

# Poverty Reduction Strategy Papers (PRSP)

Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders as well as external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing.

## What is the purpose of Poverty Reduction Strategy Papers (PRSPs)?

The world economy has grown steadily in recent decades, bringing widespread prosperity and lifting many millions out of poverty, especially in Asia. Nevertheless, in the next 25 years, the world's population is projected to grow by about 2 billion people, most of whom will be born in developing and emerging market economies. Without concerted efforts by countries to help themselves through sound policies and by the development community to increase its support of countries' own efforts, many of these people will be doomed to poverty.

The PRSP approach, initiated by the IMF and the World Bank in 1999, results in a comprehensive country-based strategy for poverty reduction. It aims to provide the crucial link between national public actions, donor support, and the development outcomes needed to meet the United Nations' Millennium Development Goals (MDGs), which are centered on halving poverty between 1990 and 2015. PRSPs provide the operational basis for Fund and Bank concessional lending and for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. They are made available on the IMF and World Bank websites by agreement with the member country.

## Core principles of the PRSP approach

Five core principles underlie the PRSP approach. Poverty reduction strategies should be:

- **Country-driven**, promoting national ownership of strategies through broad-based participation of civil society;
- **Result-oriented** and focused on outcomes that will benefit the poor;
- **Comprehensive** in recognizing the multidimensional nature of poverty;
- **Partnership-oriented**, involving coordinated participation of development partners (government, domestic stakeholders, and external donors); and
- based on a **long-term perspective** for poverty reduction.

## Experience to date with PRSPs

The PRSP approach is by now well established in a substantial number of countries and has been associated with major advances in country ownership, making poverty reduction more prominent in policy debates, and facilitating more open dialogues. As of end-February 2005 the Fund Executive Board has reviewed 44 full PRSPs, and an additional 14 countries have completed preliminary, or "interim", PRSPs. The focus in these countries is now on moving ahead to effectively implement the strategies.

The PRSP approach is continually being refined, including through regular reviews of progress in implementation by the IMF and World Bank, the latest of which was completed in September 2004. Key messages emerging from that review were the importance of country ownership; realism, flexibility, and better prioritization in setting goals and targets; and more open discussion of alternative policy choices. The need for donors to enhance the overall effectiveness of aid by better aligning their support around the priorities articulated in the PRSP, and by harmonizing and simplifying their policies and practices, was also highlighted. Many of these messages were also reflected in the key findings and recommendations of a July 2004 evaluation by the Fund's Independent Evaluation Office (IEO) of the PRSP approach and the Poverty Reduction and Growth Facility (PRGF)—the IMF's concessional lending facility. An in-depth review of the PRS approach, focusing on ways to strengthen the process and make it self-sustaining, is presently underway, and will be completed by the fall Annual Meetings.

As a result of the September 2004 review and the IEO evaluation, the PRSP approach has been amended to allow countries greater flexibility to articulate and implement their strategies, and reduce the perception that the process is driven by the requirements of the IMF and the World Bank. In particular, explicit endorsement of the PRSP by the Executive Boards of the two institutions is no longer required for PRGF

lending. IMF and World Bank staff are to focus on providing candid feedback to countries on the PRSP through the Joint Staff Advisory Note (JSAN), which replaces the Joint Staff Assessment (JSA), and on linking more explicitly the lending operations of the IMF and the World Bank to the PRSP's own strategy and priorities.

A good start has been made in aligning the programs supported by IMF concessional assistance through the PRGF to the PRSP approach. In order to further improve operations and respond to countries' needs, the Fund's near-term priorities are to:

- help countries design realistic, yet flexible, macroeconomic frameworks linked to national strategies and budgets;
- increase focus on the sources of, and obstacles to, growth, how policies affect growth, and its distributional impact;
- strengthen public expenditure management and poverty and social impact analysis of policy choices; and
- work with other donors for better-coordinated assistance that will enhance aid effectiveness and rationalize support for PRSP implementation.

Source: IMF <http://imf.org/external/np/exr/facts/prsp.htm> (July 6, 2005)