

**Report on discussions with World Bank on Poverty  
Reduction Strategy Papers**

**October 20-22nd 1999**

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## Summary and Recommendations

1. The World Bank and IMF are engaged in high-level dialogue on developing outlines for the content and process of Poverty Reduction Strategy Papers —with the Bank leading on the technical side. These papers are intended to be approved by the Boards of both the Bank and the Fund, and will replace the Policy Framework Paper. The structural conditions of the successor to ESAF (the Poverty Reduction and Growth Facility) will be drawn from the PRSP, as will the objectives of the Bank Country Assistance Strategy. There is an objective that the PRSP should become the overarching framework for all donor support, with the strategy providing a comprehensive overview linked to the macro and budget framework, and to an action plan for implementation. There is heavy emphasis on participation in the formulation and monitoring of PRSPs.
2. Good progress has been made but our discussions and the presentation we were asked to give to Bank staff focused on a number of issues which still need clarification, notably:
  - Ownership - Govts already have their own planning and policy and budget processes, how can we ensure that PRSPs are not seen as just another imposition from Washington? This point is linked to-
  - Initiative overload – CDF, PRSP, NEAP, CAS, UNDAF, Long Term Perspective studies etc. all generated by donors – how can PRSP be integrated with legitimate partner country decision-making through ‘mainstream’ mechanisms for political accountability?
  - Comparability of treatment – who assesses PRSPs using what criteria, how can judgements be seen as transparent and fair?
  - Timetables– as the timing and content of PRSPs is currently interpreted, time-pressures would have a negative effect on participation and broad ownership.
  - Country variation– the ‘Uganda experience’ has fed into the thinking behind PRSPs – but how should the donor community proceed in cases where the government has made little progress in key areas?
3. The CAPE advisory input focused on issues of process rather than content, as the Bank materials so far prepared have fleshed out much of the agenda in terms of appropriate frameworks for content of PRSPs. The overheads for the presentation made to Bank/Fund staff attached to this report indicate the broad lines of argument of our input.

## Recommended Follow-up

4. The main recommendations we made in our seminar are summarised in Paragraph 11 below, and given in full in the attached overheads. These can not be said to have been accepted at this stage, and (if DFID and the PREM team accept them) there will be a need for further work to develop a consensus around them in the Bank, the Fund, and the respective boards. In addition to work to achieve this, we have the following suggestions for possible areas of follow-up:

### Short-term actions

- CAPE to produce proposals for how the quality of the process of developing and implementing a Poverty Reduction Strategy can be assessed, including possible benchmarks and indicators. This would require a further modest input from Andy Norton.
- DFID should consider organising or facilitating a workshop to involve key stakeholders from ESAF countries (particularly in Africa) in the debates over the content and process of PRSPs. There is some urgency given that the ‘new world’ in which the PRSP replaces the old-style Policy Framework Paper starts in January 2000. The target date for a seminar of this kind should therefore be early December. A high-profile event chaired by the Secretary of State would give weight to the conclusions. The timeframe for this is demanding, however – and an alternative

strategy might be to establish an email network to engage with key African policy makers and obtain feedback on the developing proposals.

- The wider donor community also needs to be consulted on the development of PRSPs: the DAC poverty forum would be the obvious group in which to exchange views.
- DFID (SDD) should support the proposal from Parmesh Shah (World Bank Participation Co-ordinator) for a rapid piece of technical assistance to synthesise experience on participatory processes to support the formulation of poverty reduction strategies at the country level.

### **Medium-term actions**

- In the medium term, there will be a need for a forum for developing country practitioners to exchange experiences and emerging good practice. A learning network should be established in Africa (possibly also encompassing other ESAF/PRGF countries) to enable a sharing of country-level experience between government and civil society specialists. This could also function as a reservoir of expertise to be drawn on in developing PRSPs and related initiatives. It might develop out of any meeting organised by the Secretary of State, or from the e mail consultations proposed above.
- To enable quality PRSPs to be produced by a process owned by countries themselves, technical support should be under Government control, possibly using pooled donor funding with some independent quality control.
- Annual Government/Donor consultations will be needed on the PRSP and progress in implementing it, either through a reformed CG/ Round Table process, or through a dedicated event linked to the annual budget cycle.

### **Introduction**

5. Mick Foster and Andy Norton of CAPE visited the World Bank with the following terms of reference:
  - provide technical assistance to Ann Duncan of the PREM network as requested to the end of supporting the World Bank unit responsible for thinking through the process and content of the proposed Poverty Reduction Strategy Papers.
  - Report back to DFID with recommendations on possible actions DFID could take to support the development and operationalisation of the concept of PRSPs.
6. Andy Norton was also asked to liaise with Parmesh Shah (Participation Co-ordinator, World Bank) on proposals for joint work (DFID, World Bank) on the participation dimensions of PRSPs.
7. The main event was a well attended seminar in the Bank (the room was full to bursting, with some staff turned away): the overheads which we used are attached. This was followed up by a small working meeting chaired by Chris Scott. We also held meetings with Ann Duncan of the PREM network, who is responsible for taking forward the approach; with Tony Boot and David Andrews in the IMF; with Parmesh Shah of the Social Development Department; with Ritva Reinnike of the development Research Group, who is task manager for the proposed Uganda Public Expenditure Reform Credit, and was previously Uganda country economist; with Greg Toulmin of the Comprehensive Development Framework support unit in the Bank; and with UKDEL.

### **Discussion with IMF**

8. We asked Tony Boot and David Andrews of the IMF PDR Department if there was any danger that the PRSP could experience a re-run of the problem with the policy framework paper, which had also started life with high expectations of developing into a tri-partite document. This commitment had eroded because the document had no role in Bank procedures now that the Bank board no longer discussed it, and hence Bank staff lacked incentives to allocate time to the PFP.

Even for the Fund, the important parts of the PFP were those that became reflected in the structural conditions of Fund lending. Governments had too often been asked to endorse a PFP document drafted in the Fund, though that was changing. The Fund staff conceded that there were tensions in planning for PRSPs. On the one hand, the imperative of ownership and the need for building Government capacity required time. On the other hand, the desire for speedy development of PRSPs and a perceived need for a document which the Fund board would recognise as a policy document, argued for more of a role for the Washington institutions. The heads of both institutions recognised that early PRSPs may be of variable quality, but staff lower down remained nervous at the prospect of taking technically weak documents to the Board. Nevertheless, they stressed that there was indeed a commitment to fundamental change, and a recognition that Bank and Fund had been told very directly by their Boards that they must work together more closely in low-income countries. We suggested a separation between the Government document setting out what they had agreed to do, and the Bank/Fund appraisal of it.

9. We sought clarification of the role which the PRSP would play in Fund lending. The Fund would retain their own separate lending documents for Board presentation, as at present. The issue of which aspects of the PRSP would be reflected in IMF conditionality and how this would be determined remained somewhat unclear. PDR feel that there is now a commitment to a reciprocal approach, with the Fund willing to suspend lending based on Bank assessments that the poverty agenda had made insufficient progress: there was already one case where this looked likely to happen on HIPC. Though recognising the need to interpret poverty indicators with judgement, the Fund insisted that clear benchmarks and indicators would be needed if judgements were not to become arbitrary. At the same time, they recognise that both Fund staff, and the Fund board, were better equipped to exercise well informed judgement and interpretation in the more familiar areas of macro-economic policy.
10. The most interesting innovation from the point of view of Fund practice is the commitment to a more open process of discussion of macro- economic and budgetary trade-offs. There would be more than one macro scenario, with an iteration between resources and needs, and a recognition that more than one path for the macro-economy could be consistent with macro stability. This is in line with the recommendations of the independent ESAF review (and of the Foster and Thomas paper on IMF programmes in aid dependent countries!) It requires among other things good communication between the Fund and the donor agencies, and the development of workable fiscal frameworks which capture donor commitments and disbursements.

#### **Discussion with Greg Toulmin, CDF unit**

11. We focused on how the PRSP relates to the CDF, and Greg passed me the attached diagram which purports to show this. Essentially, the PRSP is seen as 'nested' within the overall CDF. Where poverty is the overarching problem and reducing it the over-arching goal, it will be the most important input into the CDF process.

#### **Seminar in World Bank**

12. The CAPE presentation was divided into the following sections: starting assumptions; issues and problems; process; content; criteria for assessment; role in WB and IMF lending; country variations (see attachment for detail of content). The major bullet points from our presentation can be summarised as:
  - A major objective is to strengthen accountability to domestic constituencies, rather than offshore donors. Building channels of information to enable civil society organisations to hold Government to account should raise effectiveness and improve sustainability.
  - Governments may have good political reasons for not identifying their policies too closely with Bank and Fund, while the Bank and Fund need to stand back and assess the quality of Government strategy, rather than just endorsing it. This suggests separating the PRSP in two parts. The first would be a report from Government to Bank and Fund setting out how they propose to address poverty, based on agreed terms of reference or statement of issues to be addressed, possibly cross-referring to their own planning and budget processes, and linked to an action plan agreed with Bank and Fund. The second part would be the independent assessment of the strategy by Bank and Fund.

- Complex goals need to be sequenced, and it is unrealistic to think of PRSPs as finished products. The assessment by Bank and Fund should be rigorous in terms of the questions addressed, and appraisal of the adequacy of the Government response to the issues, but will not require all of the analysis to be in place at the outset. It will assess what has been done already, and the adequacy of the policy and programme response to poverty issues and policy options which can be clearly defined. It will also, however, be a report of what action Government is taking to generate the information, analysis, institutional mechanisms and organisational capacity to build towards a more effective poverty strategy in future. This is the only way in which the ambitious timetable can be met.
  - Stakeholders in partner countries and donor agencies need to be involved in developing the overall approach, an issue which is urgent to address.
13. Questions and comments indicated that many Bank staff are not yet well informed on this initiative – but there was broad support for the basic line of argument that ensuring space and flexibility in the process for country level ownership and accountability to emerge would be critical. There was also clearly some nervousness about the timescales which would be applied, and whether these would allow sufficient space for such considerations. The idea of ‘sequencing’ goals in terms of participation, ownership, information systems and analysis received some support. According to this perspective, in countries where little work had taken place in key areas (the analysis of poverty; monitoring of poverty trends; building political constituencies and momentum behind poverty reduction strategies; establishing effective and transparent budget monitoring systems etc.) the initial PRSP would be a relatively simple document. At a minimum it would outline three or four key goals in terms of strengthening the poverty reduction content of budgets and services – alongside a series of process goals whereby the capacity for poverty analysis, for budget management, for policy development, and the degree of communication with, and accountability to, domestic constituencies (including the poor) would be developed.
14. The temptations for donors to over-ride mainstream systems in countries will be strongest in those countries with weak capacity and a weak policy framework. The basic policy sequence associated with PRSPs must be designed in such a way that government and civil society in the countries concerned has the space and incentive to develop its own programme – which donor resources then support. The depth of change that this requires in donor agency cultures should not be underestimated. As one of the specialists in the central team remarked, the unfolding of the ‘new world’ of HIPC 2, the PRGF and the PRSP will entail a complex ‘game’ of incentives for donors, governments and other key actors – with the space for perverse incentives to emerge.
15. Many of the same issues were subsequently raised in a smaller meeting convened by Chris Scott, and involving members of the central team working on PRSPs. We were asked to provide further specific ideas on how the quality of the process could be assessed using monitorable indicators, and received some support to the idea of encouraging DFID to take a lead in consulting with a wider group beyond the Bank and Fund.

## **Conclusion**

16. The difficult part of operationalising PRSPs in a range of differing country circumstances lies ahead. We believe our recommendations outline a practical approach to achieving this without sacrificing either ownership, participation, or rigorous assessments by the Bank and Fund. We also believe our approach holds out the best prospect for setting in place mechanisms by which policy improvements can be sustained through pressure from groups within the country. Moving in this direction will, however, require major efforts to forge a consensus which needs to reach beyond the Bank and Fund towards the countries themselves, and the wider donor community.

## **List of Persons Met**

**Anne Duncan, Poverty Reduction and Economic Management Vice Presidency, World Bank**

**Tony Boot, Assistant Director, Policy Development and Review Department, IMF**

**David Andrews, PDR, IMF**

**Chris Scott, Poverty Group, PREM, World Bank**

**Giovanna Prenzushi, Economist, Poverty Group, PREM, World Bank**

**Jeni Klugman, Snr Economist, Poverty Group, PREM, World Bank**

**Kalanidhi Subbarao, Lead Economist, PREM**

**Greg Toulmin, Adviser, CDF Secretariat, World Bank**

**Miles Wickstead, UKDEL, World Bank/IMF**

**Dino Merotto, UKDEL World Bank/IMF**