

Independent Evaluation Office Announces Release of Report on the Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)

IEO Press Release No. 04/01

Independent Evaluation Office

of the International Monetary Fund

Washington, D.C. 20431 USA

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July 27, 2004 - The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) today released the report Evaluation of the *Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)*.

In 1999, the International Monetary Fund (IMF) and the World Bank (WB) adopted a new approach to supporting low-income countries to strengthen country ownership, enhance the poverty focus of programs, and provide for stronger collaboration between the BWIs and among development partners. Both institutions were to base their lending and debt relief efforts on Poverty Reduction Strategy Papers (PRSPs) prepared by the countries themselves.¹ The new approach was accompanied by the transformation of the Enhanced Structural Adjustment Facility (ESAF)—the IMF's concessional lending window—into the Poverty Reduction and Growth Facility (PRGF), with a view to giving a more central role to pro-poor growth in the design of IMF-supported programs in low-income countries.²

The report draws on detailed cross-section analyses, reviews of internal IMF documents, stakeholders surveys and country background studies for Guinea, Vietnam, Nicaragua, Mozambique, Tajikistan, and Tanzania, the last four of which were joint with the Operations Evaluation Department (OED) of the World Bank.³

Major findings

The PRS approach has significant potential but achievements to date have fallen short of potential, particularly in the areas of relevance to the IMF.

Most PRSPs have fallen short of providing a strategic roadmap for policy making, especially in the area of macroeconomic and related structural policies. Much of this derives from a failure to address controversial policy issues as well as the absence of clear benchmarks against which to monitor progress toward intermediate country-defined objectives and a failure to better integrate country-specific analysis (e.g., of micro-macro linkages) into policy frameworks.

While participation in the formulation of PRSPs was generally more broad-based than in previous indigenous development strategies, *the new approach has had limited impact in generating meaningful discussion and ownership of macroeconomic and related policies outside narrow official circles*. Results have been better where the approach has been integrated into domestic institutional structures and processes. The PRSP approach has also—for the most part—not fulfilled its promise of improving donor coordination.

The IMF's contribution has varied greatly across countries and issues but has generally fallen short of the ambitious expectations set out in the original policy documents

Some widening of policy space has occurred, at least in cases where macro-stability is not a pressing concern. But the IMF's support for broadening participation in macroeconomic policy formulation has been limited and its contribution to filling country-specific knowledge gaps about micro-macro linkages has been small. *Meeting these expectations would require greater changes in the IMF's "way of doing business" than have occurred so far*. At the same time, these expectations probably over promised what the IMF could deliver given existing resource constraints and its comparative advantage.

There have been improvements to IMF-supported programs in low-income countries under the PRGF along the lines envisaged⁴ but programs are a long way from being fully embedded in a country-owned growth and poverty reduction strategy.

- Programs exhibit greater *fiscal flexibility* to accommodate higher aid flows;
- There is *no evidence of generalized "aid pessimism" or an excessive "disinflation" bias*;
- The *number of IMF structural conditions has declined* but it is difficult to say what has happened to aggregate Bank-Fund conditionality; and
- There has been an *increase in poverty reducing spending* (although questions remain about how "pro-poor" was some of this spending) and *greater attention to improving public expenditure management*, although it is still considered too weak to allow PRSPs to play a central role in implementing expenditure priorities.

On the other hand:

- Alignment between PRGF-supported programs and PRSPs has been undermined by shortcomings in PRSPs themselves, especially in the area of macroeconomic and related structural policies. This has frequently meant that issues which should have been guided by country-driven strategies were often left to be addressed in Fund-supported programs.
- programs have not been clearly grounded in an analysis of country-specific micro-macro linkages; with staff reports rarely spelling out the full rationale and implicit behavioral assumptions behind program design; and
- despite increased awareness of the importance of ex ante poverty and social impact assessment (PSIA) of major economic reforms, the *"mainstreaming" of PSIA into program design has been disappointing*, largely due to inadequate resources and expertise, a lack of clarity on the institutional division of labor, and a failure to assign sufficient priority to PSIA at an early enough stage.

Lessons and recommendations

Experience with the PRS approach suggests the need to better align incentives with intermediate objectives. Current incentives have resulted in too much emphasis on documents and BWI-driven processes, insufficient scope to treat different countries differently, too few benchmarks to monitor progress (and a consequent lack of clarity about criteria for financing decisions) and too little clarity on what the BWIs themselves are expected to deliver. IEO therefore calls for:

- *Greater flexibility in implementation* to accommodate the diversity of country political and administrative systems and constraints.
- Enhancing the "results-orientation" of the approach to allow countries to define—in a manner open to public scrutiny—their own benchmarks and objectives for improving policy-making processes.
- BWI staff should provide clear, candid assessments of progress made by each country help identify constraints to progress, and support efforts to address them. The current Joint Staff Assessments (JSAs) prepared by IMF and World Bank staff do not fulfill this objective;
- A clearer framework is needed to elaborate macro frameworks and catalyze donor support. The tension between "ambition" and "realism" in projecting the availability of external resource may be best handled through the presentation of alternative projections, but the country itself needs to take the lead.

The initiative lacks clarity on what the IMF should deliver, contributing to a lack of consistency between its commitments under the PRS approach and the availability of staff resources. The Report makes several recommendations on how the Fund can adapt its "way of doing business" to achieving the objectives of the PRS approach, including.

- Giving more emphasis to activities that inform broad-based policy discussions in the IMF's areas of competence.
- Rather than establish uniform standards for the IMF's role, expectations of, and priorities for, what the IMF would deliver should be tailored to country-specific circumstances (including the government's wishes) and be made public.
- Being more explicit about the rationale for IMF policy recommendations so as to subject Fund policy advice to broader scrutiny and debate.
- Clarifying the approach to be taken by the IMF in those cases where the PRS approach has added some value but has not yet produced an operational road map or the necessary institutional framework for implementation.
- Adapting existing instruments (e.g., JSAs) to provide donors with more calibrated signals on macroeconomic performance that avoid excessive "on-off" signals for financing.
- Clarifying—along with the World Bank—what they are **jointly** trying to achieve with the streamlining of conditionality and how it fits with stronger domestic ownership.

At its July 21, 2004 meeting, IMF Executive Directors welcomed the report, noting its constructive recommendations. The indicated that careful follow-up and implementation would be needed, including in the context of the management-led Committee on Low-Income Country Work.

The full text of the report, including the detailed case studies, and Summing Up of the Executive Board discussion are available on the IEO's website at <http://ieo-imf.org/>.

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¹ For more on the PRSP initiative, see <http://www.imf.org/external/np/exr/facts/prsp.htm>

² For more on the PRGF, see <http://www.imf.org/external/np/exr/facts/prgf.htm>

³ A parallel evaluation of the PRSP approach has been undertaken by the OED and is available at www.worldbank.org/oed/prsp/

⁴ These are described in "Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs," <http://www.imf.org/external/np/prgf/2000/eng/key.htm>.

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