

*Poverty Reduction Strategy
Papers (PRSPs):
A Rough Guide*

*April 2003
(Revised 9 April 2003)*



Acknowledgments

Thanks to Rachel Marcus, Søren Kirk Jensen and Jeni Klugman for their input. Responsibility for the final text rests, of course, solely with the authors.

Comments welcome. Please send to flefrancois@brettonwoodsproject.org.

Conditions of use

The text of this publication may be freely used for educational purposes. For other purposes quotations may be used provided the source is credited. Civil society groups are encouraged to adapt this information for their own purposes and audiences.

Please send the Bretton Woods Project a copy of any publications citing or based on this one.

About the Bretton Woods Project

The Bretton Woods Project monitors the World Bank and IMF in collaboration with NGOs and researchers. Established by a network of 30 UK-based NGOs in 1995, it circulates information, undertakes research, and advocates for change in the institutions. Issues it has addressed include structural adjustment programmes, conditionality, the World Bank/IMF growth model, and a number of controversial projects.

The Project produces a regular bulletin, the *Bretton Woods Update*, which is available in print, e-mail and web versions.

The Project receives core funding from the C.S. Mott Foundation and annual contributions from UK network members.

Bretton Woods Project
c/o Action Aid
Hamlyn House
Macdonald Road London
N19 5PG
UK

Tel: +44 (0)20 7561 7546/47
Fax: +44 (0)20 7272 0899
info@brettonwoodsproject.org

Poverty Reduction Strategy Papers (PRSPs): A Rough Guide

In September 1999 the World Bank and the IMF approved the Poverty Reduction Strategy Papers approach. At the time Bretton Woods Project published an “ABC to PRSPs”. Since then 28 countries have completed a full Poverty Reduction Strategy document and another 45 countries have produced an interim document. The aim of this short briefing is to provide information to a non-specialist audience on some key aspects of PRSPs. It does not cover all areas or provide detailed strategic insights.

Contents

- *What is the Poverty Reduction Strategy Paper (PRSP)?*
- *How does the PRSP relate to WB and IMF lending?*
- *Do PRSP countries still get structural adjustment loans?*
- *What is the connection with the HIPC debt relief initiative?*
- *Are PRSPs really nationally owned? What does ownership mean?*
- *Do PRSPs do away with conditionality?*
- *Do PRSPs depart from the Washington Consensus in the choice of policies?*
- *On what basis do the IMF and Bank Boards accept a PRSP?*
- *Who assesses the coherence between poverty reduction and the macroeconomic framework?*
- *Does the Bank have tools for assessing the poverty reduction impact of macroeconomic policies?*
- *To what extent can civil society participate?*
- *The PRSP cycle: successive steps and actors involved*
- *What institutional arrangements have been created in countries?*
- *How is implementation monitored? What is the timing for revising a PRSP?*
- *General PRSP resources*

- What is the Poverty Reduction Strategy Paper (PRSP)?

The PRSP outlines a national programme for poverty reduction which is the foundation for lending programmes with the IMF and the World Bank and for debt relief for Heavily Indebted Poor Countries (HIPC). The Bank and Fund developed the PRSP approach as a way to ensure that debt relief money would go to poverty reduction, and to respond to evident weaknesses in relations between poor countries and the Bretton Woods Institutions – in particular, lack of poverty focus, and no country ownership of reforms. There are five core principles underlying the development of poverty reduction strategies, namely:

- Country driven – involving broad-based participation by civil society and the private sector in all operational steps;
- Results oriented – focusing on outcomes that would benefit the poor;
- Comprehensive in recognizing the multidimensional nature of poverty;
- Partnership oriented – involving coordinated participation of development partners (bilateral, multilateral, and nongovernmental);
- Based on a long-term perspective for poverty reduction.

PRSPs should build on existing national plans when possible. While some countries such as Uganda and Mozambique have succeeded in re-presenting their existing plans as a PRSP, these have often been overlooked in the new process.

- How does the PRSP relate to WB and IMF lending?

PRSPs are intended to be the basis for all foreign aid to poor countries. All HIPC countries are required to produce a PRSP as a basis for concessional lending. They must have a PRSP before they can seek new programme support from the IMF or Bank. The Bank and Fund Boards must approve a country's PRSP before a lending programme is agreed. In addition, a number of countries which receive a blend of concessional and non-concessional lending – like Pakistan, Albania and Indonesia are preparing PRSPs as a basis for their assistance programmes.

- Do PRSP countries still get structural adjustment loans?

The IMF and the Bank have renamed their lending facilities for poorer countries. The IMF has replaced its Enhanced Structural Adjustment Facility (ESAF) with the Poverty Reduction and Growth Facility (PRGF). Countries that previously were receiving ESAF loans are now receiving PRGF loans. The interest rate and repayment conditions are the same. The Bank's Poverty Reduction Support Credit (PRSC), a lending instrument designed to support implementation of PRSPs, has been created to complement traditional adjustment loans. In Fiscal Year 2001/2002 roughly 40% of World Bank lending by volume was adjustment lending – 30% for poorer countries that get loans from the International Development Association (IDA). In addition to the PRSP, countries still need a Letter of Intent (LOI) and a Country Assistance Strategy (CAS) spelling out their targets and actions to request IMF and World Bank loans.

Adam and Bevan stocktaking exercise of the PRGF on behalf of DFID:
<http://www.econ.ox.ac.uk/members/david.bevan/Reports/PRGFStocktake02.pdf>

IMF PRGF factsheet: <http://www.imf.org/external/np/exr/facts/prgf.htm>

PRSC guidelines:
<http://wbln0018.worldbank.org/html/eswwwebsite.nsf/PRSC/Guidelines+PRSC?OpenDocument>

- *What is the connection with the HIPC debt relief initiative?*

To reach their 'decision point' triggering partial debt relief in the HIPC framework, countries have to devise an Interim PRSP (I-PRSP) or PRSP. To address the issue of the tension between qualifying for debt relief and allowing time to develop a good PRSP, countries have been allowed to develop I-PRSPs. I-PRSPs are required to diagnose poverty in the country and outline a consultation process for the drafting of the final PRSP.

Beyond HIPC countries, the PRSP is now the official basis for IFI lending in all low-income countries. Many other donors have adopted PRSPs as the framework to channel their aid, therefore building coordination around plans that are still heavily influenced by the Fund and the Bank in terms of growth assumptions and poverty reduction approaches.

- *Are PRSPs really nationally owned? What does ownership mean?*

The government is responsible for writing the PRSP and for commissioning and organising technical and donor input into it. In practice it often means building 'ownership' around pre-existing, IFI-preferred standard economic policies. While there have been examples of innovation in some areas, the macroeconomic framework has remained largely unchanged. There is a contradiction between the rhetoric on ownership and the request for WB/IMF Boards to endorse the PRSP. Many NGOs are concerned that this contradiction means that governments opt for programmes that they know will be accepted even if this conflicts with priorities identified through consultative processes.

The Bank and IMF staff have argued that a government can present whatever plan it wants. The staff then writes a "joint staff assessment" (JSA) which highlights areas of disagreement and perceived weaknesses in the PRSP. A positive JSA does not signify agreement with all the analysis, targets, or actions included in the PRSP or that the PRSP represents the best possible strategy for the country. What it does indicate is staffs' "bottom line" judgement as to whether the PRSP is a 'credible' framework within which the World Bank and IMF will provide financial and other support. Without a positive JSA and Board concurrence in this assessment, the government will not get Bank or IMF funding and will be unlikely to get bilateral funding. Thus it is ultimately questionable to what extent a programme can be truly government or nationally owned. It is more honest to say that the process is government-led. Even a government-owned programme would not be country-owned without broad participation that translates into objectives.

- *Do PRSPs do away with conditionality?*

No. Conditions continue to be attached to loans.

Bank activities in IDA countries are organised under a Country Assistance Strategy "business plan" responding to the PRSP. Each loan supports a specific programme of reforms which form the basis of a policy matrix negotiated between the Bank and the borrower. This matrix spells out the specific priority actions (conditionality) considered critical to the success of the program. The medium-term program supported by the loan is set out in the government's accompanying Letter of Development Policy.

In principle policy targets and actions defined in the PRSP should be the basis of IMF and Bank conditions. However most of the time PRSPs seem to build on loan agreements rather than *vice versa*. In addition it seems that little has changed in terms of the Fund's and the Bank's 'negotiating style'. Loan negotiations are still conducted behind closed doors within Ministries of Finance and Central Banks, and lack disclosure, public involvement and oversight. While the IMF has engaged in the process of 'streamlining conditionality' (and the Bank claims to be doing this too, unofficially) there is little evidence to date that freedom of choice for borrowing countries has increased or that IMF conditionality will be strictly limited to macroeconomic issues, among other remaining issues.

IMF streamlining conditionality

<http://www.brettonwoodsproject.org/topic/adjustment/a32atissuecond.htm>

- Do PRSPs depart from the Washington Consensus in the choice of policies?

PRSPs have been introduced as an official recognition that there is no single blueprint for development. However most actors, including the Bank and the Fund, have acknowledged that while PRSPs have improved diagnostics on the various dimensions of poverty and allocation of spending, they have not differed much from previous adjustment programmes as far as the core economic policies are concerned. Generally speaking the macro-economic framework has been little subject to debate and sticks to what the IMF considers as 'sound policies'. In many cases, the World Bank's 'Economic and Sector Work' – the studies it carries out or commissions in its client countries – still are the source of views which often dominate the policy process at the expense of civil society inputs. The Bank's studies range from overviews of public expenditure and poverty assessments, to detailed analyses of particular sectors or institutions.

Blinding with Science or Encouraging Debate? How World Bank analysis determines PRSP policies <http://www.brettonwoodsproject.org/topic/adjustment/a30blinding.html>

- On what basis do the IMF and Bank Boards accept a PRSP?

In addition to requiring a coherent policy strategy for poverty reduction (i.e. one which is pursuing 'sound policies'), assessed jointly by Bank and Fund staff in terms of its objectives and policy content, the Boards are also concerned with the extent to which governments have consulted with civil society and how governance issues are addressed.

Bank and Fund staff work together on Joint Staff Assessments of each PRSP to assess whether it constitutes a sound basis to be used as a framework to design their programmes. On the participatory process the Bretton Woods Institutions recognised at the outset that there will be substantial variation with regard to the nature and extent of participation across PRSPs. As such there is not uniform threshold; rather a commitment to openness and transparency is considered important. Many NGOs consider that Bank and Fund staff is not well equipped to assess participation anyway. However, numerous concerns expressed by civil society organisations about the participation process in their country appeared to have been overlooked by the Boards, as in the case of Bolivia or Cambodia for example.

JSA guidelines <http://poverty.worldbank.org/files/jsa%20guidelines.pdf>

- Who assesses the coherence between poverty reduction and the macroeconomic framework?

This is done through JSAs. Whilst the IMF still leads the dialogue on the macroeconomic framework it is the Bank's responsibility to assess what impact it has have on poverty reduction. This would suggest that the Bank should have the final say on whether a framework is acceptable or not (currently the IMF has the ultimate authority to judge the macro policy content). Apparently no institution has the final word; instead there is now a clear dispute resolution procedure, which means that any differences between the two institutions are ironed out.

- Does the Bank have tools for assessing the poverty reduction impact of macroeconomic policies?

The World Bank and the IMF, under pressure from NGOs and some governments, have agreed to introduce more systematic analysis of the likely poverty impact of policies proposed in their loans. While poverty and social impact analysis was part of the PRSP logic from the start, progress has been very slow and it will still take time before it is mainstreamed. NGOs have argued that Poverty and Social Impact Analysis (PSIA) should look at macro-level policy alternatives, not just at the 'fine-tuning', timing and sequencing of pre-determined policies. PSIA should encourage broad public debate about a range of options. NGOs and officials, including finance ministers from HIPC countries, have also argued that the analyses must be conducted independently – not by the Bank, which faces potential conflicts of interest.

Poverty and Social Impact Analysis: <http://www.worldbank.org/poverty/psia/userguide.htm> and <http://www.brettonwoodsproject.org/topic/adjustment/blinding/>

- To what extent can civil society participate?

Obviously a government can seek as much participation as it wishes. However, the participation until now, as suggested implicitly by initial IMF and Bank documents, is largely confined to analysing the extent and causes of poverty, suggesting some priority actions, as well as monitoring programme implementation and, in some cases, impact. There seems to be little encouragement in the documents for including civil society in a detailed policy dialogue. Generally participation seems to be viewed as a means for ensuring more efficient implementation of programmes rather than as a right or a means to improve policy content. In most cases involvement of civil society has been limited to consultation and provision of information.

NGOs are keen to ensure that civil society is able to participate as effectively as possible to the extent that they want to do so. This includes participation in the design of the macroeconomic framework as well as open negotiations of IMF loans and the attached macroeconomic conditions.

- What institutional arrangements have been created in countries?

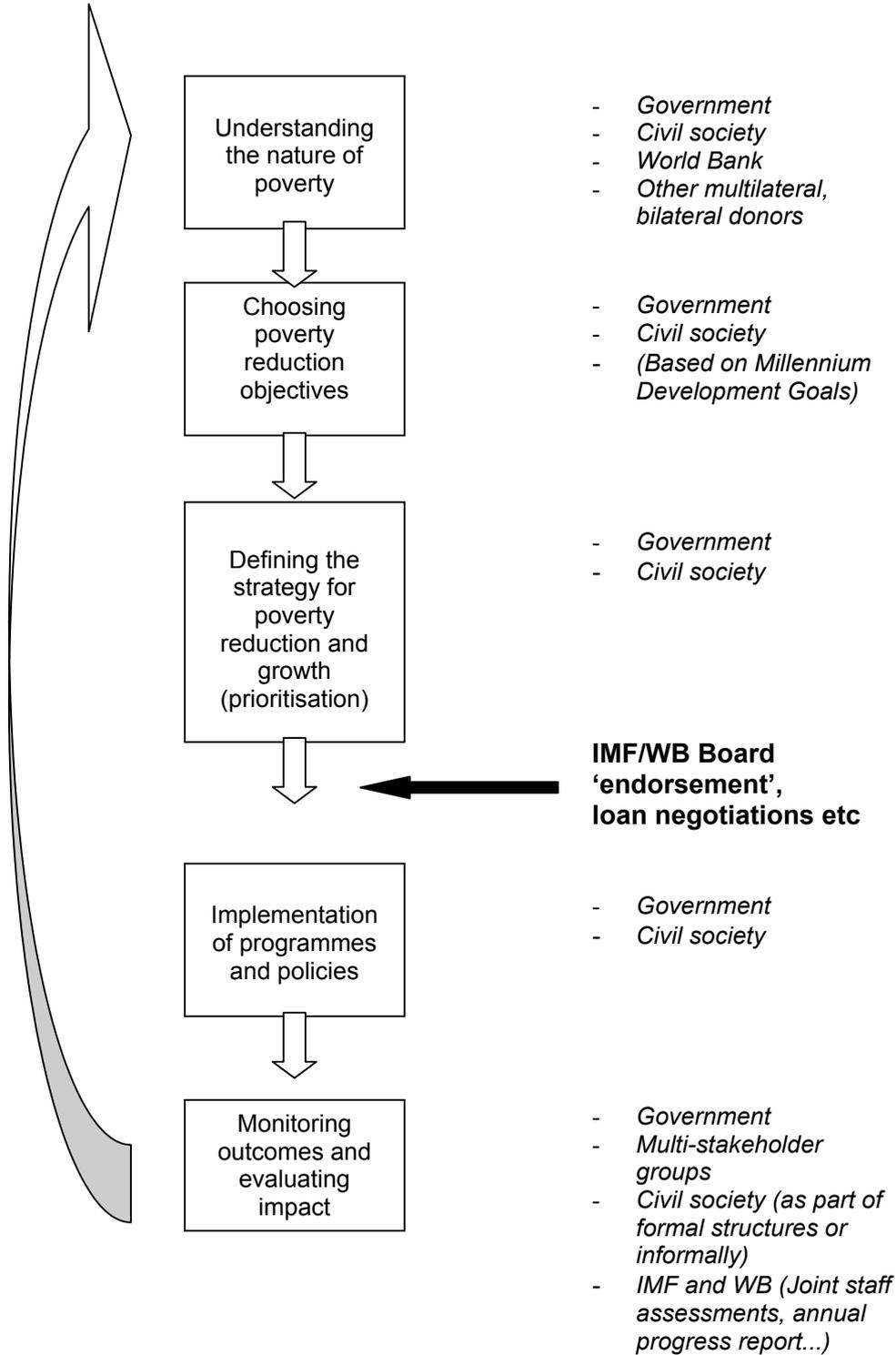
A range of in-country institutional arrangements has been developed at the various stages of the PRSP process. They usually combine ministerial or inter-ministerial committees, steering committees involving various sectors of society, thematic groups addressing crosscutting issues, monitoring multi-stakeholder groups, etc. Such groups tend to be most active in the PRS development stage. In many countries there is a specific PRSP secretariat, often inside the President's Office. In some countries, budget setting processes, such as Public Expenditure Reviews, have been opened up to civil society as a result of the PRSP process. Similarly, other aid-related fora, such as the Consultative Group meetings where donors pledge funds to support particular countries, are now focused around the PRSP in poor countries and have been opened up to a wider range of civil society organisations. In many cases NGO platforms have been created to participate in and monitor the PRSP process, and some have extended their activities to budget monitoring. Others are monitoring implementation – how far are governments and donors upholding the commitments they have made, and some are starting to monitor impact. In all cases, this may be as part of the national poverty monitoring system, or as an alternative civil society effort.

- How is implementation monitored? What is the timing for revising a PRSP?

Countries must submit annual progress reports to the Boards of the IMF and the Bank. NGOs are also monitoring implementation independently. Initially it was expected that PRSPs would be revised every three years. However many actors have complained that this time frame was too short and that an automatic time frame determined externally is seldom aligned with country programming timetables. Following the first major review of the PRSP approach some flexibility (up to five years) in the periodicity of full PRSPs has been introduced.

Annual progress reports <http://poverty.worldbank.org/prsp/index.php?view=sub&id=4581>

The PRSP cycle: successive steps and actors involved



General PRSP resources

As well as the links indicated above, the following provide a good starting point for understanding PRSPs

Official

<http://www.worldbank.org/poverty/strategies/index.htm>

The World Bank main PRSP page with links to country documents, policy papers, etc

<http://www.worldbank.org/poverty/strategies/review/index.htm>

The World Bank site detailing the March 2002 IMF/World Bank PRSP Review

<http://www.worldbank.org/poverty/strategies/review/goodpractices.htm>

A pamphlet on PRSP 'good practices'

<http://www.imf.org/external/np/exr/facts/prgf.htm>

IMF page on PRGF with useful links

<http://www.unctad.org/en/docs/pogdsafricad2.en.pdf>

UNCTAD's general assessment of the PRSP approach in Africa

<http://www.prspsynthesis.org/>

DFID-sponsored website with updates, topic notes, and in-depth analysis on key issues around PRSPs

Other

<http://www.eurodad.org/workareas/default.aspx?id=92>

European Network on Debt and Development's page on PRSPs with policy papers, country info, etc. Subscribe to PRS-watch, Eurodad's email list with regular updates on PRSPs: <http://www.eurodad.org/aboutus/default.aspx?id=227>

<http://www.brettonwoodsproject.org/topic/adjustment/index.html>

Bretton Woods Project page on adjustment and PRSPs featuring briefings, articles etc. Subscribe to the bi-monthly Bretton Woods Update, a digest of information and action on the World Bank on the IMF: www.brettonwoodsproject.org/subs/index.html

<http://www.oxfam.org.uk/policy/papers/prsqguide/prsqguide.html>

Oxfam's guide to PRSPs