

European Commission

Development

Poverty Reduction Strategy Papers (PRSP)



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Development












Poverty reduction strategy papers (PRSP)

Since December 1999 the Commissioner for Development Poul Nielson had an intense correspondence with the top management of the World Bank and of the International Monetary Fund on the Poverty Reduction Strategy Papers (PRSP).

In the same time DG Development developed some preliminary guidelines for the preparation and assessment of the (Interim) PRSPs in the developing countries.

Assessments have been sent to the concerned governments for a number of countries.


Copies of these documents are attached:

- [Mr Nielson's letter to the IMF Managing Director \(Mr Camdessus\)](#) 
- [Mr Nielson's letter to the World Bank Managing Director \(Mr Sandström\)](#) 
- [Mr Theodorakis's letter to the IMF Deputy Managing Director \(Mr Fischer\)](#) 
- Poverty Reduction Strategy Papers
 - [Guidance Notes](#) 
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- Assessments of (Interim) PRSPs made by the European Commission (by chronological order)
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EUROPEAN COMMISSION

Cabinet of Poul Nielson
Development and Humanitarian Aid

Brussels,
B2(00)D/2999

Dear Mr Camdessus,

Thank you for your letter of 31 January. I strongly welcome its collaborative spirit and the Fund's warm reaction to my proposals for the EC involvement in the preparation of effective Poverty Reduction Strategy Papers (PRSPs).

Responding to your wish to know more about our general views on the IMF/WB approach to PRSPs as set out in the Joint Paper presented to the IMF and World Bank Boards in December 1999, I attach a short document summarising the results of our own internal discussions. Some of the points raised were discussed in a fruitful meeting with IMF and Bank staff in Brussels on January 12.

On one level the document provides an agenda which we can review together as planned and discuss within the context of consultations on Interim PRSPs of individual countries. It will also provide a framework for our comments on PRSPs, which you have kindly indicated you will welcome prior to their presentation for endorsement to IMF and World Bank Boards of Directors.

More generally, we are already considering how our new emphasis on impact can best be implemented in the PRSP world (recognising that the results to which our budget financing is linked should be those which Governments have embraced in poverty strategies). This will be a process of evolution, but support for endorsed PRSPs should over time become the central focus of Commission country strategies. There will be similar implications for other aspects of our country programmes, in particular the trend towards sector-wide approaches, consistent with macro-economic frameworks.

Mr Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

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I look forward to continued intensive consultation between the Fund and Bank staff, Commission officials, and the other donors in the future preparation of effective PRSPs.

May I take this opportunity to commend you personally for the quality of your leadership of the IMF in recent years.

I wish you every success in your new life now you are retiring from the Fund.

Yours sincerely,

Poul Nielson



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EUROPEAN COMMISSION

Cabinet of Poul Nielson
Development and Humanitarian Aid

Brussels,
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Dear Sven,

Thank you for your letter of 21 January, confirming the World Bank's commitment to a close working relationship with The European Commission on the new agenda which is now developing around the global challenge of poverty reduction. Like you this is a relationship which I greatly value.

Your letter covers a number of issues. I would like to thank you for the information provided on HIPC financing, and to welcome your commitment to update this as new information becomes available. I intend to ensure that the Commission participates actively in the semi-annual meetings of multi-lateral creditors, and also that where possible we are involved in the design and review of individual HIPC programmes (although as I discuss below this will require strong information flows from Washington).

A number of meetings have already been held with the Bank to prepare the ground for administration of our own contribution to the HIPC Trust Fund, which we will be able to put in place as soon as we have member state agreement on modalities. A point which remains outstanding relates to the issue of irrevocability of relief. The Commission shares the international consensus that debt relief provided under HIPC should be irrevocable once completion point is reached. I think, however, there is also agreement that it should be possible to suspend debt relief at any time between decision and completion point, for example if there are substantial political changes within a country which raise questions about the actual impact of relief. Further discussion is required to ensure that the Trust Fund operates in such a way that it can accommodate a suspension of Commission support for any particular country before completion point is reached.

On PRSPs, as previously promised, I am attaching our comments on the Joint Bank-Fund Paper which was discussed by the Bank and Fund Boards in December. Some of these

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comments provided the focus for the discussion which took place between Commission, IMF and World Bank staff in Brussels in January. I am sure you will find it helpful to have a full record of our preliminary ideas on key aspects of the PRSP agenda, as an input into the evolution of your own thinking.

At the same time I would like to bring you up to date on the steps we are taking to ensure that the Commission is an active participant in the development of the PRSP concept both in general and in individual countries. At the overall policy level we intend in particular to be active participants in SPA discussions; we will participate in the consultative workshops which you are organising in Africa in March, and in any follow – up; and we are already considering how we should include PRSP issues in the discussions we will have together before your Spring Meetings. At the country level our Delegations have been requested to participate fully in PRSP consultations, and will be given guidance. If possible they will be supported by staff from Brussels. We intend wherever possible to provide a brief assessment of PRSPs before they are discussed by the IMF and Bank Boards, but we recognise that in most cases it will be more valuable for Commission views to be available to Governments at an early stage in the PRSP process. We are actively considering how our technical assistance programmes can support the PRSP process.

I am sure that you will welcome these initiatives and the contribution they can make to closer working. I would just like to make one observation. The effectiveness of the Commission's participation in PRSP discussions depends fundamentally on the role that we are invited to play and the amount of time and information that we have available to prepare. In some cases these issues still present a problem, with the drive to put PRSPs in place, for example because of the demands of HIPC, often leaving us (and I suspect other donors) trailing in the wake of the Fund and Bank and their discussions with Government. From our perspective the Fund and Bank need to further examine how they can strengthen information flows to other donors (for example on missions, timetables etc.). It may also be worth examining how to demonstrate in each case quite clearly that it is Governments who are now in the lead, and that the process is now open and participatory.

I hope very much that you find this letter helpful.

Yours sincerely,

Poul Nielson



EUROPEAN COMMISSION

DG DEVELOPMENT

Development Cooperation
Director

Brussels, 11.05.2000

B2(00) D/4371

**NOTE TO HEADS OF DELEGATION,
HEADS OF UNIT AND DESK OFFICERS**

Subject: Poverty Reduction Strategy Papers: Guidance Notes

As Philip Lowe explained in his note of 17 February, the new concept of poverty reduction strategy papers is introducing important changes both in the design of government and economic and social policies in many ACP countries, and in the way these are supported by external finance. Initially, these poverty strategies are being developed by countries eligible for HIPC. They will have immediate implications for donor support for Government budgets, including both broad macro-economic financing and financing for sector programmes. Over time they will influence the direction of all types of aid. In this context PRSPs will provide an important framework for 9th EDF programming.

The European Commission has already engaged in extensive dialogue with the World Bank and IMF on the broad PRSP agenda, including through letters which Commissioner Nielson has written to the IMF and the World Bank to express our views (see Annex 2).

This note offers guidance on how the EC can play a constructive role at country level and on some of the key messages we should be trying to put across.

1. The Overall Context

Since the end of 1999 the process of developing Poverty Reduction Strategy Papers (PRSPs) as the framework for mainstreaming poverty reduction in Government and donor policies has gathered pace. My note of 17 February (see Annex 1) explained the background to the PRSP concept, highlighted the Commission's strong support and stressed the importance of Commission involvement in PRSP design.

The purpose of this note is to provide more **detailed guidance on the content of PRSPs, and the role of the EC in their design. It is particularly relevant to Delegations, who, working with Commission services in Headquarters, have a crucial role to play.** The future importance of PRSPs in the design of development assistance, including that provided by the Commission, cannot be over-emphasised. The framework is one in which Governments are intended to take the lead in developing policies which they clearly own and which have wide acceptance throughout society. PRSPs are intended to be more comprehensive than the Policy Framework Papers that they replace and, importantly, will not be negotiated or imposed by the Bretton Woods Institutions (BWIs), but developed in a participatory process by all stakeholders, including civil society and donors. The new concept promises the development of poverty reduction policies which will be more effective, but it will only work if it is developed in the manner intended, and in particular if the BWIs are able to change the way in which they have operated in the past.

The initial focus for our attention will be those countries that are eligible for support under the Enhanced Highly Indebted Poor Countries (HIPC) Initiative where PRSPs are required to obtain access to debt relief and where work on the new concept is starting first. Beyond those eligible for HIPC, PRSPs need to be developed in all countries seeking access to the IMF's new Poverty Reduction and Growth Facility (PRGF) which is replacing the Enhanced Structural Adjustment Facility (ESAF). The World Bank has indicated that the requirement for PRSPs will be extended in due course to all IDA eligible countries.

The PRSP concept implies greater coordination of donor support for agreed public expenditure plans which are focused on poverty reduction. It implies a move towards higher levels of budget support either in the context of general macro-economic financing or specific sector programmes which is firmly in line with Commission policy as it has been developed in the context of negotiating the new EC-ACP Partnership Agreement. The content and quality of PRSPs will have crucial implications for 9th EDF programming.

The role of the Commission in the development of PRSPs will be two-fold. First, it is essential that we play an active and constructive role in PRSP design. In addition, once PRSPs are developed, the BWIs have agreed that we should have the opportunity to provide an assessment of their content from our perspective. This assessment will contribute to the BWIs' own analysis. In both these areas much of the work that will be required for us to play a full role will need to be carried out in the field. This places Delegations in an extremely important position. They will, of course, need, as far as possible, to work closely with Member States where they are represented.

The remainder of this note provides guidance on the key factors which the Commission services generally, but in particular Delegations, should take into account in representing the Commission in the PRSP process. In Annex 2 there are comments which, through Commissioner Nielson, we have already sent to the World Bank and IMF on the broad PRSP framework as it has been set out in papers originating in Washington. In Annex 3 there is detailed guidance on the issues which all PRSPs will need to consider. In the latter respect it is important to emphasise that all PRSPs should be tailored to individual country circumstances. They will not all necessarily address the same detailed agenda. Instead, each country will choose its own priorities. Annex 3 is a broad menu from which they will be selecting.

Currently it is important for us, centrally, to have a clear view of the extent to which the process is already underway. **In this context, Delegations are requested to provide a short status report on PRSP development in countries which are eligible for the Enhanced HIPC and/or where the IMF has started the process of negotiating access to the PRGF. This should be submitted to DG DEV B/2 by the end of June. This report should clearly identify: the stage which has been reached in PRSP design; the way in which the process of design has developed, including the extent of participation by civil society and all donors, but with a particular emphasis on the role so far of the Delegation; the future timetable; and key issues which will need to be addressed, including Government capacity constraints and the role that external assistance can play in reducing these.**

In ACP countries which are outside the HIPC and PRGF framework and not scheduled to develop PRSPs in the immediate future, this note still has some relevance. Here it is also important that we encourage the development of a comprehensive poverty reduction strategy for the focus of our own development assistance. This will involve further discussion between Delegations and the Commission services in Brussels to decide how best to proceed.

2. EC contribution to the PRSP design

Philip Lowe's note of 17 February highlighted that the work required in developing PRSPs means that in most countries the initial step will be the drawing up of **Interim** papers to ensure that access to the HIPC and the PRGF is not unnecessarily delayed. It is recognised that **Full** papers may take up to 2-3 years to develop. In turn, the content of **Interim** papers may vary significantly between countries which have already focused on the requirements of poverty reduction, and for example developed poverty action plans, and countries in which poverty reduction is not yet the key goal for economic and social policies.

The guidance in Annex 3 on the content of PRSPs differentiates between the important elements of **Interim** PRSPs and **Full** PRSPs. There will be some merging of the two where **Interim** papers are able to reflect the substantial work which some Governments have already done on the design of poverty reduction strategies.

In using the guidance in Annex 3, Delegations will need to coordinate closely with Headquarters. As discussed above, they should also coordinate with Member States. Annex 3 presents a comprehensive review of issues. The particular focus of the EC contribution to PRSP design should be:

- **Ensuring the quality of the process**, including Government leadership and the involvement of key line ministries, civil society, national parliament and the main donors (including the EC). In some countries these issues may be sensitive. We cannot impose specific requirements since each country must decide itself how it wishes to ensure full participation of all interested groups. A key point is to ensure that the process of policy elaboration is transparent.
- **The prioritisation of Government policies and activities**. It is important that Governments present a realistic (for example in terms of capacity) and prioritised group of policies which will clearly contribute to the poverty goals that are set. They should be based on the lessons of the past and demonstrate clearly what will be different.

- **Equity.** There is a need for PRSPs to explicitly address the issue of equity focusing not just, for example, on patterns of public expenditure and access to social services, but also on the allocation of assets and wealth and the implications of tax policies (including cost recovery) for equity.
- **Policy coherence.** It is important here to ensure consistency between the macro-economic framework and sector policies, with particular regard to those sectors where EC support is concentrated. The PRSP will also need to reflect existing regional integration commitments. PRSPs will provide a broad outline of sector policies, including those where we are closely involved, but the details will need to be developed by individual sector ministries.
- **The specification of realistic objectives and performance indicators.** This is an area in which the Commission is taking a lead as a result of work carried out initially in Burkina Faso on outcome and impact indicators of the achievement of development goals. Examples of performance indicators used in Burkina Faso for the social sectors and public finance management are listed in Annex 4. As work on the identification of appropriate indicators in other sectors develops, Headquarters will keep Delegations informed. In all cases it is essential to ensure that objectives are realistic, for example in the light of past trends.
- **The establishment of sound public finance management** as an integral part of the PRSP. This will include the development of a **medium-term expenditure framework** consistent with both macro-economic objectives and poverty reduction targets, and strengthened **expenditure control** both through improving internal procedures and strengthening external checks and balances (through audit and increased transparency). The Commission attaches particular importance to this set of issues because of the importance of ensuring public finance is channeled as necessary to achieve poverty goals and because of the impact of corruption on poverty. Strong accountability in Government expenditure is essential to provide the assurances that we require for providing budget support.
- **Institutional capacity.** PSRPs can only be designed and implemented effectively if due regard is given to the constraints imposed by institutional weaknesses and to the task of building greater capacity, both in central economic and financial management and in line ministries. Delegations in focussing on this issue, with the support of the Headquarters, will be able to identify a possible role for EC-financed technical assistance, including support for training. These opportunities should be fully exploited commencing with carefully targeted technical assistance to support the Government in PRSP design (see below).
- **The feedback mechanisms** required to monitor policy impact and to ensure that the results are fed back as necessary into policy modification. This feedback should include consultation with the poor.

3. Coordination arrangements and technical assistance support in PRSP design

Within the context of established donor coordination arrangements, Delegations should determine the most appropriate system for coordinating donor inputs into PRSP design in their respective country. A working group composed of EU Member States and the Commission should be feasible. It may also be possible to involve other donors in this. Strong donor coordination will provide the basis for effective dialogue between Government and the donor community. It will offer the opportunity to develop key messages focused on the issues identified above and in Annex 3. EC Delegations should aim to play a lead role in coordination where in particular the EU accounts for a particularly large share of financial support for the budget.

Delegations should ensure that, as far as possible, EU technical assistance already in the field (in the Ministry of Finance, Health, Education, etc.) actively supports Governments in PRSP design. Opportunities should also be explored for providing new technical assistance specifically focused on PRSP requirements. DEV B/2 has an umbrella consultancy contract (Macro-Net) which can be used to provide assistance in particular areas such as the development of indicators of achievement. In addition, in discussion with Government, Delegations should also consider providing technical assistance through established delegated authorities (the 80.000 euro facility). The Commission services in Brussels will aim to provide timely support on terms of reference, shortlists of consultants, etc.

At all stages of our participation in PRSP design it will be important to maintain close coordination between Delegations and key parts of DG Development (especially B/2, A/2 and the geographical desks). My request for a status report before the end of April starts this process. It will be helpful if subsequently Delegations could aim to continue to report periodically on PRSP developments.

4. EC Assessment of Completed PRSPs

The agreement that we have with the BWI to make an assessment of completed PRSPs provides an opportunity to comment prior to their presentation for endorsement to the IMF and World Bank Boards. Our plans are that the assessment will be presented to Governments and Member States, as well as BWI staff. There is a possibility that it will be made available to the World Bank and IMF Boards when they consider the papers.

Our involvement in PRSP design, using the guidance above and in Annex 3, will provide the basis for this assessment. There is a clear intention that active participation in PRSP design, in which our particular interests are brought to bear, will enable assessments to be positive.

The assessment should be brief and simple, and focused in particular on the issues listed above. DEV B/2 will develop the first examples which will be circulated as soon as they are available. In future all Delegations in discussion with Commission services in Brussels, will be required to provide assessments which will be co-ordinated by DEV B/2 as Chef de File.

I recognise that an active involvement in the PRSP process will pose a particularly challenging burden of additional work but, as announced by Mr Nielson in his letters to

the BWIs, PRSPs will soon become the central focus for Country Strategies. As a result, a concentrated effort on this matter will be essential for the preparation of future policy documents. I want to assure Delegations that they can count on full support from my Directorate.

Bernard Petit

List of Annexes

- Annex 1: Note from Mr. Lowe to Delegations, Geographical Desks and all Directorates: DG Development and Poverty Reduction Strategy Papers
- Annex 2: Poverty Reduction Strategy Papers (PRSPs)
(Comments on the Joint Document presented to the IMF/WB Boards in December 1999 sent by Commissioner Nielson)
- Annex 3: The Content of PRSPs
- Annex 4: List of outcome indicators retained in the Burkina Faso pilot on Conditionality Reform

Annex 1



EUROPEAN COMMISSION
DG DEVELOPMENT

Director-General

Brussels, 17 February 2000
B2 (00) D/1857

NOTE TO DELEGATIONS, GEOGRAPHICAL DESKS, AND ALL DIRECTORATES

Subject: DG Development and Poverty Reduction Strategy Papers

Background

In the discussions which led last year to agreement on enhancing the HIPC initiative there was a strong consensus in both the donor community and outside that the time was right to re-emphasise poverty reduction as the main focus of Government development programmes and associated development assistance. The concept of Poverty Reduction Strategy Papers (PRSPs) was launched to provide a framework for mainstreaming poverty reduction in Government and donor policies. On the donor side the World Bank and the IMF are in the lead in developing the concept.

In a number of countries work has already started on preparing this new framework. The initial driving force is the enhanced HIPC to which countries will only obtain access if they have PRSPs in place. The application of the PRSP concept, however will go much further than this. In the new world the PRSP replaces the old style Policy Framework Paper. Access to the IMF's new Policy Reduction and Growth Facility (PRGF) which is replacing ESAF will require a PRSP which has been **endorsed** by the Boards of both the IMF and the World Bank. The PRGF will in turn reflect the content of the PRSP and draw its conditionality from the commitments which it contains. The objectives of the World Bank's Country Assistance Strategies and individual Bank operations will reflect endorsed PRSPs.

Design and Content

The Bank and Fund have already prepared a number of discussion papers on the PRSP idea which set out the way in which they see their development. These are available on the World Bank and IMF web sites (Dev B2 can provide copies for those who have difficulties in accessing them).

The central feature of the concept is that country ownership is paramount and Governments will have responsibility for both the design process and the final product. Strategies, however, must reflect the outcome of an open participatory process which involves civil society and all relevant international institutions and donors. Unlike

previous policy frameworks they will not be documents negotiated with the Washington based institutions although their endorsement is important for international support.

Strategies should be tailored to individual country circumstances, and based on an understanding of the nature and causes of poverty and public actions which can help to reduce it. They should include very importantly medium and long-term goals which can be monitored, with results feeding back into design.

Strategies should also be comprehensive embracing a combination of macro-economic and structural reforms (including governance) which can provide a basis for sustained growth, and specific actions which will ensure that the vulnerability of the poor is reduced and that they participate fully in the benefits of improved economic performance. Different sector interventions should be integrated into a consistent macro-economic framework.

The Bank and Fund recognise that this is an ambitious concept which will take time and a substantial amount of work to develop. There are important challenges in establishing a design process which is genuinely participative, in drawing together analyses of poverty and policy actions, and in identifying targets and building capacity to monitor these. Because of these challenges the Bank and Fund are aware that immediate objectives need to be realistic. The first generation of PRSPs will be viewed very much as work in progress, with Governments, civil society and donors engaged in a process of learning by doing. Transitional arrangements are being devised to ensure that PSRP requirements do not stand in the way of countries obtaining early access to HIPC debt relief, the new PRGF, and other international assistance. In brief these will involve:

- an immediate focus on countries eligible for HIPC and the PRGF;
- the initial preparation of **Interim PRSPs**, where as in virtually all cases it is not practical to move immediately to the design of **Full PRSPs**. These interim papers will specify the design process and the analysis that will be required to build a complete poverty strategy, but they will also include immediate actions and targets. The expectation is that full papers will be developed within two years. Interim papers will be the minimum requirement for getting to the HIPC decision point and for obtaining access to the PRGF. The HIPC completion point and the continuation of PRGF arrangements will be linked to the full papers;
- the continuation of emergency IMF programmes, for example for post-conflict countries, and Standby Arrangements, without PRSPs, but with the proviso that these should set out a timetable for PRSP preparation where they are expected to lead in due course to a PRGF supported programme.

Implications for DG Development

Poul Nielson wrote to Michel Camdessus and James Wolfensohn in December expressing strong support for the PRSP concept. He argued the case for close Commission involvement in the development of both the broad policy framework for PRSPs and the preparation of individual papers. He recognised the importance of the Commission responding in the design and content of its own development assistance programmes. A team from the Bank and Fund visited Brussels in January to start the process of dialogue, focusing initially on the broad PSRP ideas. Gilles Hervio chaired

this meeting in his role as the focal point in DG Development on all PRSP issues, as confirmed in my separate letter to the Bank and Fund.

There are a number of levels on which the DG Development now needs to develop its response:

An important first step is to specify and disseminate the key messages which we would like to put across when engaged in dialogue on PRSPs, both in broad terms and in individual countries. A start on this was made in January, when in discussion with the Fund and Bank a number of points were highlighted. These included:

- the importance we attach to the quality of the participative process in defining the content of PSRPs ,and in particular the key role of representative parliamentary institutions which in the main have a democratic legitimacy which NGOs and other interest groups lack;
- concerns about the way in which the PRSP process appears to have commenced in some countries with an initial focus on getting documents in place quickly and a certain exclusivity in discussions between the Government and the Washington based institutions, apparently contradicting key aspects of the PRSP concept as it has been espoused;
- the importance we attach to prioritisation of actions in PRSPs and to the definition of clear and measurable objectives. The achievement of well defined outcomes (including in the short term) should increasingly replace policy conditionality as the basis for aid decisions;
- the need to recognise that the concept of ownership will require that Governments are provided with some space to make choices which reflect political imperatives;
- the need for PSRPs to explicitly address issues of equity focusing not just for example on patterns of public expenditure and access to social services, but also the allocation of assets and wealth and the implications of tax policies for equity;
- the importance of PRSPs explicitly addressing the key issue of public expenditure management to provide assurances that resources are used as intended and to avoid risks that aid flows are interrupted because of concerns about accountability.

DG Development intends to formally write to the Bank and Fund along these lines. This letter will be given wide circulation. At the same time we are planning to put in place arrangements which will allow these messages to be expanded, and applied to particular country circumstances. These will involve bringing together the key internal players in the development of the poverty focus in our own programmes.

We will need to ensure that we are fully engaged in the PRSP dialogue at all levels to be able to put our messages across. A start has been made at the level of broad policy and we are well placed to build on this through the SPA and through the new international consultative arrangements which the Bank and Fund have promised. Involvement in the design of individual country PRSPs, in particular will require that Delegations, helped by information flows from Brussels establish the timetables and processes through which PRSPs will be developed. It will also require that Delegations, supported where possible by missions from Brussels, actively engage in these processes, both representing the

Commission view and feeding back information and, perhaps, concerns about progress (to Gilles Hervio, desk officers, economists in B2, A/2 and other relevant sectoral units). The Bank and Fund have said that they would welcome Commission views on PRSPs prior to their presentation for endorsement to Boards of Directors. This is an opportunity we will take advantage of, but it will require careful organisation on our part. B2 are now giving this more thought.

DG Development also needs to consider how through its programmes it can support the design of PSRPs. The task of setting up an effective participatory process, identifying policy objectives and actions, and putting in place monitoring systems is an enormous one. Carefully planned technical assistance can make an important contribution. But this will require effective dialogue with Governments to understand their needs and to make the right choices together. It will also require the use of instruments which will enable us to respond quickly.

Finally the Commission needs to consider how its development assistance should be adapted to fully support the strategies which are agreed. This will be a process of evolution, but support for endorsed PRSPs should over time become the central focus of Commission country strategies. Already we are considering how our new emphasis on impact in structural adjustment (or budget) financing decisions can best be implemented in the PRSP world (recognising that the results to which our budget financing is linked should be those which Governments have embraced in poverty strategies). There will be similar implications for other aspects of our country programmes, with the expectation in particular that the trend towards sector wide approaches, consistent with macro-economic frameworks and agreed public expenditure resource envelopes will be accelerated.

Philip LOWE

Annexe 2

Poverty Reduction Strategy Papers (PRSPs)

(Comments on the Joint Document presented to the IMF/WB Boards in December 1999 sent by Commissioner Nielson)

1. THE VALUE OF THE NEW APPROACH

The European Commission (Directorate General for Development) strongly welcome and support the renewed emphasis on poverty reduction as the main focus for targeting countries' economic and social policies, as well as the proposal to pursue this agenda through PRSPs.

Our support for PRSP concept is based on the following key elements of the approach.

- PRSPs will provide a framework for mainstreaming **poverty reduction** in Government and donor policies, in particular for countries that benefit from enhanced debt relief within the **HIPC** initiative.
- **Country ownership** is paramount and Governments will have responsibility for both the design process and the final product.
- Strategies will reflect the outcome of an open **participatory process** which involves civil society and all relevant international institutions and donors.
- Strategies will be **tailored to individual country circumstances**, and based on an understanding of the nature and causes of poverty and public actions which can help to reduce it. They will include, very importantly, medium and long-term goals which can be monitored, with results feeding back into design.
- Strategies' results will be closely monitored by using **final and intermediate indicators** of success. The agreement on results to be achieved will be more important than on the policies and means to be employed.
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- The issue of **good governance**, including transparency and efficiency of public expenditure management, will be a fundamental ingredient of any strategy to reduce poverty and restore growth.

One of the practical implications of PRSP will be that the access to the IMF's new Policy Reduction and Growth Facility (PRGF, replacing ESAF) will require a PRSP which has been **endorsed** by the Boards of both the IMF and the World Bank. However, since the Bank and Fund recognise that the process will take time and a substantial amount of work to develop, transitional arrangements are being devised to ensure that PRSP requirements do not stand in the way of countries obtaining early access to HIPC debt relief, the new PRGF, or other international assistance (distinction between **Interim PRSPs** and Full PRSPs).

2. RELEVANT ISSUES TO BE DISCUSSED

Based on the above key elements, there are a number of central points (highlighted in the January meeting with WB/IMF representatives) that we regard as particularly important in our dialogue on PRSPs, both in broad terms and on individual countries. Specific examples from the ongoing preparation of Interim PRSPs are included to illustrate them.

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We attach particular importance to the quality of the participatory process in defining the content of PRSPs, and in particular to the key role of representative **parliamentary institutions** which in the main have a democratic legitimacy that NGOs and other interest groups may lack. The discussion and, possibly, the approval by parliamentary institutions of PRSPs would represent a substantial improvement with regard to past practices, concerning for example the agreement of PFPs.

More generally, genuine ownership will not be possible unless a **continued consultation process** is put in place. This will necessarily require time. We believe, in particular, that sector-specific discussions with the relevant stakeholders will be preferable to exceptionally large discussion fora where the necessary in-depth analysis cannot take place.

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include in the PRSPs long-term development goals and measurable indicators of success. However, if well defined outcomes (including in the **short term**) are not spelled out and progress is not clearly measurable, the risk exists that poverty reduction strategies will face the same “donor fatigue” that past aid strategies and instruments have encountered.

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Generally, and with reference also to the ownership issue, it will be necessary to avoid too detailed a list of measures to be implemented under the PRSP. We should recognise that Governments should be provided with some space to make choices on national policies to be implemented, if the final goals and ways of measuring success are agreed upon.

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There is a need, in our view, for PSRPs to explicitly address the issues of **equity** focusing not just for example on patterns of public expenditure and access to social services, but also to the **allocation of assets and wealth** and the **implications of tax policies for equity**. More generally, conditions to make growth more inclusive of the poor cannot avoid making reference to the political dimension of the fight against poverty and of achieving greater equity. This would entail a reflection on the role of the state, on its regulatory role for the protection of essential rights, including how to facilitate the largest access possible to the fruits of growth. The long-standing issue of cost-recovery in the social sectors should be analysed in the new framework where substantial budget allocations are now made available for these sectors, while increasing cost-sharing is implemented, in many cases to the disadvantage of the poorest segments of the populations.

Concerning the impact of fiscal policies, we would welcome and we are willing to give a direct contribution to studies that analyse the implications of fiscal policies for the poor and on possible ways to adapt them within the framework of new poverty reduction strategies.

For example, the standard application of single VAT rate or uniform custom duties appears to be inherited from the old-style PFP. In some of the new (interim) PRSPs the above issue seems not to be addressed at all.

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We would also welcome that PRSPs address in more specific detail the key issue of **public expenditure management** to provide assurances that resources are used as

intended and to avoid risks that aid flows are interrupted because of concerns about accountability. The current approach to this issue has not allowed us to give a concrete dimension to the **fight against corruption**.

In our view, transparent and effective budget management should be monitored in a way similar to that used, for example, in access to social services. Indicators looking at the timely availability of funds in peripheral administrations or at unit prices in public tenders should be part of the essential set of indicators attached to PRSPs and monitored, for example, through yearly Public Expenditure Review. Going even further, the possibility of having regular joint (donor/government) audit of budget execution in selected sectors, may be the avenue to strengthen financial discipline and local capacity of financial management and control.

Taking the example of Mauritania, appropriate measures to reform tendering procedures and adopting standard bidding documents are foreseen in the interim PRSP (even though they should be separated from measures aiming at wider tax coverage). Appropriate performance indicators should however, accompany these measures.

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PRSP papers do not take into consideration the need for reviewing aid modalities and donor instruments under PRSP. In our view, monitoring of results will continue to be a weak exercise if it is not linked in one way or another to the level of disbursement of aid flows.

As mentioned in the Joint paper, a new approach to this issue was developed in the Burkina Pilot. Many of the elements of this experience are factored in the PRSP concept: ownership, result-oriented support, monitoring of final and intermediate results, accountability on results rather than on policies, etc. The missing element appears to be how this approach would lead to more selective aid towards those countries which perform well in their policy against poverty.

It is important, in our view, that donors take a common approach where at least a portion of aid is clearly linked to performance.

Annex 3

The content of PRSPs

1. Introduction

1.1 This annex provides an outline of the main issues which will need to be considered in the design of PRSPs. It is based on the Commission's own views, but also reflects the wider discussion which has taken place in the development of the PRSP concept, both in the G-7 and in Washington. It distinguishes between **Interim** PRSPs and **Full** PRSPs. In most countries Interim papers will be the first stage with up to 2 years provided for the development of Full papers. The content of Interim papers will vary between countries which have only just started to think about poverty reduction strategies and countries where work on poverty reduction strategies is already some way advanced (for example, a number of ACP countries already have poverty action plans). In the latter group of countries Interim papers will already have many of the main features of Full papers.

2. Interim PRSPs

2.1 Interim PRSPs are an initial step in the definition of a comprehensive poverty strategy, but they are important in triggering access to HIPC (decision point) and the PRGF. The key criteria against which they should be judged are:

- the demonstration of the Government's commitment to poverty reduction;
- the establishment of a clear roadmap for producing a Full PRSP.

2.2 In terms of detailed content, Interim PRSPs should in particular:

- establish the principles of Government ownership and participation in the definition of the process which will lead to the development of the Full PRSP;
- define a process which takes place probably exclusively in-country;
- based on information which is already available describe the extent and nature of poverty and the key issues which determine it including the important aspects of markets where the poor are represented and covering social, political, and governance aspects;
- explain how this analysis will be deepened in the preparation of the Full PRSP, including for example through analytical work and through consultations required to incorporate the views and knowledge of the poor;
- consider the lessons to be learned from the impact on poverty of reform programmes to date including both policies of economic stabilisation and structural reforms;
- provide for the participation of civil society organisations, key parts of government (including local government) and other stakeholders (such as other political parties) in setting new strategies and formulating policies in the **Full** PRSP;
- explain the role and participation of the Parliament in the process;

- establish clearly how donors will participate in the development of the **Full PRSP**;
- provide initial thoughts on the capacity building required to effectively develop and implement a Full PRSP including statistical monitoring of impact;
- set out quantified key performance indicators which will be the basis of the PRGF and which will be monitored prior to HIPC completion point. Indicators should focus on the results of the adopted policies and not as previously on implementation indicators. They should measure outcomes as opposed to inputs. Annex 4 provides examples of useful outcome indicators.

2.3. Two additional points are worth noting. First it is important to recognise that ownership can be most readily achieved by embracing and adapting existing statements of Government policy. Second the drafting of Interim Papers should set the example of Government leadership and wide participation which will be the basis of the preparation of the Full PRSP. Unfortunately on this issue those Interim Papers which have been prepared so far have not set a good example, with a sense that the IMF and World Bank are still setting the pace in closed door discussions with Governments. In some cases it appears that governments are more unwilling than the BWI to invite other donors into the process. These traps need to be avoided, and the Commission should lobby strongly where they are not.

3. Full PRSPs

3.1 The themes introduced in the Interim PRSP will be developed in detail in the Full Paper

3.2 The key elements of a Full PRSP will be

- **analysis** covering the nature of poverty; the obstacles to poverty reduction and faster growth (macro-economic, structural, social, and institutional) and trade-offs in policy choices;
- **objectives** covering the key targets for poverty reduction both in the long term and in the interim, with short- and medium term indicators of achievement clearly specified and the systems for monitoring these described;
- **the policy framework** setting out the macro-economic, structural, social, and institutional, and sector policies that are to be implemented;
- **financing** establishing the medium term budget framework in which policies will be implemented (consistent with the broader macro-economic framework) and specifying external assistance requirements;
- **the participatory process** describing what has happened so far but also very importantly the way in which participation will contribute to the monitoring of results and to policy adjustments based on experience.

3.3 The **following paragraphs** discuss key issues which will need to be considered in developing a comprehensive poverty strategy with these elements. Only the area of detailed sector policies is omitted. This is partly for reasons of space, but also because there are other statements of Commission policy which provide this information. The

objective here is to identify the broad issues which will over-arch individual sector interventions recognising that the sectoral emphasis of each PRSP will derive from the analysis of poverty and the opportunities that exist to reduce it (notwithstanding the fact that sectors such as health and education are always likely to feature strongly).

Scope and Realism

3.4 There are substantial risks in setting a hopelessly ambitious agenda which attempts to address too many issues at once and is unrelated to institutional capacity. There is no PRSP blueprint. First each paper needs to start from the position a country has reached in developing poverty strategies and institutional capacity. Take for example public finance management. In a few cases major institutional reforms will have already been implemented to improve the allocation, quality and efficiency of public expenditure. In other cases substantial initiatives will be required to improve transparency and accountability. Second in starting from the point which has been reached it will often be far more effective to build on what is already there rather than to knock it down and start again. This incremental approach will also greatly strengthen ownership. Finally the realism of PRSPs will depend upon carefully limiting and prioritising the reform agenda.

Analysis

4.4 The basis for the policy prescriptions in the PRSP should be a country specific analysis and diagnosis of poverty. In the past Policy Framework Papers adopted a narrow and unintegrated sectoral approach in defining policies. PRSPs in contrast need to demonstrate that they are based on a bottom up understanding of the nature and causes of poverty. In economic terms this analysis should include a detailed review of trends over time in growth and poverty reduction, considering the links between the two, and the particular characteristics of those parts of the economy and those poor groups who have benefited most from growth. But the analysis should also look at the structural causes of poverty assessing the ways in which social, political, and governance constraints prevent the poor participating in growth.

4.5 The quality of the analysis will be a function of the statistical and qualitative information which underpins it. Full PRSPs will need to demonstrate the robustness of their data, and consider how continuing shortcomings will be addressed in the process of monitoring. It is essential as part of the process of participation which produces the PRSP that the poverty diagnosis considers the views and knowledge of the poor.

The macro-economic framework

4.6 The macro-economic framework remains a central part of the Government's policy position but the failure in the past to set it firmly in the context of poverty reduction needs to be addressed in the new PRSP context. One point here is that the impact of the fiscal and monetary stance on poverty reduction should be clearly predicted. But there should also be an examination of the trade-offs, considering for example the case for a larger government deficit (with higher inflation) to address poverty issues and perhaps stimulate growth (for example through higher social sector expenditure). The chosen position needs to be justified. Fiscal deficit targets need to be set after allowing for grants, to avoid the imposition of unnecessary constraints on the full utilisation of available donor finance

4.7 Similar considerations apply in setting targets for private and public credit where in the past IMF programmes have in particular had an inherent bias in favour of private sector investment without due regard to the value and importance of different types of investment in growth and poverty reduction. These issues need to be assessed in the PRSP in making policy decisions.

4.8 The macro- economic framework will need to specify the impact of shocks such as drought or flood and explain how they will be managed.

Social Policies

4.9 Policies which address issues of social justice are as central as economic policy to growth and poverty reduction. Building on the declaration from the 1995 Copenhagen Summit on Social Policy, and the work carried out for the forthcoming World Development Report, “Attacking Poverty”, the World Bank has proposed four key aspects of social policy with which the Commission fully agrees, that are relevant to PRSPs, as follows:

- **achieving universal access to basic social services.** This will require PRSPs to consider measures which allow for improved access over time to quality basic education, health care, reproductive health, sanitation and safe drinking water (leading to progressive realisation of universal access). The issue of costs and the role of the state in financing the provision of these services needs to be covered;
- **enabling all men and women to achieve sustainable livelihoods.** This will require PRSPs to consider measures to strengthen poor people’s access (particularly women’s) to key assets (land, fisheries, forests, credit etc.) through programmes and legal reform. It will also require consideration of measures to improve poor people’s access to all markets (e.g. through better infrastructure or market reform). Finally it will require consideration of measures to improve labour rights and working conditions;
- **promoting systems of social protection against shocks** , including consideration of measures to reduce vulnerability to major sources of risk (e.g. disaster prevention, immunisation programmes) and carefully targeted social protection systems which support the livelihoods of the poorest;
- **fostering social integration**, including the consideration of measures which raise public consciousness of issues of poverty and which achieve public consensus around the objective of poverty elimination.

Public Finance Management

4.10 The quality of public finance management determines the effectiveness with which resources are mobilised and used for poverty reduction. The key requirements for PRSPs include:

- **a medium term expenditure framework** (probably covering a three year rolling period) which is consistent with both macro-economic objectives and poverty reduction targets. Allocations within this framework will be based on achieving a pattern of expenditure consistent with the diagnosis of poverty and the contribution which Government services can make in addressing it. Measures are required to ensure that the budgeting system which underpins the expenditure framework is

increasingly transparent, including in reporting expenditure out-turn; increasingly effective in linking allocations to targets; and consistent in making capital and recurrent allocations;

- **the establishment of an effective expenditure control system** which minimises discrepancies between expenditure allocations and releases and ensures overall financial accountability. Much can be achieved through technical solutions which improve the reliability of procedures and information and in which there are strong internal and external controls. Measures to improve transparency will also make an important contribution;
- **more efficient delivery of services**, for example by improving incentives(perhaps by links to performance), by devolving management decisions, and by strengthening local transparency and accountability;
- **revenue patterns** which, while ensuring adequate domestic resource mobilisation, favour the poor for example in the pattern of any user charges and in tax incidence. There is a case for the analytical sections of the PRSP including a breakdown of tax incidence from a poverty perspective. This would lead into proposals to reduce regressiveness.

Institutional Capacity Building and Governance

4.11 Strengthening public finance management so that resources are more effectively channelled and used in programmes which will reduce poverty, is one particular aspect of the way in which PRSPs will need to address issues of governance. Effective implementation of pro-poor policies will also require other reforms to build and improve the capacity of government. Important areas are likely to include civil service reform to improve incentives and the quality of staff and to reduce corruption; measures to improve the transparency and accountability of government including through better information flows; and measures to ensure that the institutions enforcing the law provide effective security for all citizens and accessible justice. In countries prone to conflict, measures of conflict prevention may provide a particular focus for the PRSP

Monitoring Impact and Policy review

4.12 It is essential that all PRSPs include defined and prioritised goals and short- and medium-term performance indicators. These should be set clearly in the context of the International Development Targets. It is EC policy to move away from ex-ante policy conditionality in decisions about external financing in favour of linking financing to indications that the goals of policy are being achieved. The PRSP should provide a framework for implementing this change in policy. Other donors will want to maintain traditional policy conditionality, although it is hoped that over time there will be increasing adoption of the results based approach. An important objective should be to ensure that policy conditions are limited in number and focused on the priority issues. Policy conditions should include important actions in social or governance reform and not just the traditional focus on economic policy.

4.13 PRSPs will need to explain how impact will be measured (including the capacity building required) and how the results of monitoring will feed back into policy review. It is extremely important that monitoring is not just a technical exercise but is part of the process of participation. Impact assessments should incorporate the views and knowledge

of civil society organisations and the poor. Similarly the views and knowledge of these groups should feed into new policies or policy reformulation.

The role of donors

4.14 Donors will have a key role in the implementation of PRSPs and it is important that this addressed not just in terms of financing requirements, but in terms also of the way in which development assistance is provided. PRSPs should include proposals for strengthening donor co-ordination, with the government in the lead. PRSPs should also specify how arrangements for disbursing funds can better support the goals of the PRSP. There are strong arguments in favour of general budget support, including in the context of sector wide approaches, which has few restrictions and for which donors use common procedures. There are also strong arguments in favour of longer term commitments. But the PRSP needs to establish a path towards this goal, including the reforms which will make it possible, especially in public finance management.

Annex 4

Below is a list of outcome indicators retained in the Burkina Faso pilot on Conditionality Reform. As the term outcome indicator may be somewhat confusing it may be useful to show an example of the terminology adopted by Canadian CIDA and the World Bank on performance indicators. In the realm of public finance management it may be clearer to speak of efficiency indicators but the word outcome has been internationally adopted. As PRSPs develop outcome indicators of the type illustrated below it will be important to show how they will contribute to the achievement of the International Development Target.

Example from the education sector

Input: e.g. more funds in education budget,

Outputs: e.g. more schools/classrooms, teachers, books, teaching materials,

Outcomes: e.g. higher enrolment ratios, improved passing ratios,

Impact: e.g. higher literacy rate,

<i>Key Outcome Indicators Selected</i>
Health <ul style="list-style-type: none">• <i>Attendance rates at health centers: number of new consultations/population</i>• <i>Essential/basic vaccination rates</i>• <i>Number of second pre-natal consultations</i>• <i>Level of user satisfaction,</i>• <i>costs of basic services (publicly/privately provided)</i>
Education <ul style="list-style-type: none">• <i>Gross enrolment rates (boys/girls) (private, public)</i>• <i>Gross enrolment rate in first year of primary school (boys/girls)</i>• <i>Success rate at primary school leaving examinations</i>• <i>Number of books per pupil</i>• <i>Level of user satisfaction,</i>• <i>Costs of schooling (public/privately provided).</i>
Budgetary management/ public finance <ul style="list-style-type: none">• <i>Coherence in budget allocations and sectoral policy objectives</i>• <i>Execution level of the budget</i>• <i>Share of the budget going to the most peripheral structures</i>• <i>Discrepancy between unit costs in public procurement contracts (central and local) awarded to the private sector/donors and market prices.</i>

Information sources: government statistics department (important improvements necessary), specific rapid surveys.

Poverty Reduction Strategy Papers (PRSPs)

(Comments on the Joint Document presented to the IMF/WB Boards in December 1999)

1. THE VALUE OF THE NEW APPROACH

The European Commission (Directorate General for Development) strongly welcome and support the renewed emphasis on poverty reduction as the main focus for targeting countries' economic and social policies, as well as the proposal to pursue this agenda through PRSPs.

Our support for PRSP concept is based on the following key elements of the approach.

- PRSPs will provide a framework for mainstreaming **poverty reduction** in Government and donor policies, in particular for countries that benefit from enhanced debt relief within the **HIPC** initiative.
- **Country ownership** is paramount and Governments will have responsibility for both the design process and the final product.
- Strategies will reflect the outcome of an open **participatory process** which involves civil society and all relevant international institutions and donors.
- Strategies will be **tailored to individual country circumstances**, and based on an understanding of the nature and causes of poverty and public actions which can help to reduce it. They will include, very importantly, medium and long-term goals which can be monitored, with results feeding back into design.
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It is important, in our view, that donors take a common approach where at least a portion of aid is clearly linked to performance.

BOX: Outcome indicators utilised in the Burkina Faso Pilot

Key Outcome Indicators Selected

Health

- *Attendance rates at health centers: number of new consultations/population*
- *Number of caesarians performed (a predictor of maternal mortality)*
- *Essential/basic vaccination rates*
- *Number of second pre-natal consultations*
- *Level of user satisfaction,*
- *costs of basic services (publicly/privately provided)*

Education

- *Essential/basic vaccination rates Level of user satisfaction, user costs*
- *Gross enrolment rates (boys/girls) (private, public)*
- *Gross enrolment rate in first year of primary school (boys/girls)*
- *Success rate at primary school leaving examinations*
- *Number of books per pupil*
- *Level of user satisfaction,*
- *Costs of schooling (public/privately provided).*

Budgetary management/ public finance

- *Coherence in budget allocations and sectoral policy objectives*
- *Execution level of the budget*
- *Share of the budget going to the most peripheral structures*
- *Discrepancy between unit costs in public procurement contracts (central and local) awarded to the private sector/donors and market prices.*



EUROPEAN COMMISSION
DG DEVELOPMENT

Development Cooperation
Macroeconomics Issues, Structural Adjustment

Brussels, 07.07.2000
B2 (00) D/8076

Dear Mr Gondwe and Mr Madavo,

**Interim Poverty Reduction Strategy Paper (I-PRSP) for Benin
Discussion at the IMF and World Bank Boards on 10th and 11th July 2000**

The European Commission, as you know, very much welcomes the initiative of the Bretton Woods Institutions to focus collaboration with IDA borrowers on the reduction of poverty. Like several Member States and other donors, we expressed the intention to use the Poverty Reduction Strategies as the guiding principle for the allocation of aid resources. Therefore, the high quality and broad ownership of the strategies in the countries concerned is important to us. On the Benin I-PRSP we communicated our views to the Government of Benin at an earlier stage in the process, and so did most other donors present in the country. This note takes into account concerns raised by ourselves and some of our Member States and wishes to highlight the most relevant issues with respect to the document. We hope that our contribution will be reflected in the discussion of the Board and the recommendations issued to the Government.

We consider that the poverty reduction initiative has the potential to deeply change aid relationships and build the basis for a larger transfer of resources to low income countries and in particular to Africa. It will only be able to live up to its full potential if the processes and the resulting strategies are credible to the citizens in the countries concerned as well as the tax payers in the donor countries. This credibility could be undermined if the main purpose of producing the document becomes the access to debt relief under HIPC and to concessional IMF and World Bank loans. The European Commission is concerned that the timing of the PRSP process might be driven too much

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by board schedules and too little by the time required for participatory processes to evolve. We trust that both Benin's Government and the Bretton Woods Institutions will try to avoid this in the definition of the final poverty reduction strategy. Nevertheless, the period until April 2001 when the final PRSP is expected to be completed, seems rather short, in particular given the fact that a large part of this time will coincide with presidential election campaigns.

The I-PRSP affirms the government's commitment to a participatory process. It is our impression, however, that the terms of reference for this process are not yet defined, i.e. what kind of questions will be addressed and how the opinions and voices of the stakeholders will influence the design of the strategy. We recognise that it is by no means an easy task to ensure equal representation of the majority of the poor who live in rural areas. The full involvement of the existing democratic institutions, and in particular the Parliament, seems essential. In this context it is regretted that the community elections have been delayed and that decentralisation which would have guaranteed a better representation of the society at local level, is not yet effective.

While Benin's positive track record of reforms over the last decade and efforts in the area of the reduction of poverty are acknowledged, there is also a consensus that the PRSP should aim at a much bigger attack on poverty. In that respect, we feel that the I-PRSP aims too low with a target growth rate in the 5 to 6 percent range and an investment/GDP rate of 20 percent. In fact, as a poor performing country, Benin is the prototype of a country which should receive more aid in order to increase the overall impact on poverty. Unfortunately, the I-PRSP is probably not developed enough for the country to advance that point. It does not go as far as we would have expected in providing an analysis of the poverty situation and defining the big objectives of the strategy. Analysis of the causes of poverty is largely absent and the lessons learned from past efforts in this area are missing in the document despite studies and experience available in the country. We should all encourage the Government of Benin to embark on this analysis, using existing knowledge and paying special attention to the gender dimension. It is particularly important not to avoid controversial issues which could cause social conflicts in future if not addressed in due time. Examples are the distribution of wealth, land laws, and corruption.

The PRSP is a learning process for governments and donors alike. In order for this learning process to kick in it is necessary to formulate the questions that need to be addressed. Ideally this could have been part of the I-PRSP.

We need to get a better grip on the link between inputs in the budget and outcomes. The introduction of measurable indicators for the results of government policy in adjustment operations is a relatively recent development. The European Commission welcomes the fact that the PRSP concept emphasises the need for countries to set clear priorities and measurable objectives. In Benin, the five PERC ministries have already made progress in this respect, but a lot more needs to be done in terms of extending the efforts to all ministries, and better reflecting poverty and distribution aspects. In view of integrating indicators in the participatory process it is important they are simple and meaningful for the broad population. The Government should also ensure co-ordination with the various donors engaged in budgetary support at an early stage in the process of

defining indicators with the aim of reaching a consent on a set of indicators which could be used for decision making and monitoring by government and donors alike¹.

A central question is how to allocate and manage additional resources, that become available through a reduction of the debt service and increased aid flows, in favour of the poor. In this respect, the reforms of public resource management already pursued under the framework of the PERC play out as an advantage for Benin compared with other countries. These reforms include the introduction of a medium-term expenditure framework, the orientation of public spending on results, the definition of measurable indicators, and a strengthening of the auditing and control systems. Nevertheless, the changes are still new and will only be extended to all ministries with the next budget year. Institutional capacity needs reinforcing, and this takes time. In the short-term, in the case of significant amounts of additional resources, there is a risk of a problem of absorption.

In addition to the absorption problem of the public sector, there is also the concern to ensure the right balance between the public and the private sector, in particular with respect to the returns on investment. It is suggested that in the framework of the PRSP process one should search for mechanisms to channel part of any additional resources to the private sector. This should include but should not be restricted to the following areas:

- outsourcing, in particular with respect to public investment in the social sectors. An example is the model of the “maîtrise d’ouvrage déléguée” used successfully in the framework of the TUHIMO, labour intensive urban road works, financed under the Commission’s adjustment support. Generalisation of this concept could speed up investment in water, sanitation and rural infrastructure;
- partnerships with the private sector, in particular with respect to the provision of social services in health and education. Such public/private mix could enhance the effectiveness and efficiency of the “zones sanitaires” for example. Changes in the regulatory framework are required to also allow the flow of public resources to private entities engaged in the production of public services;
- increased transfers to households, e.g. subsidising the cost of schooling of poor children and of girls, and/or reduced taxation.

The private sector therefore has an important role to play in the PRSP – a fact that currently tends to get little attention. Shortcomings in the legal and regulatory framework, excessive administrative red tape, and fiscal disincentives (in particular with respect to the use of labour), all of which have been noted earlier, do not lose in importance.

The effective implementation of a policy, including one aiming at poverty reduction requires an effective and motivated civil service. To unblock the reforms envisaged in that area the European Commission encourages donor support for a settlement of the

¹ The European Commission’s budgetary support for the 2001 budget was discussed with the Government during a mission in June and will be based to a large extent on actual results achieved in a number of agreed areas.

implicit arrears of civil service salaries and advocates a major adjustment of the salaries actually paid towards the legal entitlement, within the framework of the global reform.

Since the PRSP is expected to lead to a fundamental reorientation of policy which is owned by the country and completed in the first half of 2001, it seems somewhat inconsistent that the Government and the Fund have already now agreed on a three year policy matrix for the Poverty Reduction and Growth Facility. We trust that a review of this matrix is envisaged once the final PRSP is completed.

The case of Benin demonstrates that donors need to revisit the concept of the financing gap as the basis of the determination of their support to reform programmes. Quick disbursing aid should be no longer seen as the "gap filler" for a given expenditure programme but as a variable which determines expenditures. The European Commission would like to suggest that this be addressed in the framework of the Special Programme for Africa.

The European Commission looks forward to playing an active role in advancing the reorientation of aid to poverty reduction and in supporting Benin in its endeavour to lift the standard of living of its population.

Signed
Bernard Petit
Director

Cc: Mr. Kemal Dervis, Vice President PREM, World Bank
Mr. Jack Boorman, Director, PDR, IMF
The Government of Benin:
Mr Bruno Amoussou, Ministre d'Etat
Mr A. Bio Tchane, Ministre des Finances et de l'Economie
Mr E.J. Assilamehoo, Secrétaire Technique, P.A.S.
The Delegations of the EC in Cotonou and Washington
Economists DG DEV B/2

Cc and Visa: P. Darmuzey, DG DEV A/2
A. Rodrigues, DG DEV D/3

Dear Minister,

Kenya's Interim Poverty Reduction Strategy Paper

The recent publication of the Interim Poverty Reduction Strategy Paper is a particularly important landmark in the evolution of economic and social policy in Kenya. The European Commission would like to congratulate the Government on the quality of this document and express its full support for its intention to put the goal of poverty reduction at the very centre of its future development strategy. We welcome the process of broad consultation which has been the basis of the preparation of the Interim PRSP. We look forward to continuing to work closely with the Government as the interim paper is developed into a Full PRSP in the course of the next year.

In the spirit of partnership through which the Interim PRSP has been developed I would like to take this opportunity to offer a few comments on certain aspects of the paper, which I hope you will find helpful. My aim in doing this is to highlight some of the points to which the Commission attaches particular importance as the Government develops its new agenda and the Full PRSP is prepared. I want if possible to establish some of the ground for future dialogue, not just between the Government and the Commission, but also more widely with Kenya's other development partners. I am hopeful that you will agree that, by sharing these thoughts at an early stage, it will assist the task of designing the Full PRSP, and ensuring that it provides the basis for effective co-operation between all those who wish to work with the Government as it pursues faster development and poverty reduction.

The attachment to this letter provides detailed thoughts that focus in particular on the sector policies that are introduced in the interim paper. Perhaps I can preface these with comments on some of the over-arching issues that will be particularly important in the design of the full paper.

First I would like to emphasise the value of broad consultation as the full paper is prepared. The Government has made an excellent start in this respect and the programme for future consultation which is set out in the interim paper demonstrates clearly that it understands the importance of working on the basis of a wide consensus on priorities, policies and programmes. The plans for national and local participation are detailed and

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the timetable is ambitious. The main challenge will be in managing this process to ensure that it is both meaningful and effective.

Second it is important that, as the Full PRSP is developed, the Government is able to set some clear priorities which reflect both medium term resource constraints and the differential impact of policies on poverty. In this respect I think you are probably aware that in some quarters there is concern that the medium term expenditure framework (MTEF) does not currently give sufficient weight to core poverty programmes in areas such as primary health and education. There is also concern that the interim paper may contain too many programmes that are not all affordable. My hope is that these will be issues that will be fully addressed in the full paper, with the MTEF adapted as necessary on the basis of a common understanding of how the resources available might best serve the goal of reducing poverty.

Third, I would like to highlight the relevance to the poverty reduction agenda of reforms in public finance management. I am sure that you are conscious that getting allocations right is only one part of the battle in improving the impact of public expenditure. Equally important are measures that will ensure that resources are used as intended and that they are used effectively. I think it will be important that the Full PRSP looks also at these issues and considers how the Government's expenditure control and monitoring can be strengthened. These are crucial issues for donors such as ourselves who hope to be able to support the PRSP agenda with increased levels of budget support.

Finally perhaps I can say a few words on the objectives which will be set in the Full PRSP. The interim paper sets out a table of goals that are focused in particular on the International Development Targets agreed at UN conferences in recent years. This table is important. However it is also important that the Full PRSP establishes attainable targets for outcomes (covering for example school enrolment or vaccination rates) across its complete agenda, which will make these higher level goals achievable. The interim PRSP is weaker in this area, and it will require some work to fill the gaps, based on a careful examination of the current position and what can realistically be achieved in the medium term. The Commission intends in future to use the Government's success in achieving outcome targets for public expenditure as one of the triggers for the release of budget support. We are therefore particularly interested in the way in which this aspect of the design of the PRSP evolves.

In concluding I would like again to express the Commission's full support for the new direction which is now being given to economic and social policy in Kenya. I would like to confirm that we will aim to be an active partner in the development of the Full PRSP, and hope that this document will be able to provide the framework for the Commission's future programme of development assistance. As the PRSP design process unfolds we stand ready to provide technical assistance which can contribute to the work involved in managing the development of the strategy and in building its individual elements. Please do not hesitate to turn to us as needs arise.

THE GOVERNMENT OF KENYA'S INTERIM POVERTY REDUCTION STRATEGY PAPER: EUROPEAN COMMISSION COMMENTS ON SPECIFIC ASPECTS, INCLUDING SECTOR POLICIES

1. RESTORING ECONOMIC GROWTH

- The task faced in restoring economic growth is discussed in detail. We would only note that projected growth figures may require re-assessment in the design of the Full PRSP to take into account the recent drought and its knock-on effects.
- The issue of equity, in terms of access to means of production and of distribution of wealth is only partially addressed in the Interim PRSP. It is hoped that the Full PRSP will elaborate a clear strategy in this area.

2. IMPROVING GOVERNANCE

The general approach of the Interim PRSP here is re-assuring, provided that the economic crimes bill offers adequate mechanisms for enforcement, follow-up and prosecution on the key issue of corruption.

1. RAISING INCOME OPPORTUNITIES FOR THE POOR

The rationale behind the approach set out in the Interim PRSP under this heading is shared by the Commission. However the Full PRSP will need to address sectoral policies for promoting the income opportunities of the poor in greater detail.

2. IMPROVING THE QUALITY OF LIFE

Similarly sectoral policies which will improve the quality of life of poor people will require a specific focus in the Full PRSP. A point of detail is that the Interim PRSP stops some way short of elaborating strategies and targets in the key area of affordable healthcare.

3. EQUITY AND PARTICIPATION

Equity and participation are described as central principles in the design of the Interim PRSP but there is little detail on what this will mean in practice for policies and programmes. Again this is an important gap for the Full PRSP to fill.

4. PHYSICAL INFRASTRUCTURE

Roads

One concern in the roads sector remains the clear definition of modalities to sustain the current reforms in the sector in order to achieve transparent, efficient and effective management of the road network. Our hope is that the current legislative reforms will be fully captured in the Full PRSP.

7. HUMAN RESOURCES

- **Education:** A coherent sectoral policy for education almost certainly requires elaboration, as part of the Full PRSP design process.
A specific comment concerns the status of the bursary schemes currently in operation in Kenya, which are targeted for expansion. A detailed review of the targeting and management of these schemes should probably be a first step.
- **Health:** The policy and strategic instruments that will guide sectoral reforms are already in place. However there are some specific concerns on the reform of the system of drug supply. In particular a detailed business plan for KEMSA is almost certainly required as a first step. The budgetary implications of both KEMSA capitalisation and sustainability and the reform of district level health systems require particular attention

8. AGRICULTURE AND RURAL DEVELOPMENT

- This section requires considerable strengthening. In particular the Full PRSP should:
 - establish a rural development strategy;
 - formulate clear links between agriculture and rural development and the achievement of poverty goals.
- A specific remark concerns the relevance of the intended restructuring of the KMC to the formulation and implementation of an ASAL development strategy. This restructuring will have substantial budgetary implications which need to be thought through.

5. TOURISM, TRADE AND INDUSTRY

- The Interim paper addresses in general the main problems of these sectors. Specifically in relation to tourism the Full PRSP will need to consider;
 - (a) the need to create a more cohesive and supporting enabling environment, particularly through the review of the current legislative and policy provisions related to tourism;
 - (b) the need to diversify the current market and product base and achieve more socially and environmentally balanced tourism development;
 - (c) the need to provide long-term sustained funding for destination marketing through KTB.
- The intention to increase charter flights and pre-packaged tours should probably be reassessed and only pursued within a well thought-out market segmentation strategy.

6. PUBLIC ADMINISTRATION

- We are in full agreement with the analysis provided in this section and would particularly highlight the importance of ensuring that the resources available for

poverty reduction are properly managed. In the short term better service delivery will depend crucially on efficiency gains.

- There is an urgent need for Government to develop a strategy for rationalising the full public service. As demonstrated by previous experience, gains in one area can all too easily be lost through expansion in another.
- It will be crucial to see immediate implementation of the various actions mentioned in the Interim paper.

7. PUBLIC SAFETY, LAW AND ORDER

- We welcome the inclusion of this chapter in the Interim paper. This was one of the suggestions made by stakeholders during the consultative process.
- The overall policies and strategies for this area will need to be detailed in the Full PRSP, in particular in relation to the legal sector reform and the role of the police and the military in ensuring security. A key objective should be to provide clear indications on how the Government intends to improve the performance of the police and other law-enforcing agencies with a focus on protecting the poor and disadvantaged groups.

8. MONITORING AND EVALUATION STRATEGY

- The section gives some indication of the arrangements for monitoring the implementation of the programme, including indicators of achievement.
- It is important, however, that this is made one of the key areas for further elaboration in the Full PRSP. Substantial further work is required on the outcome indicators through which performance will be judged in individual sectors. Similarly the institutional arrangements for monitoring will require some attention, including capacity building. Links will need to be established between monitoring and policy re-formulation. Ideally monitoring should include arrangements for consulting the poor.

Dear Minister,

Chad's Interim Poverty Reduction Strategy Paper

Thank you very much for having sent to us in June 2000 the Strategie Nationale de Reduction de la Pauvrete. We are aware that the document is only one step in the process you have started several years ago to develop a comprehensive strategy for the fight against poverty and an improvement of the living conditions of the people of Chad. We welcome this process and we look forward to work closely with the Government as the interim paper is developed into a Full PRSP in the course of the next year.

In the spirit of partnership through which our cooperation has been developed in the past, I would like to take this opportunity to offer a few comments on certain aspects of the paper, which I hope you will find helpful. My aim in doing this is to highlight some of the points to which the Commission attaches particular importance as the Government develops its agenda and the Full PRSP is prepared. I want if possible to establish some of the ground for future dialogue, not just between the Government and the Commission, but also more widely with Chad's other development partners. I am hopeful that you will agree that, by sharing these thoughts at an early stage, it will assist the task of designing the Full PRSP, and ensuring that it provides the basis for effective co-operation between all those who wish to work with the Government as it pursues faster development and poverty reduction.

The attachment to this letter provides detailed thoughts that focus on the different parts of the interim paper. Perhaps I can preface these with comments on some of the over-arching issues that will be particularly important in the design of the full paper.

First I would like to emphasise the value of broad consultation as the full paper is prepared. The document of the Government has announced various activities for future consultation and it is indeed of high importance of working on the basis of a wide consensus on priorities, policies and programmes. The plans for national and local participation are detailed and the timetable is ambitious. The main challenge will be in managing this process to ensure that it is both meaningful and effective and that the final beneficiaries, the poor, will have a real say.

Second, it is important that the costs of the strategies to be laid down in the Full PRSP will be calculated. Priorities must be established which consider their impact on poverty and taking into account realistic macro-economic growth possibilities and external financial resources.

Third, I would like to highlight the relevance to the poverty reduction agenda of reforms in public finance management. I am sure that you are conscious that getting allocations

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Chad

right is only one part of the battle in improving the impact of public expenditure. Equally important are measures that will ensure that resources are used as intended and that they are used effectively. I think it will be important that the Full PRSP looks also at these issues and considers how the Government's expenditure control and monitoring can be strengthened. These are crucial issues for donors such as ourselves who hope to be able to support the PRSP agenda with increased levels of budget support.

Finally perhaps I can say a few words on the measurement of objectives which will be set in the Full PRSP, i.e. beside the objectives, strategies and measures, some of which are set out in the I-PRSP, it will also be very important that the Full PRSP establishes attainable short- and medium-term targets for outcomes (covering for example school enrolment or vaccination rates) across its complete agenda. During the next year a substantial amount of work will indeed be necessary to come up with the required indicators, based on a careful examination of the current position and what can realistically be achieved in the medium term. The Commission intends in future to use the Government's success in achieving outcome targets for public expenditure as one of the triggers for the release of budget support. We are therefore particularly interested in the way in which this aspect of the design of the PRSP evolves.

In concluding I would like again to express the Commission's full support of assisting the government of Chad in the process of developing a Full PRSP. I would like to confirm that we will aim to be an active partner, and hope that the final document will be able to provide the framework for the Commission's future programme of development assistance.

As the PRSP design process unfolds we stand ready to provide technical and other assistance that can contribute to the work involved in managing the development of the strategy and in building its individual elements.

The Government of Chad's Interim Poverty Reduction Strategy Paper: European Commission Comments on Specific Aspects

The comments follow the structure of the I-PRSP which is presented in 4 chapters covering:

1. The commitment of the government in the fight against poverty;
2. Existing strategies of the government to reduce poverty in Chad;
3. Description of Macro-economic framework and 3 year policy matrix;
4. Calendar of participatory process to define and elaborate a full PRSP.

To 1: The commitment of the government in the fight against poverty

We note that the government of Chad has been working on a global strategy to fight poverty for several years and that it is its objective to develop a full PRSP until June 2001. In this context a round table was held in Geneva in October 1998, several comprehensive documents were elaborated, seminars were held and sectoral strategies have been designed, using a participatory approach, for four priority sectors, i.e. education, health, transport and rural development.

As comprehensive living condition surveys are only planned within the process of preparation of the PRSP, no measures are yet available showing comprehensive changes in poverty. However, the implementation of structural reforms in several sectors, the restoration of peace and economic growth over the last years and the considerable budgetary expenditures in the social sectors may suggest some improvements in the living conditions of the poor.

To 2: Existing strategies of the government to reduce poverty in Chad

We can subscribe to the four specific objectives (strengthen process of democratisation - including State of Law and good governance and financial management - economic growth, development of the human resources and ecological equilibrium) laid down for the global poverty reduction strategy. As regards economic growth, the aspect of equity related to the allocation of assets and wealth and the implication of tax policies should be more stressed.

The Interim paper addresses the main issues related to overall strategies as regards the rural development, health, education and vocational training and transport, urban development and housing. Further refinements may be carried out within the process of developing the full PRSP. The inclusion of strategies related to the development of the private sector and here especially SMEs should be considered within the framework of the full PRSP.

Although we can agree with some analysis of poverty and with specific actions suggested to reduce poverty, they do not build on the before mentioned strategies. We trust that the required elaboration will be carried out during the participatory process of defining the full PRSP.

To 3: Description of macro-economic framework and 3 year policy matrix

In the section “Policy of Growth” we welcome particularly the inclusion of commitments to “improve governance and government capacity to well manage public finance”, to reduce “tax evasion and fraud”, to “reinforce expenditure control and audit procedures”, to carry out structural structural reforms between 2000 and 2002 as regards “(1) the development of the private sector, (2) the reinforcement of the economic and administrative management, and (3) the reduction of poverty”. The issue of equity, in terms of allocation of assets and wealth is, however, not expressively mentioned.

In addition, we are in agreement that the policy to fight against poverty integrates the sector policies in the field of education, transport, rural development, water and health. The document points out that these were elaborated in consultation with the civil society, private sector and the international donor community active in these fields such as the World Bank, European Union, the BAD, the UN organisations and France.

Within the process of developing the full PRSP all of these issues will need to be developed so that the objectives, the strategies, the activities, the expected results and the time-planning will be clearly established. The results must show the real benefits to the poor. In this context an elaborated Matrix of 3-year policies will be a useful tool. (The Matrix of the document only covers some of the relevant aspects).

To 4: Calendar of participatory process to define and elaborate the full PRSP

It is well understood that the people of Chad must be the owner of the design, elaboration and implementation of the poverty reduction programme. In this context we welcome that the planned activities for the process shall include all levels of the civil society. It will

therefore have to be ensured that not only the public authorities will be able to make their input but that also the poor will be part of the consultative process.

The international donor community as a provider of substantial resources aimed at the assistance to reduce poverty needs to be associated with this process. In order to strengthen the public institutional capacities required to carry out the process efficiently and effectively, the international donor community has also indicated its willingness to assist. It therefore needs to be able to closely follow the work and must be in the position to express its opinion on all relevant aspects and here in particular the performance indicators, before the full PRSP will be finalised. The I-PRSP foresees to provide a "Document de synthèse" to the donor community in May 2001. Up to this point the European Union does not feel sufficiently integrated into the participatory process and hopes that government of Chad will come up with further suggestion how to link the international community closer and at an earlier stage to the work and process of elaboration of the full PRSP.

Dear Sir,

In March this year you co-chaired the Consultative Group Meeting, where the Government of Uganda presented the Poverty Eradication Action Plan / Poverty Reduction Strategy Paper to the international donor community. The very open discussion among the President, the members of the Government, donors and representatives of the civil society shows that co-operation between Uganda and donors has evolved into a real partnership.

The European Commission's appreciation of Uganda's development policies is illustrated by the participation of a large delegation from Brussels and from our Delegation in Kampala. The PEAP/PRSP document, together with the Medium Term Expenditure Framework and the elaborated sector wide strategies, show a comprehensive approach and Uganda's clear commitment to eradicate poverty.

The government, in consultation with representatives of the civil society, is elaborating the final version of the PEAP/PRSP. The draft version allowed the Boards of the Bretton Woods Institutions to decide positively about Uganda having reached the completion point for enlarged HIPC.

The Commission considers this PEAP/PRSP as a first basic document for a future possible new support under the Commission's Structural Adjustment Facility. However, some deepening and up-dating of in particular the macro-economic framework will be needed. I am confident that, in the preparatory process for a possible IMF loan from the Poverty Reduction and Growth Facility (PRGF) and a Public Expenditure Reform Credit (PERC) from the WB, such information will be available soon.

I have the honour to send you, complementary to the European Union Statement and donor presentations at the Consultative Group meeting, the Commission's assessment of the PEAP/PRSP.

H.E. Mr Gerald M. Ssendaula,
Minister of Finance, Planning and Economic Development,
Kampala
The Republic of Uganda

In general this assessment is very favourable and endorses the appreciation expressed by the donors. However some questions about the economic policy with regard to enhancing the productive sector and the fiscal/revenue policies, good management of

public funds, costing and prioritisation of the programmes and projects and elaboration of realistic performance indicators, are being raised.

I would highly appreciate to receive your reaction on these issues and hope to see these worries and thoughts addressed in the final version of the PEAP/PRSP.

In this assessment no reference is made to military expenditures. However, it goes without saying that, like other donors, the European Commission will carefully follow the development of these expenditures. I took well note of the commitment to maintain defence expenditures within 2 percent of GDP.

With the PEAP/PRSP Uganda has set another important step to eradicate poverty. I reconfirm the Commission's strong interest to supporting these policies and I am looking forward to the further deepening of our partnership.

I remain Sir,



EUROPEAN COMMISSION
DG DEVELOPMENT

Development Cupertino
Macroeconomics issues, Structural Adjustment

Subject: Uganda - Poverty Reduction Strategy Paper.

General introduction

In 1997 Uganda published its first Poverty Eradication Action Plan (PEAP). The Government and the Bretton Woods Institutions agreed that an amended version of that plan should be considered as the Government's new Poverty Reduction Strategy Paper (PRSP). The Government of Uganda issued the Discussion Draft of the PRSP/PEAP in February 2000. A revised Draft N° 1 of the PEAP, taking into account inputs provided by stakeholders during a participatory process, was presented and discussed at the Consultative Group Meeting (CG) in Kampala on 22 and 23 March, 2000.

The Government of Uganda will present the final version of the PEAP to Parliament at the end of May. This final version will be drafted taking into account donor views and comments as expressed at the CG and as the Government might receive in the coming weeks from another round of consultations.

Based upon the very voluminous and comprehensive Draft N° 1 PEAP, the GoU prepared "*Uganda's PEAP: Summary and main objectives*", upon which the Boards of the IMF and WB have decided that Uganda has reached completion point for enhanced HIPC debt relief.

The PEAP should be read alongside the other strategy documents, including Vision 2025, sector wide strategy papers (education, health, roads, agriculture modernisation, justice, private sector development), and the Medium Term Expenditure Framework (MTEF). It reflects also the Government's commitment to decentralisation. The PEAP is a policy statement which will be amended through time as sector programmes are elaborated, and experience is monitored. Already the Government is committed to a substantial programme of further design work, in particular to flesh out the implementation of sector programmes and define in detail the targets to which it is committed, including indicators of achievement.

In their joint statement at the CG donors commended the Government of Uganda for the quality of the PEAP, the analysis, the orientations, the objectives and the policies.

Assessment by the European Commission

At the outset, the European Commission would like to commend the Government of Uganda for the quality and comprehensiveness of the PEAP. In a short period the Government has succeeded in elaborating a document which contains:

- a well-researched and comprehensive analysis of the causes of poverty in Uganda;
- a vision to eradicate poverty, including both clear long term targets and policies to create a framework for economic growth, to increase the ability of the poor to raise

their income and to improve the quality of the life of the poor through the provision of better services.

The Commission would also like to commend the Government for the way it has organised the consultation process. This participatory exercise with the opportunities it has provided for stakeholders (including Members of Parliament, Local Governments, NGOs and donors) to give their opinion, know-how and experience means that the PEAP enjoys broad support. The drafting exercise is not yet complete and the European Commission welcomes the Government's intention to have another round of consultation before volume 1 is finalised and to develop volume 2 (investment plan) and 3 (donor budget support) in a similar consultative manner. The scheduled parliamentary debate and approval of the PEAP will provide a suitable final endorsement.

Within this strongly positive overall assessment of the PEAP, the Commission would like to draw attention to some particular points to which it attaches special importance, and which it hopes will be taken into account as the PEAP is elaborated and implemented.

Macro-economic framework and economic policy

The broad macro-economic objectives of the PEAP (7% real growth, 5% inflation) are ambitious but set at the level necessary to reduce the number of people living in poverty and to double income per capita. The achievement of the growth target in particular requires the implementation of consistent macro-economic and structural policies over an extended period of time. These policies will need to be able to ride out short-term endogenous problems (related, for example, to trade prices or climate) of the type the economy is currently experiencing.

The PEAP gives a major role to the modernisation of the agriculture sector as principal engine for economic growth. A Plan for the Modernisation of Agriculture has been established. This is important, and the Commission will watch its development with close interest.

The PEAP also rightly recognises the importance of private investment as an engine for economic growth. Within the Medium-Term Competitive Strategy Uganda has identified a number of key supply side reforms to improve the overall environment for the private sector (infrastructure, legal, fiscal and administrative environment, financial sector). The European Commission looks forward to their costing, prioritisation and an effective implementation plan.

The creation of the right environment may not, however, be all that is necessary to stimulate investment. The European Commission would like to invite the Government of Uganda to consider whether it is also important to elaborate additional promotion initiatives within the Medium-term Competitive Strategy. Encouragement of the productive sector (industry, services and commercial agriculture) may require funds for a more active investment policy within the medium-term economic framework.

The positive trend in revenue collection observed since 1991 has unfortunately been reversed since the beginning of the current fiscal year. The European Commission is concerned to see that PEAP suggests a scenario of stabilisation of internal revenues at

a level, which is still very low compared to international or even regional standards. Improvement of tax administration alone may not be sufficient to attain the objective of a Revenue/GDP ratio of 15-16%. In his address to the CG the Minister of Finance also mentioned the possibility of tax policy measures. The key is that the Government now defines a clear strategy for reaching (and perhaps exceeding) its targets. Very importantly this strategy needs to take into account issues of equity in both tax administration and the impact of individual taxes.

Governance

Within the broad spectrum of Governance the Commission places particular importance on the management of public funds.

The Commission would like to commend the Government of Uganda on the commitment and initiatives taken to combat corruption. The Ugandan government rightly focuses on this point in setting future objectives. However, other issues affecting the impact of public expenditure also need to be addressed. There is an important opportunity to do this in the context of the World Bank's planned Public Expenditure Reform Credit. Our hope is that other donors will be engaged in this dialogue. The Commission will give particular attention to the implementation of policies aiming at improving the management of public funds.

An important focus should be procedures and controls to assure the efficient and effective utilisation of funds. Implied is the requirement for clear objectives and indicators of achievement in these areas as well as in the area of corruption.

Prioritising and costing

The PEAP is broad in scope and its targets are ambitious. There is a risk that resources will not be available for all that is planned. Prioritisation and costing are essential elements for a successful and efficient poverty reduction policy. The Government will need to focus closely on these issues as the PEAP is finalised and implemented.

Performance indicators

In the PEAP the Government of Uganda adopts the new orientation to extend monitoring beyond input indicators to cover output and outcome indicators. This shift is also gradually taking place in some of the sector-wide programmes. Definition, selection and monitoring of output and outcome indicators for health and education are becoming essential tasks for the six-monthly joint donor review missions.

The key points in developing indicators of achievement are that they capture the important objective of the PEAP, they are specific and they are realistic (e.g. in terms of past trends) and they can be realised. The further work that is now taking place in this area needs to reflect these important criteria. It will be essential to think outside normal sector goals, for example in health and education to consider the important issue of the costs of access to improved services. It will also be essential to extend into sectors where goals are not currently clearly specified (the private sector, legal and judiciary, etc.).

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COMMISSION EUROPÉENNE
DIRECTION GÉNÉRALE DÉVELOPPEMENT
Coopération au Développement
Le Directeur

Bruxelles, le
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Monsieur,

Comme vous le savez, la Commission a exprimé un certain nombre de préoccupations lors de la récente réunion du club de Paris consacrée à São Tome & Principe.

Nous soutenons fortement le processus de réformes engagé dans ce pays, et nous nous réjouissons de sa volonté de renouer une collaboration macro-économique plus poussée avec les institutions de Bretton Woods. Toutefois, l'interim PRSP récemment adopté par le gouvernement nous semble présenter de substantielles marges d'amélioration.

Lors de la dernière réunion du club de Paris, la partie STP a fortement insisté sur le caractère intérimaire du document, et elle a souligné qu'un autre document serait présenté avant la fin de l'année, pour lequel la contribution de *l'ensemble* des parties prenantes pourrait mieux être intégrée. Dans cette perspective, il est crucial d'améliorer la coordination entre nous, d'autant que, comme tout le monde l'a reconnu, *l'ownership* du gouvernement sur le document ne peut par nature être que limité compte tenu de la faiblesse institutionnelle du pays.

L'interim PRSP manifeste un réel travail de fond, et insiste de façon justifiée et louable sur deux questions-clef que sont les *audits* et la préparation du pays à une éventuelle manne pétrolière.

Même si les problèmes sont considérables dans le pays, *la matrice peut toutefois sembler beaucoup trop longue*. Elle gagnerait à être plus *hiérarchisée* et à ce que la lutte contre la pauvreté ressorte mieux dans le flot des réformes macro-économiques plus classiques. En matière sociale, le volet santé est sans doute trop léger (on ne mentionne aucune mesure précise qui permettrait de remplir les objectifs quantitatifs fixés), et le message sur l'éducation parfois peu clair (notamment sur l'importance respective du primaire et secondaire). De ce fait, *certaines objectifs fixés semblent a priori peu réalistes*, d'autant que la faible qualité des données disponibles est soulignée.

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Même s'il serait difficile de dire qu'une seule des réformes mentionnée est infondée, on peut se demander si la matrice est *calibrée aux capacités institutionnelles du pays et aux capacités de financement effectives des bailleurs de fonds*. Peut-on par exemple vraiment former 90 nouveaux instituteurs par an et en re-former 300 sur 3 ans ?

On pourrait par ailleurs souhaiter que certaines mesures *tiennent mieux compte des expériences du passé et des constats menés par ailleurs* (peut-on par exemple à la fois souligner que la pauvreté est d'abord liée aux ménages dont le chef est une femme, dire que les redistributions de terre ont été quasi exclusivement faites au bénéfice des hommes, et dire qu'on va continuer tel quel ?).

Un autre point, qui n'est pas spécifique à São Tome et sur lequel la Commission est déjà intervenue à l'occasion de précédents PRSP, est la nécessité de mieux évaluer *l'éventuel impact sur les populations les plus fragilisées* des mesures macro-économiques préconisées. Dans le cas de São Tome, on peut penser notamment à la libération des prix et à la privatisation de l'eau et de l'électricité. Cette étude d'impact devrait aborder non seulement les effets prix, mais aussi travailler en terme d'accessibilité et de qualité du service public rendu (cahier des charges ?).

Même s'il ne s'agit bien évidemment pas du même type de préoccupation, nous sommes enfin quelque peu inquiets de constater que le document ne mentionne pour ainsi dire pas l'AT communautaire prévue dans le cadre de l'AS. Il met de surcroît en évidence la mise en place de plusieurs AT potentiellement concurrentes, financées en bonne partie par les Institutions de Bretton Woods. Dans la mesure où vous avez très tôt eu nos propres TdR, nous ne comprenons pas très bien la raison de ces nouvelles AT, et nous regrettons que l'information n'ait pas circulé dans les deux sens... Nous espérons surtout que cet oubli ne préjuge pas de l'importance de notre appui dans le processus de réforme, sans quoi nous pourrions être amené à en modifier la nature.

Pour résumer en une phrase l'essentiel de nos préoccupations, il nous paraît important que le document unique qui sera présenté à la table ronde des bailleurs de fonds avant la fin de l'année exprime de façon claire et non-ambiguë, en quelques mots-clef et sans langue de bois, l'usage qui sera fait de la manne liée à HIPC (voire au pétrole si les potentialités du secteur deviennent réalité). Il nous paraît essentiel, surtout pour un pays du type de São Tome & Principe, de *se concentrer sur quelques points-clef, sur lesquels des résultats tangibles, rapides et sensibles pour les populations peuvent être obtenus*.

Bernard Petit

Visa : E3 + A2, Copies : Conseiller Résident, Délégation au Gabon

Monsieur le Ministre,

Je vous remercie pour la transmission du "Cadre stratégique de lutte contre la pauvreté" élaboré par le gouvernement du Burkina Faso, à la suite d'un processus de concertation et de dialogue interne auquel vous avez associé les bailleurs de fonds.

La démarche suivie constitue, sans nul doute, un signe positif et une avancée substantielle par rapport au passé et traduit l'importance ressentie, à tous les niveaux, d'un processus participatif large et responsable qui doit être poursuivi, et en fonction des expériences partagées, doit se renforcer.

Une appréciation globalement positive se dégage à la lecture du cadre stratégique de lutte contre la pauvreté. Il définit un cadre d'intervention dans lequel peuvent s'insérer nos appuis futurs ; il est en cohérence avec toute une série d'initiatives en cours (revue des dépenses publiques, préparation d'un cadre de dépenses à moyen terme, test sur la réforme de la conditionnalité, réforme du cadre institutionnel du système de gestion de l'aide); la démarche itérative prônée dans le document et visant une mise à jour annuelle laisse entrevoir des améliorations permanentes, tant du processus de participation, d'appropriation et d'internalisation que du contenu de la stratégie elle-même.

On peut cependant regretter le fait que les pressions de calendrier liées au processus décisionnel des IBW et au calendrier de décaissement des fonds découlant de l'initiative HIPC aient certainement accéléré le rythme d'élaboration du CSLP et n'ont malheureusement pas donné le temps nécessaire pour apporter toutes les améliorations souhaitées. Dans ces conditions, un CSLP provisoire eût sans doute été préférable à celle du "full CSLP".

Toutefois, le caractère itératif de la démarche et l'expérience tirée de la conduite du test de la conditionnalité permet d'être confiant dans les ajustements et améliorations qui seront apportées, si la dynamique de réflexion et d'action qui s'est développée autour du gouvernement burkinabé, des Institutions de Bretton Woods et des principaux partenaires se maintient après la présentation du document aux boards de la Banque Mondiale et du FMI.

C'est la raison pour laquelle il me paraît essentiel de partager avec vous les points de préoccupations subsistant suite à l'examen attentif du document de stratégie.

Monsieur Tertius Zongo
Ministre de l'Economie et des Finances, Ordonnateur national du FED
Ouagadougou - BURKINA FASO

Afin de mieux appréhender et partager les orientations nouvelles quant aux priorités opérationnelles, aux choix des instruments de mise en oeuvre de la stratégie et aux modes de faire, les prochaines étapes du dialogue devraient davantage prendre en compte les leçons du passé et s'appuyer sur une analyse de la croissance observée ces dernières années ainsi que sur la répartition des fruits de celle-ci.

Je note et me réjouis de la prise en compte des premiers enseignements du test sur la conditionnalité, non seulement au niveau de l'appropriation par le gouvernement du processus d'élaboration du CSLP mais également au niveau de la prise en compte d'un nombre limité d'indicateurs à court et à moyen terme. Ceux-ci sont pertinents, réalistes et adaptés aux capacités du gouvernement d'en garantir le suivi et l'évaluation. Une pression positive me paraît à présent devoir être accentuée pour valoriser les efforts entrepris et qui n'ont pas encore abouti à la définition d'indicateurs d'impact dans les secteurs cruciaux à considérer dans une stratégie de réduction de la pauvreté. Il s'agit principalement des domaines concernant le développement rural, l'environnement et l'accès à l'eau.

Le document stratégique ne revêt malheureusement pas la dimension qu'il aurait pu revêtir. On peut regretter que le document se limite notamment à donner une liste de programmes prioritaires à financer sur les ressources découlant de l'initiative HIPC. La présentation de nouvelles clés de répartitions de l'enveloppe budgétaire globale du pays reflétant les orientations énoncées dans le CSLP eût été, par exemple, plus conforme à la nature stratégique du document et aurait levé les interrogations sur une finalité apparente de court terme, à savoir le décaissement des fonds.

L'ampleur et la complexité de bâtir, de mettre en oeuvre et d'assurer une évaluation continue d'une stratégie, comme celle proposée, justifie pleinement l'option retenue de créer un service de coordination des travaux menés dans le cadre du CSLP. Elles méritent également qu'une attention accrue et prioritaire soit portée aux questions incontournables liées au renforcement des capacités institutionnelles et aux ressources nécessaires pour mettre en place les réformes annoncées, opérationnaliser les politiques macroéconomiques, sociales, institutionnelles et sectorielles à travers les instruments de financement et de gestion. Ce point insuffisamment abordé dans le CSLP me paraît devoir faire l'objet d'une concertation rapprochée du fait de son caractère déterminant pour l'avenir.

Il en est de même des questions plus spécifiques liées à la bonne gouvernance, au renforcement du processus démocratique et à leur relation directe avec la problématique d'un développement humain durable, et notamment de la lutte contre la pauvreté. Intégrer ces éléments dans le CSLP aurait contribué à le renforcer de façon substantielle et à en faire des composantes essentielles à la fois dans la perspective d'une substitution progressive de l'aide budgétaire à l'aide projet et dans celle du développement d'un processus participatif reposant sur des principes d'ouverture, de confiance, de transparence et de responsabilité. Il me paraît souhaitable, pour asseoir la crédibilité d'un processus participatif durable, de préciser rapidement le plan d'actions, actuellement trop vague, et de l'assortir d'un calendrier approprié.

L'ensemble de ces considérations et préoccupations que je voulais partager avec vous traduit la volonté de la Commission d'accompagner et d'appuyer le Burkina Faso dans ses efforts en vue d'améliorer les conditions de vie de sa population. Vous trouverez ci-joint une note préparée par les services de la Commission reprenant plus en détail ces points. Ces derniers ne manqueront pas d'être approfondis à l'occasion du dialogue et des travaux de programmation du 9ème FED qui reposeront sur une approche intégrée des politiques et stratégies de réduction de la pauvreté.

Je vous prie d'agréer, Monsieur le Ministre, les assurances de ma considération distinguée.

**Evaluation du Document cadre stratégique de lutte contre la pauvreté, préparé
par la Commission européenne à l'endroit du FMI et de la Banque mondiale
Contribution de la Délégation de la CE à Ouagadougou**

(Cette évaluation tient compte des échanges avec les Etats membres de l'Union européenne présents au Burkina Faso (Allemagne, Autriche, Belgique, Danemark, France et Pays-Bas).)

I. Introduction

Le document cadre stratégique de lutte contre la pauvreté, préparé par le gouvernement burkinabè, présente des éléments permettant une analyse globalement très positive et permet de définir un cadre d'intervention à l'intérieur duquel s'inséreront nos futurs appuis. La cohérence de cette démarche avec toute une série d'initiatives en cours (revue des dépenses publiques, préparation d'un cadre de dépenses à moyen terme, test sur les nouvelles conditionnalités, réforme du cadre institutionnel du système de gestion de l'aide) permet de profiter de toutes ses potentialités. En outre, la démarche itérative prônée par le document, qui vise à le mettre à jour chaque année, devrait faciliter son amélioration, tant du point de vue du contenu que de celui du processus de participation. Vous trouverez, ci-joint, une analyse détaillée de certains éléments qui nous semblent particulièrement importants.

I. Contenu du document

A. Analyse sur la nature de la pauvreté, sur les obstacles à la réduction de la pauvreté et à une croissance économique plus importante et trade-offs dans les choix des politiques

Le document PRSP Burkina Faso présente une analyse très honnête et courageuse qui dresse un tableau clair et sans complaisance de la situation actuelle du développement du pays et plus concrètement du phénomène de la pauvreté. Ceci a été possible, en grande partie, grâce à la réalisation de deux enquêtes prioritaires sur la pauvreté en 1994 et en 1998, respectivement. Les obstacles à la réduction de la pauvreté et à une croissance économique plus importante sont bien identifiés et analysés. Il en est de même des caractéristiques des différents segments de l'économie dans le contexte de la pauvreté et de la définition des groupes de pauvres qui ont bénéficié le plus de la croissance. Toutefois, il y a lieu de constater l'absence d'une analyse plus détaillée des raisons pour lesquelles les stratégies de réduction de la pauvreté du passé n'ont pas produit, malgré les flux importants et réguliers d'aide dont a bénéficié le pays, les fruits escomptés. Quant aux trade-offs dans les choix des politiques, il y a lieu aussi de constater que le document se borne à expliciter comment les ressources découlant de l'initiative HIPC seront utilisées, sans préciser comment la nouvelle approche définie dans le document, visant à avoir recours à des instruments tels que le budget ou la politique fiscale pour lutter contre la pauvreté, trouvera une opérationnalisation pratique.

B. Existence d'un nombre limité d'indicateurs à court et à moyen terme permettant de préciser les objectifs, en termes de qualité du cadre macroéconomique, d'amélioration de la gestion budgétaire et d'impact sur les conditions de vie des populations.

De ce point de vue, le document contient des éléments très positifs, notamment en se basant sur les travaux du test sur la conditionnalité. Aussi :

- Comme élément capital et indispensable à la nouvelle démarche, le document définit un nouveau modèle de partenariat où, une fois admis les objectifs généraux, les bailleurs de fonds laissent toute la latitude au gouvernement sur les choix des instruments de sa politique ainsi que sur le rythme et la séquence des réformes,
- Dans ce nouveau partenariat les questions de capacity building revêtent une importance fondamentale et les besoins d'appui dans ce domaine devront faire l'objet d'une attention particulière.
- Afin d'évaluer les résultats des politiques en cours, le document prévoit un nombre limité d'indicateurs de performance pour trois secteurs (gestion budgétaire, éducation et santé) pour la période 2001-2003, permettant effectivement d'évaluer l'impact réel des politiques. Les travaux réalisés dans le cadre du test sur la conditionnalité permettent de rester confiants quant à la pertinence de ces indicateurs et à leur réalisme ainsi qu'aux capacités du gouvernement de garantir leur suivi et évaluation. Des efforts doivent encore être faits pour définir des indicateurs d'impact pertinents pour d'autres secteurs qui revêtent une importance particulière dans la lutte contre la pauvreté (développement rural, environnement, accès à l'eau, etc).
- Des objectifs à plus long terme sont aussi définis dans le document, même si ceux-ci découlent directement des stratégies et des plans d'actions actuellement en place. La nouvelle stratégie devrait sans aucun doute amener le gouvernement à les redéfinir.
- Quant au système de suivi et évaluation des indicateurs, et en ce qui concerne les indicateurs d'impact à court terme, ce volet bénéficiera des conclusions et recommandations de la prochaine mission conjointe du test sur la conditionnalité. Néanmoins, il convient déjà de souligner la référence faite à la création d'un service spécifiquement désigné pour coordonner les travaux nécessaires pour : a) assurer la disponibilité et la fiabilité des indicateurs identifiés, b) élaborer les nouveaux indicateurs nécessaires à l'élargissement du suivi et de l'évaluation des résultats à l'ensemble des axes des programmes, c) animer la réflexion sur les méthodes de répartition optimale des financements en fonction des valeurs atteintes par les indicateurs.

C. Le cadre général définissant les politiques macroéconomiques et structurelles, sociales, institutionnelles et sectorielles qui doivent être mises en œuvre

Dans ce contexte, la volonté du gouvernement de donner une nouvelle tournure à ses politiques, comme moyen d'avoir un plus grand impact dans la lutte contre la pauvreté, est prouvée par l'introduction de toute une série de nouveaux paradigmes guidant la nouvelle stratégie. Il s'agit, notamment, de l'inclusion du concept d'équité, qui doit accompagner les efforts d'une croissance économique accrue et toute la

stratégie dans son ensemble. Ce principe passe, comme indiqué dans le document, par un réexamen du rôle de l'Etat qui doit jouer un rôle régulateur et redistributeur, notamment dans les secteurs sociaux, à travers l'instrument budgétaire et fiscal. Dans ce contexte, il nous paraît essentiel de souligner certaines mesures proposées qui revêtent une importance fondamentale, telles que la réduction des coûts ou même la gratuité de certains services de base.

Il faudra maintenant opérationnaliser ces nouveaux paradigmes et trouver leur traduction dans les différents instruments de gestion et financement et notamment au niveau du budget 2001. Au stade actuel, le document se borne à donner des informations sur l'utilisation des fonds dégagés par l'initiative HIPC, sans expliciter comment les ressources budgétaires globales seront utilisées pour permettre de lutter plus efficacement contre la pauvreté.

Il nous semble important de mentionner comment les questions relatives à la bonne gouvernance (démocratique et économique), au renforcement du processus démocratique et à leur relation avec le développement socio-économique seront abordées. Ce dernier volet est d'autant plus important dans la perspective d'une substitution progressive de l'aide budgétaire à l'aide projet comme élément essentiel de l'amélioration de la coordination des intervenants. Enfin, la référence au besoin de progresser dans les réflexions permettant d'établir un lien entre le niveau des financements des différents axes des politiques et les valeurs atteintes par les indicateurs de résultats retenus nous semble extrêmement positive et courageuse.

D. Définition du cadre de dépenses à moyen terme, en termes de financement des politiques à mettre en œuvre et en détaillant les besoins de financement extérieurs

Le cadre des dépenses à moyen terme repris dans le document ne permet pas d'affirmer que celui-ci répond à une nouvelle stratégie du gouvernement. Il s'agit plutôt d'un recueil de la situation existante au niveau des différents secteurs. C'est seulement en ce qui concerne les fonds dégagés par l'initiative PPTE que l'on a pu établir une clé de répartition répondant aux nouveaux paradigmes et identifier le gap de financement extérieur résiduel. Or, comme indiqué déjà précédemment, il est essentiel que cette nouvelle stratégie aille plus loin et se traduise par de nouvelles répartitions de l'enveloppe budgétaire globale, reflétant les principes énoncés dans le document. Ceci est une condition sine qua non pour permettre au gouvernement de définir les besoins de financement extérieurs et pour que les partenaires au développement s'engagent dans ce sens.

En ce qui concerne les questions de financement et comme indiqué dans le document, les travaux à réaliser dans le cadre de la Revue des dépenses publiques devraient éclaircir les questions relatives à la capacité d'absorption du gouvernement (notamment dans les secteurs sociaux) avant de définir concrètement les appuis supplémentaires nécessaires et leurs modalités de mise en œuvre.

Enfin, il nous semble que la partie analyse des risques est trop vague et bénéficierait de l'inclusion de réflexions sur l'adéquation du cadre macroéconomique, les faiblesses des capacités institutionnelles, les problèmes relatifs à la gestion budgétaire et des éléments sur les chocs extérieurs (sécheresse, ressources externes décroissantes, etc) et leur traitement.

III Le processus participatif

Le Burkina peut se réjouir d'une tradition participative effective et des efforts ont été faits dans ce sens dans le cadre de la préparation du présent document. L'organisation de deux rencontres avec la société civile, des discussions avec les institutions politiques représentatives (Assemblée Nationale, Chambre des représentants, Conseil économique et social) et plusieurs rencontres avec les bailleurs de fonds ont permis aux uns et aux autres de s'impliquer activement dans la préparation du document et constituent, à notre avis, des éléments très positifs constituant une avancée significative par rapport au passé. En outre, il faut saluer l'esprit d'ouverture dont a fait preuve le gouvernement lors de l'élaboration du document. Un dernier élément positif concerne les références au besoin d'améliorer la diffusion de l'information économique et sociale. Ceci constitue un élément fondamental pour renforcer le processus participatif.

Un calendrier et un plan d'actions précis pour garantir que le processus participatif soit assuré au niveau de sa mise en œuvre doivent être établis. En effet, le document se borne, dans sa version actuelle, à énoncer un plan d'actions, certes cohérents avec la démarche participative, mais pour l'instant trop vague.

Une autre question sur laquelle il faudra encore travailler est celle relative au renforcement de l'appropriation et de l'implication effective par l'administration burkinabè de la démarche.