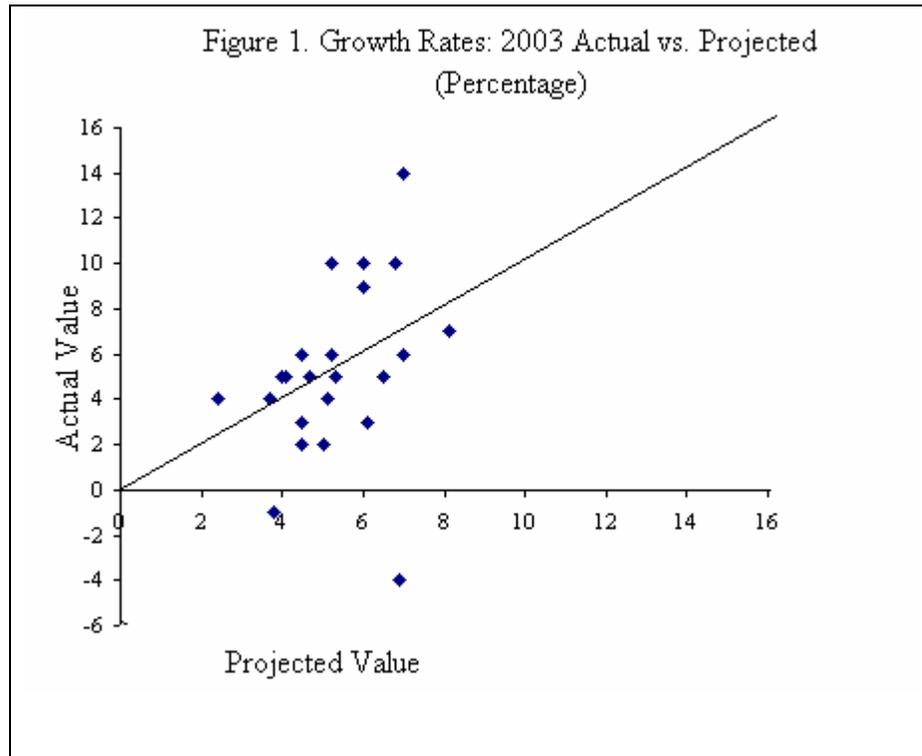
B. Enhancing Analytical Underpinnings

41. **The PRS approach has contributed to significant improvements in documenting the multidimensional nature of poverty, but progress in identifying the policy and institutional levers for accelerating growth and for making it more pro-poor in specific country circumstances has been more elusive.** Staff reported this finding in the last implementation progress report, and it was also noted in the IEO/OED evaluations of the PRS process. While growth has become increasingly central to countries' PRSPs, complementing the qualitative discussions with quantitative analysis remains a key technical challenge. Assessing the distributional impact of growth and how it is affected by macroeconomic, structural, and sectoral policies in the specific country context also continues to present analytical challenges. Strengthening macroeconomic scenarios to better deal with potential shocks—as well as to develop alternative scenarios which reflect aspirational goals—is also an important agenda item. While countries often specify certain expenditures as “pro-poor,” the analytic basis for defining these expenditures as “pro-poor” is frequently absent. Finally, there is scope to better inform policy choices by strengthening the analysis of the poverty and social impact of specific reforms which are being considered. Development partners, including the World Bank and the IMF, need to continue to help countries address analytic gaps, but to do so in a manner that recognizes that analytic priorities will vary by country, and that gaps will need to be addressed in a sequenced manner.

Analysis of Growth and its Distributional Implications

42. **While many early PRSPs had unrealistic growth projections, staff consider that the growth rates in more recent PRSPs and APRs, while optimistic, are in most cases**

achievable. An assessment of the actual versus the projected growth rates for 2003 reveals that, although there is significant variation at the country level between projected and actual rates, in over half the PRS countries where data were available the actual growth rates were higher than those projected (Figure 1).⁵



Source: World Bank.

43. **Recent PRSPs have also shown much greater appreciation of the centrality of growth to poverty reduction, as well as the need to understand its distributional implications.** Qualitative descriptions of the determinants of past and future growth appear in nearly all recent PRSPs, and have been broadened beyond agriculture to include other determinants, such as macroeconomic stability, regulatory reforms, trade, and investments in health and education (Table 2).⁶ PRSPs are also beginning to discuss, at least in qualitative terms, the transmission mechanism between growth and poverty reduction, although detailed

⁵ This paragraph and the next is based on a review of the 15 most recent PRSPs and 14 APRs (Husain and Khalid-Khan, 2004), and compares trends to earlier PRS documents (Nagarajan and Muthuram, 2003).

⁶ Growth and poverty analysis is generally less well developed in APRs than in PRSPs. This is not surprising since APRs are expected to be less detailed than the PRSP, but could be a concern where the analysis in the PRSP itself was weak. However, some countries (e.g., Uganda and Tanzania) have used their APRs to augment their growth analysis.

quantitative analysis (such as in the APRs of Honduras and Vietnam) is still the exception. The most commonly-cited transmission mechanism between growth and poverty reduction remains employment creation (Armenia, Serbia and Montenegro, and Pakistan). More recent PRSPs have also included fuller discussions of the role of rural infrastructure and increasing the access of the poor to productive assets. Djibouti and Madagascar, for instance, cite the importance of rural roads in helping the poor increase their assets. However, other important contributors to growth, such as financial sector development or the linkage between access to finance and poverty reduction, frequently remain unaddressed.

Table 2. Factors Identified as Sources of Growth
(Percent of recent PRSPs)

Source of Growth	Macro stability	Trade	Regulatory reforms	Agriculture	Health, education expenditure	Infra-structure	Tourism
Past	65	47	48	53	47	87	10
Future	93	67	80	73	67	47	60

Source: World Bank, staff estimates.

44. **However, while there has been a broadening and deepening of qualitative discussions of growth and its distributional implications, their analytical underpinnings still remain weak.** In most countries, the PRS process has made it clear that there are significant analytic gaps in the understanding of the sources of growth and the policy priorities for accelerating growth or making its pattern more poverty reducing. In this sense, the PRS initiative has helped highlight the need for more country-specific analysis to inform the formulation of effective development strategies.

45. **Strengthening analysis will require sustained support from development partners for the development of better quantitative tools, long-term capacity building in countries, and improving the availability and quality of data.** The shortcomings in the analysis of growth and of the linkages between growth, its distributional pattern, and sectoral strategies—which have been noted here and in other reports—are not new but their consequences for the development agenda in low-income countries are now more explicit. In the short term, however, growth analysis and the quality of growth projections can be improved by a variety of methods, including the use of cross-country studies, based on data compiled according to internationally accepted methodologies.

46. **A combination of research, cross-country analysis, and country-specific support will continue to be needed to fill these analytical gaps.** As part of this effort, the BWIs will jointly host in February 2005 an international research conference on “Macroeconomics, Poverty and Growth,” with the co-sponsorship of the governments of the Netherlands and the United Kingdom. The World Bank has also recently undertaken a review of the development experiences of the 1990s, which considered the influence of policy and institutional factors

on the growth process, and emphasized the need for policy choices to be grounded in country-specific analysis. The World Bank is also undertaking a range of research related to growth and its distributional impacts. Apart from defining and measuring pro-poor growth more precisely, this research seeks to deepen the understanding of the role played by initial conditions (including initial inequalities) in achieving pro-poor growth and of the factors that drive distributional changes over time. Drawing on this research, a series of country case studies is being conducted with an aim to inform operational guidance on how key macroeconomic, structural, and sectoral policies relate to poverty and growth, as well as how country context and initial conditions should inform the selection, design, and prioritization of such policies.

Macroeconomic Frameworks

47. **Contingency planning in PRSPs also remains relatively weak, and continued efforts are needed to make macroeconomic frameworks more flexible in their responses to changing circumstances.** This could include greater use of stress tests and sensitivity analyses and robust multiple scenarios to deal with macroeconomic uncertainty due to shocks. Given the vulnerability of low-income countries to exogenous shocks, such as adverse terms of trade developments, conflict or drought, it would be useful for the PRSPs to assess how shocks would hurt the poor, and indicate what safeguards need to be put in place in implementing the PRS. Also, in cases where ambitious macroeconomic targets are not underpinned by an analysis of the sources of growth, providing relevant scenarios would enhance the credibility of the macroeconomic framework underpinning the PRSP.⁷ While fully addressing these issues will take time as capacity is gradually built, the authorities, supported by development partners, could apply simple techniques where these have been shown to provide more realistic macroeconomic projections. The BWIs can also provide more effective support for countries that do face unforeseen circumstances owing to shocks,⁸ and encourage the authorities to use stress tests and sensitivity analyses in the design of their macroeconomic frameworks on a more systematic basis.

48. **PRSPs continue to be weak in linking macroeconomic frameworks and financing requirements to medium-term goals.⁹ Developing alternative scenarios that illustrate the effects of the combination of improved policies and better and more aid can help countries to map out how they would scale up efforts over time to achieve the MDGs.** These scenarios and their medium-term goals will need to be made operational by linking

⁷ Some PRSP documents do contain multiple scenarios dealing with different growth projections (e.g., Ethiopia, Georgia, Madagascar, and Niger).

⁸ See International Monetary Fund, 2003b.

⁹ These issues were highlighted in last year's implementation progress report, International Monetary Fund and World Bank (2003b), paragraph 63.

them to annual budgets and medium-term expenditure frameworks so as to maintain macroeconomic stability. The fact that few countries have attempted to do this reflects several factors including: (i) the technical challenge of the exercise, particularly in capacity-constrained environments without appropriate support from external partners; and (ii) incentive issues in that most low-income countries are pessimistic about the prospects for actually mobilizing higher aid flows in support of a more ambitious scenario.

49. External partners, including the World Bank and the IMF, can play a constructive role by helping countries to assess their present absorptive capacity for aid and to design and implement measures to help build up this capacity over time.

Absorptive capacity has multiple aspects, which need to be unbundled at the country level. These include: the country's overall human capital, such as teachers, doctors, and managers; and the adequacy of its physical infrastructure. Initial conditions in each of these aspects will determine its ability to use additional aid productively. But, since aid can also help in addressing each of these constraints, it is necessary to look at absorptive capacity in a dynamic sense and to address the binding constraints at the country level in a phased manner. Particular attention will need to be focused on the sequencing of investments, policy improvements, and higher aid flows, and on the time lags in terms of impacts. Substantial increases in aid may also have implications for a country's macroeconomic framework in terms of debt sustainability and external competitiveness. For its part, the IMF could help countries in fleshing out these implications in the alternative scenarios, as well as in addressing the issues of macroeconomic management that might arise.

Pro-poor Expenditures

50. Strengthening the understanding of how well public programs meet the needs of the poor is fundamental to assessing the poverty-reducing impact of public expenditures. For example, while many countries define spending on health and education as "pro-poor," analysis of the incidence of public education and health spending in a range of countries shows that, contrary to the declared objectives of the program, spending is often skewed toward better-off households and not the poor (World Bank, 2004g). Furthermore, spending often fails to reach front-line service providers, and even when the money does reach providers, the quality of service is often quite low, especially for poor people. Understanding the dynamics, at the country level, of how other investments, such as in infrastructure, benefit the poor either directly (access to safe water and basic sanitation) or indirectly (improving access to health care or markets, generating jobs through accelerated growth) continues to be an important challenge. Clearly, the definition of poverty-reducing expenditures needs to be undertaken at the country level and to emerge from an adequate understanding of the appropriate public interventions necessary to reduce poverty.

51. Notwithstanding the previous caveats, allocations for poverty-reducing spending, as defined by countries in their PRSPs, in national budgets as well as actual spending have been increasing, both in relation to GDP and total spending. These trends are evident particularly in countries where the PRS process is more advanced, budgetary

processes are stronger, and there is more concerted donor support. Between 2000 and 2004, budgetary allocations for PRS-defined poverty-reducing expenditure increased, on average, by 1½ percent of GDP in the 20 countries for which data are available. Actual spending has increased considerably, by an average of 2 percent of GDP between 1999 and 2003. These expenditures also increased considerably as a share of total government spending during the same period. However, weaknesses in public expenditure management systems, particularly budget classification and reporting systems, limit disaggregation of expenditure data by function or program identified in PRSPs as poverty reducing, making it difficult to match spending allocations and outturns with the priorities established in PRSPs (see also Section III.C on public expenditure management issues).

Poverty and Social Impact Analysis (PSIA)

52. **Distributional analysis to inform PRS design is limited, but it is becoming more common.** This was a finding of last year's progress report which also emphasized the need for realistic expectations with regard to the pace and scope of PSIA. The IEO/OED evaluations concurred with these findings, but noted that even with limited data and weak national capacity, it is still possible to assess some of the potential poverty effects of given policies and therefore to contribute to more informed policy debate.

53. **Although the impetus for PSIA has often come from external partners rather than country authorities, there are some signs that country demand for PSIA is increasing.** For example, in Ghana, with the support of external partners, the National Planning Commission has commissioned five such analyses, ranging from tackling vulnerability and exclusion to assessing the distributional impact of petroleum pricing policy. Each analysis is guided by a Technical Committee made up of representatives of various stakeholders, including government ministries, consumer associations, and donors. In Mauritania, initial Bank support for PSIA of the reform of mining services and water pricing has created demand by the authorities for further analysis.

54. **For the 10 countries which completed PRSPs over the past year, some form of PSIA has been undertaken or is planned in each.** For example, analysis in Armenia of electricity and water utility pricing has been completed. Energy sector reforms are the subject of ongoing analysis in Djibouti and Moldova. Studies are being designed in Kenya to consider health user fees and pension reforms. PSIA has also been used in countries that are implementing their PRSPs. For example, taxation reform proposed in Ethiopia was designed in the light of a distributional incidence analysis of the introduction of a value-added tax (with the assistance of the IMF), while tax reforms in Honduras and Nicaragua were similarly guided by PSIA. Distributional analysis is also ongoing in Rwanda to examine the impact of privatization of the tea sector. In Tajikistan, the distributional impacts of various reforms in the cotton sector are being considered. Its experience illustrates that while such analysis may give policymakers a better sense of the pros and cons of policy choices, it cannot substitute for decision making on a country-owned basis (Box 4).

Box 4. Tajikistan: Welfare Implications of Cotton Farmland Privatization

The cotton sector is central to Tajikistan's poverty reduction strategy. Not only does it provide employment to about 80 percent of the country's rural labor force, but cotton fiber is also the country's second largest export, contributing almost one-fifth of total export revenues. Almost 75 percent of the extreme poor live in cotton-growing areas.

Since independence in 1991, Tajikistan has been gradually privatizing cotton farms by giving *collective* land tenure rights to individuals and families. Though fairly widespread, this collective privatization strategy has not significantly increased individual farmers' decision-making authority since it leaves farm management unchanged. Tajikistan's most recent Annual Progress Report also notes that productivity gains in the sector have been elusive. It points to shortcomings in the privatization process, as well as inefficiencies in the cotton fiber production chain, including financing, ginning, and marketing. The progress report notes that despite the potential to enhance the livelihood of the farmers through land reforms, inefficiencies in the downstream sub-sectors continue to impede the economic livelihood of cotton producers.

To address a part of the problem, with the support of the World Bank, Tajikistan has experimented with transferring *individual* land tenure to farmers along with seed capital grants. Under this method, farmers have direct control over crop choice and all financial decisions. A PSIA study looks at the distributional impact of both this new privatization method and complementary liberalization of the cotton fiber production chain.

Findings. Current distortions in the cotton sector result combined with the sub-optimal privatization result in an annual loss to the economy in the range of \$136 million to \$204 million (8.7 to 13.1 percent of GDP). These losses are a combination of rent seeking and productive inefficiencies.

The PSIA considers two options, both of which anticipate privatization that provides for *individual* land tenure to farmers, but differ on liberalization of the cotton production and marketing chains. In the first option, complementary liberalization of the production chain does not occur. This option would be opposed by farm managers who would lose control over "their" farmlands, but it would meet with little resistance from vested interests in the ginning and marketing sub-sectors. While the impact on the income level of poor farmers would be positive, the magnitude of the benefits would be fairly modest compared to the second option.

The second option considers the impact of liberalizing the production and marketing chains. This would result in significant improvements in productivity and incomes for farmers and the country as a whole. However, this option would meet with considerable opposition from both farm managers and vested interests in the ginning and the marketing sub-sectors.

Maintaining the status quo is also a choice for the government, but the PSIA shows that with this choice, poverty in cotton-growing areas will remain high and cotton yields will not significantly increase. The findings in this study should help foster a more informed debate among stakeholders and policymakers. However, tough political choices remain, and PSIA analysis can not substitute for the domestic decision-making process of policymakers.

55. **There are some good examples of stakeholder participation in conducting PSIAs, but there is considerable scope to strengthen this dimension.** The analysis in Mozambique, which examined the underlying factors affecting primary school completion, is a good example of inclusive stakeholder participation. However, it is worth noting that improving stakeholder participation in the PSIA process—which can enhance the quality and ownership of the analysis and its results—can also further extend what is often a lengthy process.

56. **Integrating the results of PSIA into country strategies continues to pose several challenges, and expectations need to be realistic.** Difficulties include: (i) weak country capacity; (ii) sometimes limited government demand for analysis; and (iii) methodological difficulties—such as estimating the impact of reforms and obtaining requisite data.¹⁰ Analyses need to be tailored to country-specific conditions and the reform area being considered—and depend on the data, the capacity and analytical constraints, and the timeframe for the analysis.

57. **Selectivity is essential in the choice of reforms to be analyzed. Good PSIA requires that possible policy actions be well-defined in order to be amenable to analysis.** Also, given that PSIA often requires considerable resources and can take a significant amount of time to complete, it is important for low-income countries to focus their analyses on key reforms which are likely to have significant distributional impact.

58. **In addition to supporting country capacity to undertake PSIA, the World Bank and the IMF are working to integrate the findings of such analyses more fully into the programs they support.** For the World Bank, ex ante analysis of the social and poverty reduction impact of the World Bank-supported reform program is now recommended under its new lending policy directive.¹¹ The World Bank also uses PSIA more generally to help fill gaps in the stock of country knowledge through its nonlending program. For the IMF, PSIA is used to assess the poverty and social impact of key reform measures contained in PRGF-supported programs.

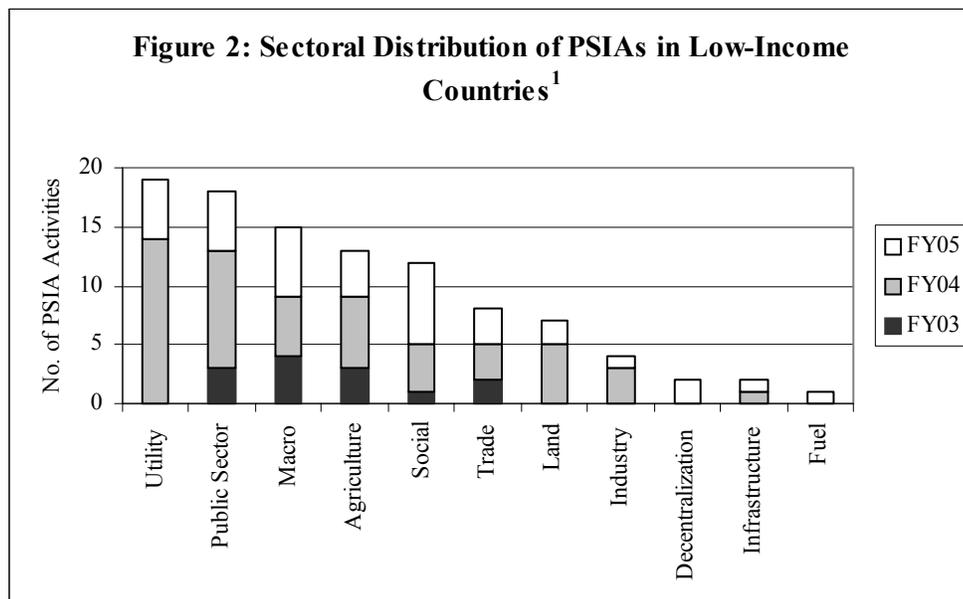
59. **Since the spring of 2003, the World Bank has enhanced its efforts to mainstream the use of PSIA techniques by dedicating supplemental budget resources to country teams undertaking PSIA analysis.** This supplemental financing has supported about 70 PSIA-type activities (over 80 percent in low-income countries) over the past 15 months,

¹⁰ While ex ante PSIA is particularly relevant for initial policy formulation, such analysis can and should also be undertaken during and after the implementation of policy reforms.

¹¹ A good practice note provides advice to World Bank staff on promoting PSIA in-country and integrating it within development policy lending (World Bank, 2004d).

and is expected to support over 40 more activities in the coming year (nearly all of which will be in low-income countries).¹²

60. **The sectoral coverage of World Bank-supported PSIA is beginning to deepen.** Early analyses were focused mainly on utilities, agriculture, public sector, and selected macroeconomic reforms. Over the past year, sectoral coverage began to broaden to consider trade, social sector, and land reforms. Over the next year, the sectoral spread is expected to continue to widen, including attention to decentralization and fuel subsidies (Figure 2).



¹ PSIA receiving supplemental World Bank budget support.

61. **While recognizing the lead role of the World Bank in supporting countries in undertaking PSIA, the IMF also acknowledges its own responsibility for ensuring that measures in IMF-supported programs are appropriate (and for incorporating available PSIA in PRGF program design, including compensating measures where appropriate).** The IMF staff will endeavor to base its policy discussions on, and to include in its reports, more rigorous PSIA carried out by the authorities themselves, the World Bank, and other partners in the context of developing the country's poverty reduction strategy. To this end, the IMF has established a special group in its Fiscal Affairs Department that will focus on helping to integrate PSIA into the design and implementation of PRGF-supported

¹² These numbers do not capture the entire universe of PSIA activities. They refer only to activities receiving supplemental World Bank budget support. They do not reflect exercises that are already fully mainstreamed into country work programs nor those that have been supported by other partners.

programs—the group has already begun discussions with country teams to that end. The tasks of this group include: (i) helping to use existing PSIAAs to assess the likely impact of program measures with major effects on vulnerable groups and, where appropriate, crafting compensating measures; (ii) reviewing PSIAAs carried out by development partners and liaising with them at different stages in their preparation of PSIAAs; (iii) assisting in drawing lessons from PSIAAs carried out for other countries; and (iv) if resources permit, carrying out PSIAAs in the areas of the IMF’s core competence. IMF work on PSIAA would be available to country authorities and could be used to help inform the design of country strategies.

C. Strengthening Institutional Capacity

62. **In additional to formulating country-driven PRSs that are grounded in sound analysis, countries also need to build the institutional capacity to implement and monitor their strategies.** Strengthening the institutional link between the PRS and the budget process is key to helping countries better prioritize their strategies. More generally, continuing to improve their public expenditure management systems is also a priority for most low-income countries. Another key area for institutional strengthening is monitoring systems which are needed to enable countries to adjust their strategies based on actual results.

Improving Prioritization

63. **Recent PRSPs and APRs show progress in setting out policy priorities for reducing poverty, but many countries still face major challenges.** Specific areas for attention include: focusing their strategies on those key policy measures that are appropriate and feasible; properly sequencing them over time; and reflecting them in budget allocations and execution. The relation between the PRSP (or the APR) and the annual budget plays a crucial role in this effort. In the absence of clearly identified priorities in the PRSP, prioritization usually occurs in the annual budget. Countries with close links between their PRSP cycles and their budget processes (e.g., Mozambique, Tanzania, Uganda) have made significant progress in prioritization. However, in cases where either the PRS process is independent of the budget process, budget processes are weak, or the medium-term expenditure frameworks (MTEFs) are nonexistent or ineffective, prioritization remains an elusive objective.

64. **Improved PRS processes, realistic projections of resource availability, provision of operational details in PRSPs, and the need to demonstrate progress towards MDGs can all contribute to improving prioritization.** However, the need for a comprehensive strategy tackling all dimensions of poverty has, in some cases, led to wish lists of programs and policy interventions that lack strategic vision or a focus on actionable priority measures. More ambitious alternative scenarios can be useful guides for scaling up efforts toward the MDGs (e.g., Ethiopia), but these also need to identify credible priorities in order to mobilize additional external support.

65. **Incomplete costing of priority programs in the PRSP, as well as the lack of links between costing, the annual budget, and the MTEF remain obstacles to incorporating PRS priorities into the budget allocations.**¹³ In many countries, the PRSP and budget cycles are not properly sequenced and aligned, reflecting both parallel institutional settings for the two processes (PRSPs are frequently driven by special bodies outside the Ministry of Finance) and externally determined timetables (e.g., requirements under the HIPC Initiative). Also, MTEFs are often not yet firmly anchored in the national budget process or are only partially in place, limiting their potential contribution in linking PRS priorities with annual budgets. Particularly in countries where the PRS process is at an early stage, sectoral programs are often poorly defined and not well integrated into the overall strategy.

66. **Where the PRS process is more advanced, however, priority sectoral programs are increasingly being reflected in budget allocation decisions and their costs are integrated into MTEFs and linked to resource availability,** strengthening the sequencing and implementation of the priority programs. For example, Tanzania has made significant progress in costing sectoral programs, integrating them into the MTEF, and linking sectoral priorities with budget allocations. Similarly, in Mauritania, priority programs for five sectors (education, health, transport, rural development, and urban sectors) are linked to the MTEF.

67. **In these more advanced PRS countries, the PRS is gradually becoming the front end of the budget process, with closer alignment and integration of the PRS and the budget cycles.**¹⁴ Positive results of this process include improvements in the underlying processes and greater operational detail in APRs (e.g., Ghana), which also greatly facilitates donor efforts to align their support with the PRSs priorities.

Public Expenditure Management Issues (PEM)

68. **Strengthening PEM systems remains a priority for PRS implementation.** In addition to providing mechanisms for financial control, these systems are a means to align the use of budget resources with the policy objectives of the PRS. Most countries with PRSs, particularly HIPCs, started with very weak PEM capacity. As these countries started to implement their PRSs, steps were also taken, often with assistance from external development partners, to improve PEM systems.

¹³ Reflecting the persistent problems of line agencies in estimating reliably the total costs of programs proposed for the PRSP, as well as capacity issues.

¹⁴ For example, in most of these countries (Uganda, Tanzania, Mozambique, Ghana, Benin), efforts are underway to adapt the timing of the annual progress report so that it draws on the existing reports on budget execution and sector reviews, but itself feeds into the preparation of the coming year's budget.

69. **Most of the recent JSAs indicate that significant improvements in PEM systems are already underway or being planned within the PRS process, and measures to improve PEM capacity are increasingly included in country strategies,** as well as in donor-supported programs.¹⁵ The majority of APRs produced in 2003–04 cover PEM issues in considerably more detail than in the underlying PRSPs. The focus of the reforms is primarily on budget execution, and the reporting and monitoring aspects of PEM. Many JSAs for these APRs also noted progress in budget formulation and execution processes, the integration of these processes into MTEFs, and the strengthening of audit mechanisms.

70. **Strengthening PEM systems is a particular focus of the technical assistance and policy advice provided to low-income countries by the BWIs, with special attention given to improving PEM capacity in HIPCs (Box 5).** As countries have progressed in the PRS process, emphasis has gradually shifted from short-term actions to ensure that the HIPC debt relief was utilized appropriately toward strengthening overall legal and regulatory frameworks, improving processes for budget formulation, execution, and monitoring (sometimes through a full Integrated Financial Management System, as in Tanzania), and increasing the effectiveness of budget resource use.

71. **The donor community is also working to enhance the coordination of support for capacity building in public financial management more generally, as part of the overall donor harmonization agenda.**¹⁶ The revised approach to Bank/Fund collaboration on public expenditure issues also builds on the assumption that the recipient countries will set out a capacity-building strategy in their the PRSP as a coordinating framework for assistance in responding to identified capacity weaknesses.¹⁷

¹⁵ The average number of measures focused on improving PEM systems was 15 in PRSPs produced in 2003–2004, comparable to the previous year but considerably higher than earlier years.

¹⁶ This is a central aspect of the work of the OECD-DAC Joint Venture on Public Financial Management, which is producing a good practice paper on the provision of support for capacity building in public financial management (PFM). The Public Expenditure and Financial Accountability (PEFA) group, a collaborative venture involving the World Bank, the IMF, the European Commission, and several bilateral donors, is designing a common assessment framework for PFM systems in recipient countries that would also measure progress over time, as well as an integrated standard PFM diagnostic tool that is intended eventually to replace the individual donor tools currently used for their fiduciary analyses.

¹⁷ International Monetary Fund and World Bank, 2003a.

Box 5. Public Expenditure Management: Country Assessment and Action Plans

In April 2002, PEM Assessment and Action Plans (AAPs) were completed for 24 HIPC, based on a questionnaire covering the critical elements of the PEM systems. An update was presented to the Boards in March 2003.¹ Bank and IMF staff are jointly working on AAPs of 27 HIPC and plan to present to the Board in early 2005 an update on 16 benchmarks for PEM systems, including a new one on procurement systems. The guidelines for the APP exercise currently underway identify three main purposes of these assessments:

- To assess the existing capacity for tracking public spending, including poverty-reducing spending, where tracking is defined as the identification and reporting of budgeted and actual outlays for poverty reduction;
- To understand risks associated with implementing poverty-reducing spending, especially in the context of receiving debt relief; and
- To clarify what donor and technical assistance should be provided to improve systems for managing poverty-reducing and other public spending.

These assessments and the ensuing action plans will focus on three primary dimensions of PEM performance: (a) budget formulation, (b) budget execution, and (c) budget reporting.

¹ See International Monetary Fund, 2003c.

Monitoring Systems

72. **The results orientation of the PRS initiative has helped focus attention on the need to improve the availability of data and its use to inform policy decision making.** The September 2003 progress report noted that, while improving, PRS indicator lists are often long, sometimes not well-defined, and baseline data are frequently unavailable. It also suggested that treatment of monitoring and evaluation in PRSs has generally focused more on improvements in data availability and quality and less on institutional arrangements. The OED evaluation confirmed past staff findings that, while the PRS initiative has added attention to monitoring, continued efforts are needed to strengthen not just the supply of data but also the demand for its use.

Indicators

73. **Where shortcomings are straightforward to address, substantial progress has been made. Where issues are more complex, progress is slower.** For example, a positive development is that indicator lists continue to be rationalized in terms of number, relevance, and data availability. For example, Tanzania's third APR updated the list of indicators to make them more consistent with policy targets and with data availability.

74. **Countries also continue to show progress in trying to integrate indicators used for internal and external reporting.** Most recent PRSPs have indicators that take into account the MDGs, either directly or by tailoring them to country-specific issues. For example, in Vietnam, the MDGs have been adapted to the country situation (some were disaggregated, others dropped when not relevant, or adapted to reflect national priorities). This process has both increased the results focus of the PRS and ensured relevance of the

indicators used to track progress. In other countries, such as Nepal, the PRS process spurred a discussion across government agencies and line ministries aimed at identifying key indicators, both sectoral and cross-sectoral.

75. **However, there continues to be a tendency for PRS indicators to focus on inputs and impacts—leading to a “missing middle.”** Most PRSPs have focused on budgetary or expenditure data (input indicators) and survey-based measures of well-being (impact indicators). Intermediate outputs and outcomes have generally received less attention, thus weakening governments’ ability to understand how inputs translate into impacts. Some countries are strengthening their indicator chain. For instance, Madagascar’s PRSP presents an appropriate mix of input, output, and outcomes measures, even if specific indicators can be further improved. Pakistan’s PRSP presents a monitoring matrix which tracks the chain, systematically linking inputs, outputs, and outcomes.

Data and analysis for PRS monitoring

76. **The PRS process has brought to the forefront the need for data, in particular for data on living conditions.** Improvements in data availability are reflected in later APRs which typically provide more data on selected indicators than was contained in PRSPs or earlier APRs. There is some evidence that the PRS initiative has helped create momentum for countries to carry out regular household surveys. Eighty percent of countries with at least one APR have recent (2002 or later) household surveys/censuses, compared to only 64 percent of countries with only a PRSP.

77. **However, progress is uneven and falls short of what is needed to fully track indicators of development such as the MDGs.** While data availability has improved for more than 80 percent of the indicators for the MDGs, there are significant differences across regions. In Sub-Saharan Africa, data on about a quarter of the MDG indicators are not available for over half the population.

78. **Less attention has been paid to improving the quality and use of other routinely collected data.** Budget and routine data collection activities play a central role in monitoring poverty reduction strategies since they provide the information needed to monitor input, output, and to a certain extent, outcome indicators. Efforts are needed to enhance the quality, timeliness, comprehensiveness, and comparability of these data, and to improve their dissemination and analysis. For example, GDP estimates typically do not adequately cover the informal sector, where many of the poor earn their incomes. Linkages between budget execution information, government interventions, administrative data from sectoral ministries, and living conditions (including information from other sectors) are still fairly weak. As illustrated by the experience of Uganda, there is much to be gained from an improvement of the macro- and socioeconomic data already collected and a better use of the existing data.

79. **Statistical systems, while improving, remain fragile in PRS countries.** A recent analysis of the statistical capacity in six low-income countries (Bolivia, Burkina Faso, Cambodia, Moldova, Malawi, and Yemen) found that while availability of national data has improved since the late 1990s, statistical systems remain fragile (Paris21, 2004). Statistical capacity was particularly weak with regard to management information systems and administrative data in line ministries. Issues related to decentralization also arise, with sub-national-level statistical capacity typically weaker than at the central level. In addition, the scarcity and unpredictability of budgetary resources for data collection and analysis—which sometimes reflects the lack of political will to measure and analyze policies and their impacts, and at other times reflects dependency on donor funding and consequently donor priorities—remains a major impediment to the emergence of full-fledged systems.

80. **Most low-income countries also face constraints in terms of analytical capacity within the agencies responsible for overall monitoring systems, and more broadly within government agencies and nongovernmental institutions.** Capacity building is needed for data analysis and also to help stakeholders to read and understand the outputs of these analyses. While the PRS initiative has provided an impetus to increase analysis of poverty determinants and of the impacts of interventions (Section III.B), severe limitations remain.

PRS Monitoring Systems

81. **Building the institutional arrangements for systems that allow the information to flow between the various actors—data producers, analysts, and decision makers—is one of the biggest challenges.** Institutional arrangements encompass both formal arrangements (definition of responsibilities, reporting, rules, legal framework) and informal rules and practices (which determine the actual application of the formal arrangements). The PRS initiative has spurred interest in building institutional capacity for monitoring and evaluation, but most country systems still do not have strong and clear channels for linking data production, analysis, and policymaking (Box 6).

82. **One of the lessons learned from early studies is that the monitoring system should be kept simple and flexible, and be built progressively.** A general tendency in PRS countries has been to design complex systems, without prioritizing activities, and often with little connection with existing monitoring activities and agencies. Since capacity is limited, the resulting systems are often not able to perform their functions. Despite their early engagement in the PRS process, many countries are still struggling with the institutional dimensions of their systems. For instance, in Mauritania, the second APR underlines the need to further adapt the institutional framework; and in Nicaragua, the JSA on the second APR reports that a comprehensive system has yet to be implemented. In Ethiopia, progress in implementing the statistical master plan has also been slow.

Box 6. Poverty Monitoring and Evaluation Systems in Central and Latin America

The poverty monitoring systems in Bolivia, Guyana, Honduras, and Nicaragua are “two-tier” systems. Information from data producers (e.g., line ministries, executing agencies) and information systems (e.g., financial management) are gathered and analyzed centrally. These systems are designed as management tools to inform policymakers and budget planning. Implementation is still at an early stage, and some important characteristics are likely to influence the degree to which these systems will be successful.

Nationally-owned systems: There is strong commitment from the four governments, reflected in the location of the coordinating bodies in the Presidents’ offices. However, in most of the countries, there is still limited buy-in by sectoral agencies.

Realistic and enforceable legal framework and procedures: The definition of legal frameworks and operational processes are still weak, limiting the quality and timeliness of contributions and the accountability of the actors.

Clear roles and processes: Roles are relatively clear, except for data validation which is typically assigned to the national statistical institute and the coordinating unit. The systems are very ambitious and complex in light of existing capacity, and sometimes duplicate existing arrangements. Bolivia, Honduras, and Nicaragua are already trying to simplify the arrangements.

Capacity to fulfill the roles: The focus has been on the coordination of the “second tier,” while the “first tier” of primary data collection and analysis has been relatively neglected, despite recent increases in available resources. Capacity in local-level institutions is even weaker and could limit the potential of decentralization in countries like Nicaragua and Bolivia.

Inclusion of all stakeholders: Civil society is fairly strong and politicized in all countries, with the exception of Guyana. This has allowed for the relatively strong voice of civil society in policy formulation and monitoring. The processes for the substantial role of Civil Society Organizations (CSOs) have yet to be consolidated.

Built-in feedback and dissemination mechanisms: In practice, the integration of information on outcomes and impacts with financial and administrative information is still in the early stages, and feedback is very limited. Dissemination activities have so far been mainly limited to the PRS progress reports.

Source: Coudouel and Regalia 2004.

83. **Another lesson from early experience is that systems should build on existing processes.** Appropriate arrangements depend on country circumstances, such as existing data collection systems, management system, and reporting mechanisms—there is no universal blueprint. In many PRS countries, in particular, there has been a tendency towards building systems that ignore the existing routine monitoring systems from line ministries or other agencies. As a result, the central system has often failed to fulfill its mandate. In addition, this has sometimes undermined line ministries’ commitment to the national PRS. Even in Tanzania, where the system was designed in consultation with the various agencies, implementation is proving difficult. Efforts need to focus on strengthening existing primary

data producing systems, integrating responsible agencies into the PRS process, and establishing good relationships between the central units and these agencies.

84. Systems should also be built with the ultimate purpose of feeding back into policymaking processes. In numerous PRS countries, there is still little evidence of widespread effective use of monitoring outputs for decision making. Demand from decision makers and other stakeholders has increased, but remains limited. Examples of efforts to closely link the budget, policy, and PRS formulation and reporting come from Mongolia and Mozambique. This requires consistent calendars to allow the various components to feed into each other, as well as strong coordination of the various units and agencies involved. Feedback is also illustrated by the revision of targets that some countries, such as Mauritania, have undertaken as a result of their monitoring effort. Strengthening demand and promoting the use of results in policy and budget decisions will require incentive structures which reward performance, effective dissemination and communication of data and analysis, as well as building analytical capacity among decision makers. The introduction of sustainable monitoring and evaluation systems that effectively feed back into decision-making processes requires strong political will and commitment to establish and enforce the required incentive structure.

Bank and IMF Support

85. The Bank and the IMF have been supporting PRS countries through their lending instruments, grant funding, technical assistance, and support to global statistical efforts.

- First, through lending instruments such as PRSCs, the Bank supports critical steps in the development of sustainable monitoring and evaluation systems. For instance, the PRSCs in Vietnam support the establishment of a legal framework to promote data quality, transparency and availability. STATCAP, a new lending program, has also been developed to assist countries with a clearly articulated strategy to make significant investments in statistical capacity. In Burkina Faso, the project supports the creation of the legal and institutional framework for data collection and dissemination.
- Second, through the PRS Trust Fund and the Trust Fund for Statistical Capacity Building, the institutions provide resources for the improvement of the PRSs and their monitoring and evaluation systems. Strengthening the PRS monitoring and evaluation systems is the focus of more than half the PRS Trust Funds approved so far. For example, the support to Tajikistan will focus on strengthening the capacity of government, parliament, and civil society to monitor the strategy, as well as on developing a monitoring program.
- Third, through the General Data Dissemination System (GDDS), the institutions and their partners have been providing guidance and assistance for the overall development of

macroeconomic, financial, and socio-demographic data. To date, 41 PRS countries participate in the initiative.¹⁸

- Finally, the institutions are working to build global knowledge and partnerships for the improvement of monitoring and evaluation systems. For instance, the World Bank with other partners is currently extracting lessons and good practices, and preparing tools for the design of institutional arrangements for monitoring and evaluation systems. Another example comes from assistance to the PARIS21 consortium in providing a platform for the development of medium-term national statistical plans.

The PRS Approach in Countries with Difficult Environments

86. Evidence from the preparation of early PRSs suggested that countries experiencing instability and stress, including those emerging from conflict, were likely to face unique challenges in the preparation and implementation of a strategy. And, indeed, most countries that still do not have a PRS are low-income countries under stress (LICUS) and/or conflict affected countries (Section II). LICUS—whether post-conflict, or marginalized states re-engaging with the international community—generally do not have the baseline data, analysis, and capacity to immediately prepare a PRSP. Yet they have perhaps even greater need than do strong performers for better prioritization, realistic estimates of the timing and cost of key interventions, reliable donor assistance for priority actions, and close donor coordination than do the stronger performers. The IEO/OED evaluations also highlight the need for continued efforts to better assist countries to tailor the PRS approach to difficult country circumstances, to put in place mechanisms to help build the capacity needed to develop and implement a PRS, and to help ensure that processes are responsive to unique country vulnerabilities, such as the threat of conflict.

87. The World Bank, in cooperation with other partners, is currently engaged in several initiatives that aim at better understanding the constraints and operational implications of supporting the PRS in countries in difficult circumstances. These include a review of the PRS experience in LICUS countries, with an aim to generate operational lessons, and a more comprehensive assessment of the challenges and opportunities of the PRS approach in conflict-affected countries (both jointly with DfID). A complementary study is reviewing how several post-conflict countries (East Timor, Central African Republic, Liberia, and Haiti) have used basic planning tools to help set time-bound priority activities, with a particular focus on actions needed to build capacity in core government functions, and with an aim to forge consensus on priorities and to facilitate donor coordination. Given the focus on building core government capacity, this approach may help countries develop a more structured framework for building the capabilities needed to formulate a more realistic

¹⁸ The IMF's regional technical assistance centers also contribute to building capacity for collecting and analyzing data.

PRS in such circumstances. Also, the IMF's Executive Board has recently decided to apply the Emergency Post-Conflict Assistance (EPCA) policy more flexibly.

D. Enhancing Aid Effectiveness

88. **Increasing aid volumes and improving the quality of aid to low-income countries implementing sound PRSs is critical to their efforts to achieve the MDGs.** As countries improve their policies and governance, more aid (including grants) will need to be provided in forms that can flexibly meet the incremental costs of achieving the MDGs, including providing a higher proportion directly to countries in the form of cash, supporting good policy performance with predictable and longer-term aid commitments, and allowing for the financing of recurrent costs where country circumstances warrant. However, despite international commitments to increased aid, there are signs of pessimism on the part of low-income countries. Some do not reasonably expect any further substantial near-term increase in available financing (e.g., Mozambique and Tanzania), while others, such as Uganda, have become increasingly cautious about taking on additional donor financing in terms of its implications for fiscal deficits, aid dependency, and the sustainability of poverty reduction efforts.

89. **Aid pessimism needs to be overcome by a concerted effort by both donors and recipient countries to help these countries achieve the MDGs. The PRS process represent a unique vehicle for assessing the prospect and viability of higher aid inflows and setting out plans for their use.** Most recent PRSPs do recognize the need for more and better aid for poverty reduction, but in many cases this is not linked to scaling up efforts which are needed to reach the MDGs. Developing alternative scenarios is one promising way to address this; however, as noted in Section III.B, progress has been difficult.

90. **There is substantial scope for increasing the effectiveness of aid by better aligning aid with country-owned development priorities as articulated in PRSPs, and by harmonizing and simplifying donor policies and practices.** Over the past 12 months the political momentum for harmonization and alignment has grown, with almost 60 partner countries and at least 40 bilateral and multilateral agencies now engaged in harmonization and alignment efforts.¹⁹

91. **In countries where the PRS approach is being actively driven by the government, donors have intensified efforts to harmonize and align their activities on the ground.** This often takes place through the formation of a joint government-led group of local development players, through which like-minded donors align their support programs with the policy priorities of the PRS and coordinate these programs with each other. Together

¹⁹ For details on the harmonization and alignment activities at the country level, see the Country Implementation Tracking Tool on the Aid Harmonization website, at <http://www.aidharmonization.org/ah-cla/secondary-pages/cla>.

with the recipient government, these groups also often establish a formal common performance assessment framework (PAF) based on a reduced set of indicators derived directly from the PRSP. Such frameworks also aim to facilitate early commitments of aid, the integration of these commitments into the budget formulation process, and frontloading aid disbursements within the fiscal year to enhance the predictability of aid flows—as such, they set out the mutual obligations of countries and their development partners in the PRS process.²⁰ Donors in these countries are also increasingly shifting from project aid toward the provision of budgetary support or participation in sector-wide programs.²¹ Good examples of this approach are Ethiopia, Ghana, Mozambique, Tanzania, and Uganda.²²

92. **In other countries, by contrast, the PRS does not yet seem to serve as a framework for harmonizing and aligning donor assistance.** In some cases, this may reflect weak government leadership in using the PRS framework as a tool for deepening aid harmonization and alignment, or disagreements among donors—either with regard to their own priorities, or their perception of the PRS process as a whole. In other cases, the fact that relatively few donors are involved in providing support to PRS implementation reduces the impetus to a harmonized approach (e.g., Guinea). Therefore, while donors, and particularly the BWIs, should encourage recipient countries to exploit the potential of their PRS as a vehicle for donor harmonization and alignment, the extent to which this potential can be realized will inevitably vary from country to country, depending in part on the ability and willingness of the governments to take the lead in the process. Progress will, in many cases, therefore be gradual.²³

93. **Some PRSPs make explicit reference to issues of donor harmonization and alignment, even though they do not fully reflect actual progress on the ground.** In some cases, such as Ethiopia and Rwanda, the discussion is extremely detailed, describing the harmonization and alignment process and its objectives, as well as its impact on the availability and forms of donor financing. The progress reports of Burkina Faso,

²⁰ For example, in Tanzania, some 70 percent of budget support commitments are now disbursed within the first quarter of the fiscal year.

²¹ Good examples of sector-wide programs are in health in Tanzania and Uganda (although these predate the PRS approach), and more recently, education in Bangladesh.

²² As a relatively recent phenomenon, it is too early to give a definitive judgment on the effectiveness of such arrangements. However, the start-up costs of establishing joint monitoring frameworks have been considerable, and the process very time-consuming (e.g., in Ethiopia and Mozambique, the process of agreeing on a common set of indicators and monitoring modalities took well over a year).

²³ It is worth noting in this context that the countries where the most progress has been made in donor harmonization and alignment are those where the coordination process generally predates the PRSP (see, for example, Box 7 on Mozambique).

Mozambique, and Tanzania refer to the memoranda of understanding between the government and donor groups—Mozambique’s APR describes the reduced indicator set by which donors will monitor performance. Other country documents approach the issues from different perspectives, outlining some of the problems caused by uncoordinated donor activities (Malawi, Niger, and Tajikistan); describing planned steps toward donor harmonization consistent with the 2003 Rome Declaration on Harmonization (Honduras and Kenya); or discussing donor harmonization in the context of managing the external debt (Djibouti and Madagascar).

94. **The alignment of donor support programs with the PRS depends in part on the operational detail of programs and policies in the PRSP itself.** This determines the extent to which donors can base their support programs on the PRS directly and monitor progress using recipient country systems and indicators.²⁴

95. **Donor harmonization and alignment also extend to a joint approach to providing support for capacity building and to streamlining conditionality.** With significant capacity constraints in most low-income countries, capacity building will be a long-term endeavor. It is important for donors to assist countries in meeting immediate priorities and to avoid fragmentation of efforts. Strong country-led initiatives can help in this regard (e.g., Ethiopia, Tanzania). The PRS can be the vehicle by which capacity building needs are prioritized, for example, in data collection and monitoring. The formal performance assessment frameworks that have been negotiated to date also limit program conditions and disbursement triggers to the indicators and policy commitments contained in the PRSP—monitoring procedures are also being more closely aligned with domestic review processes.

96. **Looking forward, several challenges remain to be addressed by both recipient countries and donors alike in facilitating closer donor harmonization and alignment with the PRSP.** These include: addressing the continuing communication gaps—between headquarters-based aid agency management and operational staff, and between the global harmonization discussions/fora and individual countries—as to both the international commitments to, and the specific opportunities for, harmonization and alignment to improve the delivery of aid through the PRS process; tackling capacity constraints both recipients and donors face in implementing harmonization and alignment; strengthening domestic monitoring systems to facilitate their use by donors; providing sufficient operational detail of policy intentions in PRSPs or annual progress reports; and defining a set of performance indicators that provide an adequate assessment of progress while respecting the recipient

²⁴ In some cases, organized donor groups have worked around this constraint by using indicators set out in the sectoral programs—elsewhere, governments and donors have begun to use as an operational roadmap the detailed policy matrix that accompanies the World Bank’s PRSC operations, in the negotiation of which the donors groups have been closely involved (e.g. Ethiopia, Mozambique, Tanzania, and Uganda).

country's priorities. A key challenge for the future will be integrating the activities of other stakeholders that participate in the PRS process, including the agencies of the UN system, the global or vertical funds, and the NGO community, and to encourage the harmonization and alignment of their development assistance.

97. **The Bretton Woods institutions will be expected to play a central role in this effort. For example, most donors require evidence of a satisfactory macroeconomic situation to continue their support, particularly budget assistance, and look to the IMF to provide this assessment.**²⁵ The joint staff assessments of the PRSP and the APR are also seen as a critical input to the country authorities and donors in evaluating overall PRS implementation. As indicated above, the policy matrices underpinning the World Bank's PRSC operations in some countries also contribute to the coordination of donor activities in-country. This would require that the BWIs make specific efforts to adjust their operations in PRS countries to align them with country-specific timetables;²⁶ to assist in improving the operational relevance of the PRSP; and to structure their operations within the broader partnership approach, taking account of other partners' activities and defining more clearly their roles and expectations in the context of such coordination frameworks.²⁷ The BWIs also play a significant role at the global policy level in harmonization and alignment, working with other interested donors to ensure that the global harmonization and alignment architecture continues to shift its focus to implementation at the country level,²⁸ while continuing to advance technical work to support implementation.

98. **On the donor side, an informal group with senior-level bilateral and multilateral representation has been constituted. Its aim is to provide high-level institutional**

²⁵ The World Bank makes its own assessment of the adequacy of a country's macroeconomic policy framework, and takes the IMF's view into account.

²⁶ This was one of the central proposals for aligning the PRGF with the PRSP approach accepted by the IMF's Board in April 2003 (see IMF 2003a).

²⁷ In countries where the governments have taken a strong leadership role in using the PRS framework for donor coordination, and where the BWIs participate in joint donor groups, the formal joint evaluations of progress in PRSP implementation by such groups provided for in the context of common performance assessment frameworks could eventually form the basis for the BWI staff assessment (see paragraph 106 below).

²⁸ The harmonization and alignment agenda is being carried forward at the global policy level through the OECD-DAC Working Party on Aid Effectiveness (WP-EFF) and its five subsidiary groups (which include the active participation of the DAC membership, 15 recipient countries, the IMF, the regional development banks, the UNDG, and the WB), and within existing multilateral development bank collaborative structures (such as the Heads of Procurement, the MDB Financial Management Group, and the MFI Working Group on the Environment). For additional detail, see World Bank (2003).

support to country-level efforts to align and harmonize aid in order to accelerate progress toward the MDGs. The focus of the group is to facilitate the efforts of country-led donor groups (and recipients themselves) through specific interventions with their agencies to achieve more and better aid. The aim of the group is not to duplicate ongoing efforts, but to provide a backstopping mechanism to help remove obstacles that may arise which prevent current initiatives from functioning at the country level. The group has initially focused on a few countries that have significant potential to accelerate progress toward the MDGs, if improved donor practices and increased aid volumes can be combined with country-led reforms.

Box 7. Mozambique's Performance Assessment Framework

Donor coordination in providing direct budget and other forms of program support to Mozambique began in the mid-1990s. It was formalized in 2000 through the Joint Donor Program (JDP) for macrofinancial support, in which 6 donors participated. The JDP expanded rapidly to include 15 donors by 2004, when it was superseded by a Memorandum of Understanding (MoU), signed in April 2004 following a Joint Review of PRS implementation, that sets out in great detail the procedural arrangements for budgetary and balance of payments support. Two specific features of this arrangement stand out: the agreement on a common performance assessment framework (PAF); and the commitment to use government monitoring instruments into which the monitoring of the PARPA (PRSP) are integrated.

The PAF is a reduced set of policies, actions, and output/outcome indicators of the highest priority proposed by the Government and agreed with donors, derived from its commitments in the PARPA (PRSP). It has a three-year horizon and is the basis for the annual plan and budget (the economic and social plan (PES)) approved by parliament—there are semiannual reports by government to parliament. It includes an important component of public financial management reforms, seen as critical for the provision of budget support, and provides for joint fiduciary risk assessments by donors. The donors themselves commit to align their support programs with the priorities of the government, to harmonize their procedures to reduce the transactions costs of aid, and to enhance capacity—these commitments, too, are monitored under the PAF.

While not a list of “conditionalities,” the PAF matrix is the source of prior actions and disbursement triggers used by the participating donors. These are distinct from the key underlying principles for conditionality defined in the MoU (these are political governance, fighting poverty, and sound macroeconomic policies—donor concerns in these areas are to be dealt with through consultation and dialogue at the appropriate level).

Performance relative to the commitments set out in the PAF is assessed in the annual joint review—established dialogue and monitoring processes provide for frequent exchange and early signaling of concerns. Donors have committed to a graduated response to problems with program implementation—reflected in their pledges and in some cases in their use of fixed and variable tranches—with a view to limiting the occurrence of a total suspension of aid disbursement to cases of violation of the underlying principles.

The World Bank has joined 14 bilateral donors in this group. The government uses its own report to Parliament on the implementation of its Economic Social Plan to assess performance and as its APR.

IV. NEXT STEPS

A. Architecture

99. **The OED and IEO evaluations found that the PRS approach is relevant, but recommended changes to the architecture** aimed at: reducing the perception of the BWIs' "signing-off" on the PRSP which undermines country ownership; enhancing the clarity/transparency of the link between the PRS and Bank and IMF assistance programs; clarifying the role of the Joint Staff Assessment (JSA) and its audience, in order to enhance its quality and candor; and increasing the focus on improving underlying country processes rather than on producing documents.

100. **The World Bank's Committee on Development Effectiveness (CODE) and the IMF's Executive Board strongly endorsed the relevance of the PRS approach and the need to maintain and strengthen the operational link between the PRS and BWI assistance.** In this context, the changes described below seek to address the findings of the OED and IEO evaluations with regard to the PRS architecture and to encourage countries to use the PRS instrument flexibly.²⁹ Staff guidelines are being developed. Since implementation will be paramount, staff intend to review implementation experience in the 2005 report on progress in implementing the PRS approach, and make further adjustments as needed.

The Joint Staff Assessment (JSA) of the PRSP

101. **If an operational link between the PRS and BWI concessional assistance is to be maintained, as was supported by CODE and the IMF Board, there will remain a tension with country ownership.** This reflects the difficulty of reconciling the objective of respecting and fostering country ownership of the policy framework embodied in the PRS with the need of the BWIs to ensure that they provide concessional resources to countries in the context of a broadly satisfactory institutional and policy framework. Thus in the context of using the PRSPs as the framework for the provision of concessional resources from the BWIs, efforts are needed to manage this tension better and to reduce the perception of Washington "signing-off" on PRSPs.

102. **The staffs also recognize the shortcomings of the JSA as an instrument.** In particular, the JSA paragraph which calls for staffs' conclusion on whether or not the PRSP forms an adequate basis for continued Bank and IMF concessional assistance may lead to

²⁹ Given the endorsement of these changes to the architecture by the Executive Boards, staffs are reflecting on what changes are needed to the operational modalities of the PRS and HIPC Initiatives. IMF staff are also considering the implications for the legal framework in connection with the PRGF.

assessments that are not always as candid and as nuanced as desired. And, despite the disclaimer to the contrary, the exhaustive list of items referenced in the staff guidelines to the JSA may contribute to the country authorities' perception that PRSPs need to address all issues. The guidelines may also give the impression to staffs that JSAs should assess each of the issues mentioned, thereby leading to overly long and unprioritized assessments.

103. **Despite these problems, staff believe that there is value in maintaining a self-standing instrument that provides candid feedback on a PRS to the country authorities and presents staff views to the Executive Boards and other stakeholders.** Therefore, the staffs share the view expressed by CODE and the IMF Board that a joint instrument should be maintained, but with substantial adaptation to enhance its usefulness. In particular, the JSA should be reformulated to emphasize a graduated view, rather than a binary conclusion. To this end, a number of specific changes will be made and these are noted below.

104. **The concluding paragraph of the JSA will be changed to promote more candid and nuanced feedback.** Specifically, the requirement that the JSA conclude with a standard statement that the PRSP is a suitable basis for concessional lending will be eliminated to encourage the staffs to provide frank feedback on the strengths and weaknesses of the poverty reduction strategy. The concluding paragraph will instead highlight areas for discussion and ask for the Boards' views on staffs' conclusions regarding: (i) priority action areas for strengthening the PRS during implementation; and (ii) areas where (a) there are inconsistencies between the PRS and its policy framework and the content of Bank and IMF programs that reflect existing analysis or (b) further analysis is needed for the PRS to provide a framework for Bank and IMF assistance.

105. **BWI activities, including lending operations, will continue to be based on PRSPs.** Specifically, the World Bank's Country Assistance Strategy (CAS) and World Bank operational and IMF program documents will discuss how the weaknesses identified in the JSA are being addressed so that appropriate assistance can proceed. In presenting a request for a new PRGF arrangement, IMF staff and management will recommend approval of the operation based in part on the country's PRSP and taking into account the JSA, as well as specific measures to remedy weaknesses under the IMF's mandate. This will be reflected through the inclusion of specific language to that effect in the Board's decision.³⁰ As regards the HIPC Initiative, the fact that a decision point is being approved would imply that a country's I-PRSP or PRSP is considered satisfactory, so that a specific joint endorsement of the I-PRSP or PRSP by the Boards will no longer be required.

³⁰ The summing up of the discussion of this report by the IMF's Executive Board reflects the Board's support for this new approach to the role of the PRSP in PRGF lending operations, and IMF staff will propose amendments to the relevant instruments as necessary.

106. **The objectives and audience of the JSA will be clarified.** Specifically, the JSA will aim at providing the prioritized and candid joint view of World Bank and IMF staffs on: (i) priority action areas for strengthening the PRS during implementation, including as a vehicle for meeting medium-term development goals, such as those embodied in the MDGs; and (ii) areas where (a) there are inconsistencies between the PRS and its policy framework and the content of Bank and IMF programs that reflect existing analytic work or (b) further analysis is needed for the PRS to provide a framework for BWI assistance. While the JSA will continue to be prepared jointly by the Bank and IMF country teams and will reflect their joint views, it will increasingly explore ways of drawing on the views of other partners in order to improve partnership around the country-led framework laid out in the PRS. Continuing to strengthen the PRS process and content at the country level should also help countries in using the PRS process more effectively as an accountability framework with donors, in terms of their commitments, such as to the alignment and harmonization of their assistance and to increased aid volumes.

107. **The JSA will be directed primarily at the country authorities and the Executive Directors of the Bank and Fund.** As long as the feedback in the JSA is candid, there is no inconsistency with having more than one audience. With regard to country authorities, the JSAs will provide the authorities with staffs' advice on what the priorities are for strengthening the PRS content and process. With regard to the Executive Directors, the JSA will seek the Boards' feedback on the issues identified and indicate how the BWIs can support the country's PRS, by identifying weaknesses that might constrain concessional financial assistance. The Executive Directors would thus provide feedback (i) for countries on their PRS; and (ii) to staff on the issues raised.

108. **The JSA guidelines are being revised to reflect this tighter focus.** The relatively exhaustive list of key questions will be considerably reduced, with an aim also to help tighten the analysis and eliminate the pressure to address all aspects of the PRSP. There will be no overall set page limit, since as the issues to be discussed will likely differ across countries, although there will be a presumption of brevity. As is current practice, Bank and IMF staff will continue to provide feedback to countries on their strategies through a range of other means, including policy dialogue, technical assistance, and program discussions.

109. **With these changes, the staff and Boards of the World Bank and the IMF will be more in the mode of providing advice and feedback on a country's PRS rather than bearing judgment.** To reflect this change in approach, the JSA instrument will be renamed the Joint Staff Advisory Note (JSAN) for PRSPs and Annual Progress Reports.

Annual Progress Report (APRs) of PRSPs

110. **The OED and IEO evaluations suggest that APRs have played a constructive role in reporting on progress and in adjusting strategies.** This role could be strengthened, however, by more closely linking them with the budget and other domestic processes and

ensuring that their timing is country-driven. Such a change would also help reduce the strain on country capacity.

111. **While the APR will continue to be part of the PRS architecture,³¹ changes are being introduced that aim at encouraging its closer alignment with domestic processes,** giving the country authorities an opportunity to assess progress and set the agenda for the year ahead.

112. **Given this focus on setting the domestic agenda, the APR and its accompanying JSAN will not be discussed by the IMF and World Bank Boards, in most cases.** APRs and the associated JSANs will be distributed to the Executive Directors for information only.³² This will promote an emphasis on improving the underlying processes rather than producing papers on a fixed time schedule and reduce the perception of needed a yearly Washington sign-off. However, for countries with existing conditions for reaching the HIPC completion point, the IMF and the World Bank staffs will review the APR and decide whether the PRS, as evidenced by the progress report, has been implemented satisfactorily.

113. **Each country will determine for itself how it will carry out its annual reporting, and how it wishes to use this instrument.** As part of the PRS Initiative, the APR will be expected to have three basic elements: (i) an evaluation of performance and analysis of outturns relative to benchmarks, for monitoring and evaluation purposes; (ii) a broad overview of the coming year's policy intentions, particularly as reflected in the budget; and (iii) a description of progress made in addressing specific shortcomings identified in past JSANs. When warranted, the APR could also note modifications to strategies, policies, targets or indicators, or provide updates on poverty or other relevant analysis.

114. **Countries will be actively encouraged by Bank and IMF staff to link their annual reporting to domestic processes.** Ideally, therefore, the APR should be an integral part of the domestic monitoring and evaluation process, rather than a separate exercise. The process of preparing it should be as administratively light and nonduplicative as possible. Wherever feasible, governments could draw on existing information, such as budget reports. In some countries, utilizing existing processes should already be relatively straightforward. In other cases, where existing processes are weak and do not provide the requisite information, the transition to embedding the APR into domestic processes may take longer, and institutional strengthening will need to be supported by the country's development partners, including the Bank and the IMF.

³¹ The precise link between the APR and Bank and Fund assistance are being worked out so as to be consistent with aligning the APR more closely with domestic processes.

³² An exception will be made where the APR elaborates a major shift in the country's PRS, in which case staffs will recommend that the APR and the JSAN be discussed by the Boards.

115. **The APR's content could be expanded if it suits country needs.** The authorities and their external partners could, for example, agree to use the APR as an instrument of donor coordination and harmonization. In such a case, the authorities would ensure that the information needed by the donors for their performance assessments is adequately presented in the APR, reducing the need for additional reports to donors.

116. **The APR will continue to be a public document.** In the event that existing documents are not publicly available, or are quite technical and thus inaccessible to some audiences, the authorities may wish to produce a short note that could accompany and refer to existing national documents, and summarize their conclusions in a way that fosters domestic participation and enhances government accountability. The government may choose to prepare the APR without an extensive participatory process, deciding instead on the best point in the process to consult with local stakeholders (including the parliament) and with external partners.

117. **The guidelines to the JSAN of the APR are also being revised.** The JSAN of the APR will be expected to describe how the authorities have addressed the key issues raised in the JSAN of the full PRSP or previous JSANs. As such, it will provide feedback to the authorities, as well as the Executive Directors of the World Bank and IMF, on the core elements of the APR with specific relevance to the BWIs' operations.

B. Progress Review in 2005

Assessing Progress Towards Addressing Key Challenges After Five Years

118. **The coming year will mark the five-year anniversary of the PRS initiative.** In advance of mainstreaming PRS progress reporting, staffs plan to use the 2005 implementation progress report to review progress, challenges, and good practice related to several key issues that have been identified through discussions with stakeholders, past staff evaluations, and the IEO/OED evaluations as being central to enhancing the effectiveness of the approach. In particular, the review will draw lessons for future policy from the experience of the first five years, with a view to enhancing the PRSP's effectiveness as a vehicle for attaining the MDG. Staff will also use this opportunity to assess whether the architectural changes proposed in the preceding section are having the intended impact. This 2005 review will include the views of staffs and other stakeholders, including country officials, donors, civil society organizations, and other partners. A special focus is planned on the following issues:

- **Broadening and deepening participation**, including attention to: (i) key actors (the role of domestic constituent groups and institutions such as Parliaments, labor unions, trade and business associations); (ii) mechanisms (such as for broadening the space for macroeconomic and other policy dialogue and consideration of alternative policy options including macroeconomic scenarios); and (iii) sustainability (moving beyond consultation in PRS formulation).

- **Enhancing linkages between the PRS, the MTEF, and budgets**, including the role of line ministries and local governments, in order to strengthen the country-driven nature of the initiative, to help promote greater prioritization, and to better integrate sectoral strategies.
- **Strengthening the medium-term orientation of the PRS**, including adapting the MDGs to country-specific circumstances; the use of alternative scenarios to help flesh out the implications of aiming for more ambitious development goals than warranted by current policies and financing flows; more robust growth analysis; and poverty and social impact analysis (PSIA) of policy alternatives.
- **Tailoring the PRS approach** to countries with particularly weak capacity or difficult circumstances.
- **Utilizing the PRS as a mutual accountability framework between countries and donors**, including alignment and harmonization of external assistance and increased aid volumes. In this regard, specific implications for World Bank and IMF assistance will be considered.

119. Bank and/or IMF staffs plan to prepare notes on the above topics, either as specific background or as part of ongoing policy and research initiatives. Stakeholder consultations will be conducted at regional fora, linked to the extent possible with other planned events. Other partners will be approached to augment the critical analysis available on these topics and to organize consultative events that can provide feedback into the progress report. Based on feedback received on this proposal, a more detailed program will be drawn up and launched in the fall.

V. CONCLUSIONS

120. **The PRS Initiative is maturing as a process, as several countries enter their second and third years of implementation.** Improvements are evident in many areas: the analysis of poverty and its multiple dimensions; building poverty reduction strategies around stable macroeconomic frameworks that foster growth; defining appropriate indicators for measuring progress; and sharpening the focus on poverty-related expenditures.

121. **The relatively uniform progress observed in these simpler, somewhat more technical aspects of the PRS approach stands in contrast to the continuing difficulties experienced by most countries, even those at more advanced stages of PRS implementation, in other aspects of the approach.** This is particularly the case with regard to refining the analysis of the sources of, and constraints to, accelerating growth; building up strong monitoring systems and creating a domestic demand for these; costing and prioritizing

PRS programs; and balancing the tension between the need for realism in the PRSPs (as the operational framework for the poverty reduction effort) and the need to aspire to more ambitious results related to medium-term development goals, in particular the MDGs adapted to country-specific circumstances.

122. Developing countries have internalized the PRS approach and its various processes to differing degrees, and all recognize its potential as an instrument for deepening country ownership of the development process. The international community, too, clearly sees the PRSP as the operational vehicle for achieving the MDGs, and as the appropriate framework for donor harmonization and alignment aimed at enhancing aid effectiveness. The PRS approach is therefore clearly relevant, even beyond the operational requirements for providing debt relief and concessional assistance, but needs to be improved by concerted efforts on the parts of recipient countries and their development partners to address the remaining challenges.

123. A critical role will be played by the BWIs, both in the provision of technical and financial support for PRS implementation, and in adapting the overall approach to changing circumstances. With the passage of time, some of the pressure points have become more obvious. In response, this report presents some modifications in the architecture of the PRSP initiative. In several aspects of the approach, there is also a need for the BWIs, as well as other donors, to make more of an effort to align their own operations with the PRS approach. For the BWIs in particular, it will be important to create the space for countries to define and implement their development priorities and thereby help reduce the perception of the PRS approach as a Washington-driven process.

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