

# The PRSP Process and DFID Engagement

## Survey of Progress 2003



**Overseas Development Institute**

111 Westminster Bridge Road

London SE1 7JD

tel.: +44 (0) 20 7922 0300

fax: +44 (0) 20 7922 0399

website: [www.odi.org.uk](http://www.odi.org.uk)

This Report was prepared for the PRSP Monitoring and Synthesis Project by Ruth Driscoll with Alison Evans in March 2004. The Project was funded for three years by the Department for International Development (DFID) through the Overseas Development Institute (ODI), London. It provided advice, guidance notes and synthesis papers on key issues arising in PRS implementation – see [www.prpsynthesis.org](http://www.prpsynthesis.org) for further details. This report is not based on in-depth research or intended to act as a proxy for such research. It is the work of the authors alone and does not represent official DFID policy.

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## EXECUTIVE SUMMARY

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Four years on from its adoption by the Boards of the International Monetary Fund (IMF) and World Bank, the Poverty Reduction Strategy (PRS) approach is becoming more embedded. The PRS principles of country ownership, results-orientation, comprehensiveness, partnership and a long-term perspective are now widely recognised as crucial steps towards improved performance in poverty reduction, and as key tools for galvanising the international aid effort around the achievement of the Millennium Development Goals.

The Department for International Development's (DFID) corporate commitment to the PRS approach is expressed in two White Papers and through attempts to align its own country programmes with PRSs and to influence other donors to do the same. Country Assistance Plans set out how DFID will work in support of the objectives laid down in national PRSs. A new policy division has been created at DFID headquarters, one of the aims of which is assisting country offices in supporting PRS implementation. DFID was also one of the players behind the Monterrey consensus and, along with African heads of government at the Rome meeting in February, has continued to press for improved international support for the PRS approach.

However, there are challenges. DFID has yet to articulate a coherent corporate approach to supporting PRSs. The international architecture, drivers of change and links between development aid and global security might all benefit from the pushing forward of policy debates on the case for aid, fiscal sustainability and aid absorption. The unfolding war on terrorism, the prospect of the UK chairing the G8 and the EU in 2005 and pending deadlines for realising the Millennium Development Goals all make a case for doing this sooner rather than later.

### *The Survey Findings*

This second Engagement Survey provides a snapshot of (i) how PRS processes are progressing at country level; and, (ii) how DFID is engaging with them and with other development partners at country level. It does not cover DFID's engagement with the PRS approach in the international arena through relations with the World Bank, UN, the International Labour Organisation (ILO), the Strategic Partnership for Africa (SPA), the OECD Development Assistance Committee (DAC) and other agencies.

In terms of the wider PRS process, the survey presents a picture of steady and incremental progress, neither the 'silver bullet' nor the 'more of the same' envisaged by many when the PRS approach was first adopted by the Boards of the World Bank and IMF. In terms of DFID engagement, the survey shows some key changes in the type and scale of engagement as the PRS process unfolds.

At the time of the first Engagement Survey in September 2001, the PRS approach was still in its infancy. By the time of this second survey in June 2003, thirty-two countries had PRSs under implementation and a further twenty-four had interim PRSPs. PRS-type processes were also being adopted in countries which are not highly-indebted or heavily aid-dependent.

A majority of the countries covered in the survey are progressing through the **implementation phase**. This is taking the focus of DFID's support away from the more tangible requirements of the preparation process, such as drafting, consultations, costings and supporting central co-ordination units, towards the less tangible but equally crucial requirements of donor co-ordination and harmonisation.

Four countries have now reached the stage of producing their **second PRS**. Here, DFID support is emphasising monitoring and evaluation frameworks, including mechanisms for civil society participation and increased attention to sector planning.

**Conflict countries** in sub-Saharan Africa are making extremely slow progress through the PRS process. Most of these countries have yet to produce even an Interim Poverty Reduction Strategy Paper (IPRSP), and the focus of DFID support remains very much on the basic requirements of drafting, roadmaps and timetables, macroeconomic frameworks, and sector budgets. DFID support for PRS processes in conflict countries is shaped more by the stage they have reached in the process than by their conflict status.

The survey also highlights a number of important challenges emerging through DFID engagement in PRS processes:

**Political and institutional change** is increasingly understood to lie at the heart of the PRS approach, yet DFID staff appear unsure as to how they can account for political factors in their work and incentivise progressive change. Potential issues for further research include whether weak political commitment is linked to weak capacity, and associated lessons on the sequencing of interventions.

**Legislators** have a key role to play in realising potential improvements to domestic accountability, yet they have played little or no part in most PRS processes thus far. One of the fundamental assumptions behind the PRS approach is that donors can intervene effectively in support of national accountability. Over the past two years, some country offices have begun to support engagement by legislators, but DFID's value-added in supporting this work *vis-à-vis* that of other agencies could benefit from clearer definition.

**Links with annual budgets and Medium-Term Expenditure Frameworks (MTEFs)** remain underdeveloped in most countries, although signs of progress are emerging in some of the early-adopting PRS countries. Only a limited number of PRSs demonstrate any serious shift towards prioritisation or detailed costing of pro-poor expenditures. Unless both technical and political obstacles to reform can be addressed, these weaknesses could impede future moves to increase the use of general budget support.

**Alignment of budget support** is progressing, but alignment of non-budget support instruments such as sector programmes, technical assistance (TA) and projects have received relatively little consideration thus far by DFID staff. Those are likely to remain the instruments of choice for a number of bilateral donors and recipient countries for the foreseeable future. Addressing this question might facilitate better inclusion of non-likeminded donors in efforts to co-ordinate and harmonise aid and to mitigate the risk of large aid flows into PRS countries which remain outside of such efforts.

**Government ownership** beyond central ministries of finance and planning is limited and is likely to be a challenge to successful PRS delivery. Two years ago, ownership was the top concern expressed by DFID staff. Since then, ownership has increased at the centre but the need to engage different sectors and levels of government has become more pressing. Country offices identify a number of effective incentives for broader and deeper ownership of the PRS, including among national legislatures. These incentives need to be shared more widely.

**Monitoring and evaluation** of PRSs is revealing in a systematic way a range of longstanding weaknesses in government capacity and systems. As PRSs move into the implementation phase, monitoring and evaluation (M&E) concerns have become more prevalent. DFID best practice suggests building on existing M&E systems wherever possible and using donor support to address key gaps in capacity and data, including among non-governmental organisations.

**Annual Progress Reports (APRs)** are critical elements of the accountability framework for PRSs and vital for the provision of budget support. However, DFID staff note variability in the way in which APRs are conceived, both by governments and donors, which creates a lack of clarity about their purpose. Further research is needed in this area and is forthcoming from the PRSP Monitoring and Synthesis Project.

**Predictability** of aid flows remains a major challenge for DFID and other donors. Within DFID, the extent to which aid commitments can be made more predictable is partly constrained by the UK Spending Round process, but experience with Memoranda of Understanding (MoU) in Africa suggests that these can provide a useful framework for developing more predictable, long-term aid relationships, particularly with budget-support countries.

**Joined-up UK Government (HMG) support** for PRS processes is still fairly weak in most countries. Some staff view joint-working, particularly with the Foreign and Commonwealth Office (FCO), as entailing the risk that development objectives become subsumed under domestic political objectives, whereas others see the potential benefit of increasing the overall impact of UK support for PRSs.

# 1. INTRODUCTION

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I.1 This survey of DFID's engagement with PRS processes and with development partners is the second to be commissioned by the PRSP Monitoring and Synthesis Project. The first survey was conducted in September 2001 as a by-product of research for the Strategic Partnership for Africa. It helped to establish a baseline of information on how DFID headquarters and country offices (COs) were engaging with the PRS approach. Full details can be found at [www.prpsynthesis.org](http://www.prpsynthesis.org).

I.2 The 2003 PRS Engagement Survey focuses on four main areas:

- How DFID views progress with the PRS approach in the countries in which it is working;
- How DFID is assisting national partners to achieve poverty-reduction goals, and how this varies according to country context;
- How DFID assistance is aligning with PRS principles; and
- How DFID views changes in other donor and IFI practices around the PRS agenda, including a new section on EC alignment.

I.3 The survey was conducted in June 2003, mainly through an email questionnaire in which most of the questions required qualitative responses. The questionnaire was sent to 36 DFID country offices and regional desks in Africa, Asia, Central Asia, the Balkans, Latin America and the Caribbean (LAC), and Yemen. Responses were received from 30 countries (full list attached as Appendix).

I.4 Care should be taken in interpreting the survey findings in isolation from other data. Almost 20 percent of our sample did not respond fully, including Rwanda, West Africa, Malawi, Uganda, Azerbaijan, Tajikistan and Albania. The Asia sample does not include responses from India or China. Questionnaire responses are necessarily subjective. Some staff may have presented a personal or incomplete perspective on their country office's engagement in the PRS process, although many have clearly taken care to consult colleagues and produce a comprehensive, accurate account.

I.5 Most of the DFID country offices covered in this survey are providing support for national PRSs. Sub-national PRSs are included from Pakistan (at the provincial level) and Serbia-Montenegro (for its two republics). Countries engaged in developing national development strategies outside of the PRSP context are not included here.

I.6 In addition to the questionnaire, interviews were carried out at DFID headquarters with Mark Lowcock (Director, Finance and Development Policy), Rachel Turner (Principle Adviser to International Division and International Trade Department), Sue Unsworth (Chief Governance Adviser), Barbara Hendrie (Drivers of Change Team Leader, Policy Division), and Sandra Pepera (Senior Governance Adviser, International Division Advisory Department).<sup>1</sup>

I.7 To present the information as clearly as possible, the opening section provides a global overview of how DFID engagement with PRSs is shaping up. This overview distinguishes between engagement at different stages of the PRS process and across geographic regions. The remaining thematic sections of the report are, as far as possible, structured into two parts. The first part addresses information provided by DFID staff on general progress with the PRS process in their respective countries; the second focuses specifically on how DFID is engaging with and supporting the process including, where possible, some references to emerging best practices.

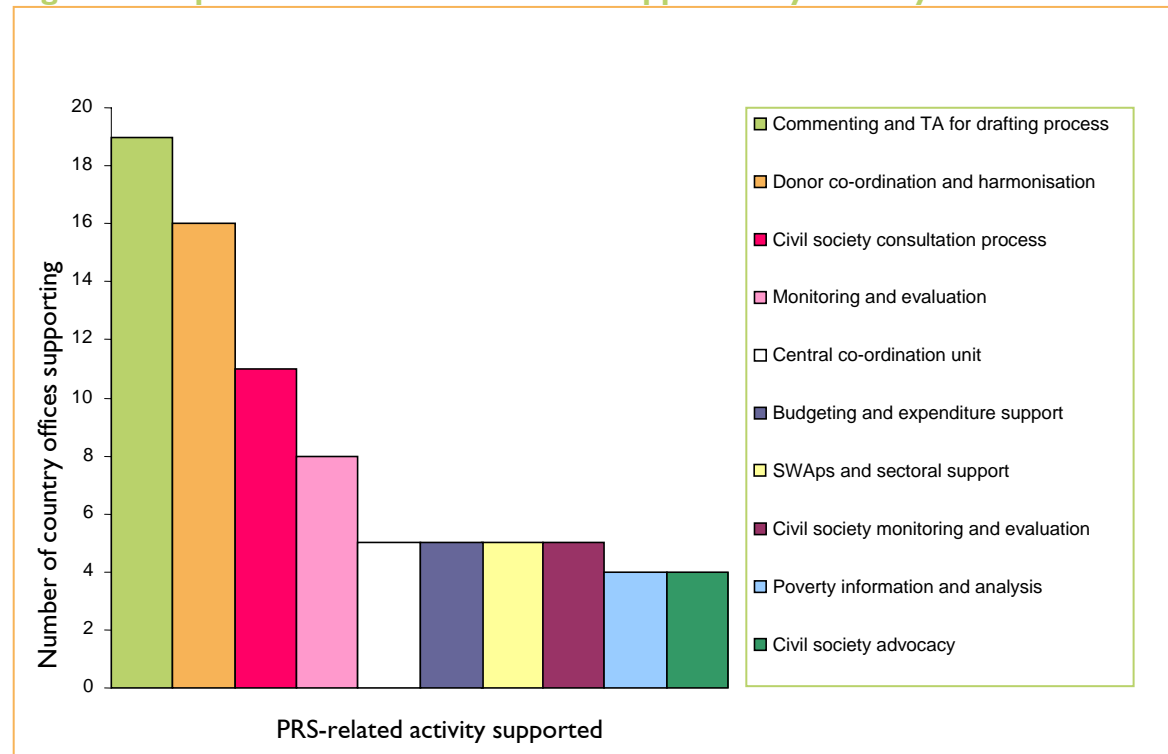
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<sup>1</sup> We would like to thank all the DFID country office and headquarter staff who generously contributed their time to this survey. It is intended to help inform future engagement not only by DFID staff, but also by other individuals and organisations interested in supporting PRS processes either in their country or internationally.

## 2. SUPPORTING THE NATIONAL PRS

### 2.1 Global overview of DFID support

Figure 1: Top ten PRS-related activities supported by country offices



#### National planning

DFID country office support for PRS processes is concentrated mainly on strengthening national planning processes, especially in Africa. This support usually takes the form of providing comments and technical assistance (TA) for the drafting process. It can also include support for central PRS co-ordination units, and TA for macroeconomic frameworks, expenditure tracking, and planning for PRS implementation, including timetables and integration with other national plans. In Central Asia, such support concentrates heavily on budgeting and expenditure. Across all regions, DFID offices are engaged in formal and informal information sharing with the government about PRS experiences in other countries.

#### Civil society engagement

Civil society engagement is the second most popular area of support. Across all regions, support is mainly focused on consultation processes, but also extends to other activities, such as capacity enhancement and advocacy activities. In Latin America and the Caribbean (LAC), as well as a small number of African countries, such support is often directed at enabling civil society to participate in monitoring and evaluation of the PRS.

#### Sectoral and local planning

Many DFID country offices are gearing their ongoing support for the PRS at sector level, for instance through sector-wide approaches (SWAps). DFID country offices are also participating in sector working groups and providing support for sectoral planning, budget and expenditure analysis. Three of the offices surveyed are engaged in supporting local planning for the PRS linked to wider decentralisation processes.

#### Donor co-ordination and harmonisation

Equally significant is the number of DFID country offices engaged in joint working with other donors. Across all regions, activities range from co-ordinating comments on PRS drafts to producing joint assessments of progress.

In Africa, DFID is more often than not the lead donor in joint donor groups. In Asia, DFID often provides TA and financing for the PRS through the World Bank and the Asian Development Bank.

### Information, analysis and monitoring and evaluation

As PRS processes begin to move beyond formulation to implementation, DFID support is increasingly focused on monitoring and evaluation, especially in Africa and Latin America. Support for poverty analysis, especially Participatory Poverty Assessments (PPAs), continues in several African and Asian countries. DFID has provided support for Poverty and Social Impact Analysis (PSIA) work in Sri Lanka as well as a number of pilot PSIA in other countries.

**Table 1: Geographical overview of DFID support**

Focus of support	Countries providing				
	Africa	Asia and Yemen	Central Asia	Balkans	LAC
<b>National planning</b>					
Commenting and TA for drafting process	Angola Burundi Ethiopia Ghana Kenya Lesotho Sierra Leone Tanzania Uganda Zambia	Indonesia Nepal Sri Lanka Vietnam	Armenia Georgia Kyrgyz Republic Moldova	Serbia-Montenegro	Bolivia
Central co-ordination unit	Sierra Leone	Pakistan		Serbia-Montenegro Bosnia-Herzegovina	Honduras
International lesson learning	Sudan	Vietnam	Armenia		
Planning for implementation (timetables, roadmaps, integration with other national plans)	Burundi Mozambique				Honduras
<b>Civil society</b>					
Consultation process	Ethiopia Ghana	Bangladesh Indonesia Vietnam	Georgia Moldova	Bosnia-Herzegovina	Guyana Honduras Nicaragua
Civil society monitoring and evaluation	Uganda Zambia				Bolivia Honduras Nicaragua
Civil society advocacy		Nepal Vietnam	Moldova	Bosnia-Herzegovina	
Civil society capacity building	Ethiopia	Indonesia			
<b>Sectoral and local planning</b>					
SWAPs and sector support	Tanzania Zambia	Pakistan Yemen	Moldova		Guyana
Social protection and cross-cutting issues	Tanzania Uganda	Nepal	Moldova		
Decentralisation	Sierra Leone				Honduras Nicaragua
Sector working groups	Uganda	Bangladesh			
Sector planning and budgeting	Angola Lesotho				

Focus of support	Countries providing				
	Africa	Asia and Yemen	Central Asia	Balkans	LAC
Sector expenditure analysis	Sierra Leone				
<b>Donor co-ordination</b>					
(including joint donor groups, assessments, comments on drafts)	Angola Ethiopia Moz Sierra Leone Tanzania	Bangladesh Cambodia Nepal Pakistan Sri Lanka	Georgia Moldova	Serbia- Montenegro	Bolivia Guyana Honduras Nicaragua
<b>Information, analysis, M&amp;E</b>					
Monitoring and evaluation	Ethiopia Ghana Tanzania Mozambique Zambia	Pakistan			Bolivia Nicaragua Honduras
Poverty information and analysis (including PPAs, surveys, statistics)	Sierra Leone Uganda	Pakistan Vietnam			
PSIA		Sri Lanka			
<b>Links to Budgets and MTEFS</b>					
Budgeting and expenditure support (MTEFs, MTBFs)	Sierra Leone		Armenia Georgia Kyrgyz Republic Moldova		
Macroeconomic framework	Angola	Yemen			
Expenditure tracking (PFM, PEM, PER)	Tanzania	Yemen			

## 2.2 Stages in the PRS process

2.2.1 This survey covers DFID support for countries at various stages in the PRS process. Of these,

- Four countries – Mozambique, Nicaragua, Tanzania and Uganda – already have or are in the process of producing their second PRSP.
- A majority of countries (11) have now completed their full PRSP and are in the early stages of implementation.
- Ten countries are moving from their Interim PRSP towards developing a full PRSP, but about half of these have taken longer than expected to do so. The latter group includes Armenia, Georgia, Moldova, Lesotho, Pakistan and Sierra Leone.
- A further four countries, all of which are affected by conflict in sub-Saharan Africa (SSA), have yet to develop an Interim PRSP (IPRSP) and remain at the very earliest stage of the process. Those are Angola, Burundi, Nigeria and Sudan.

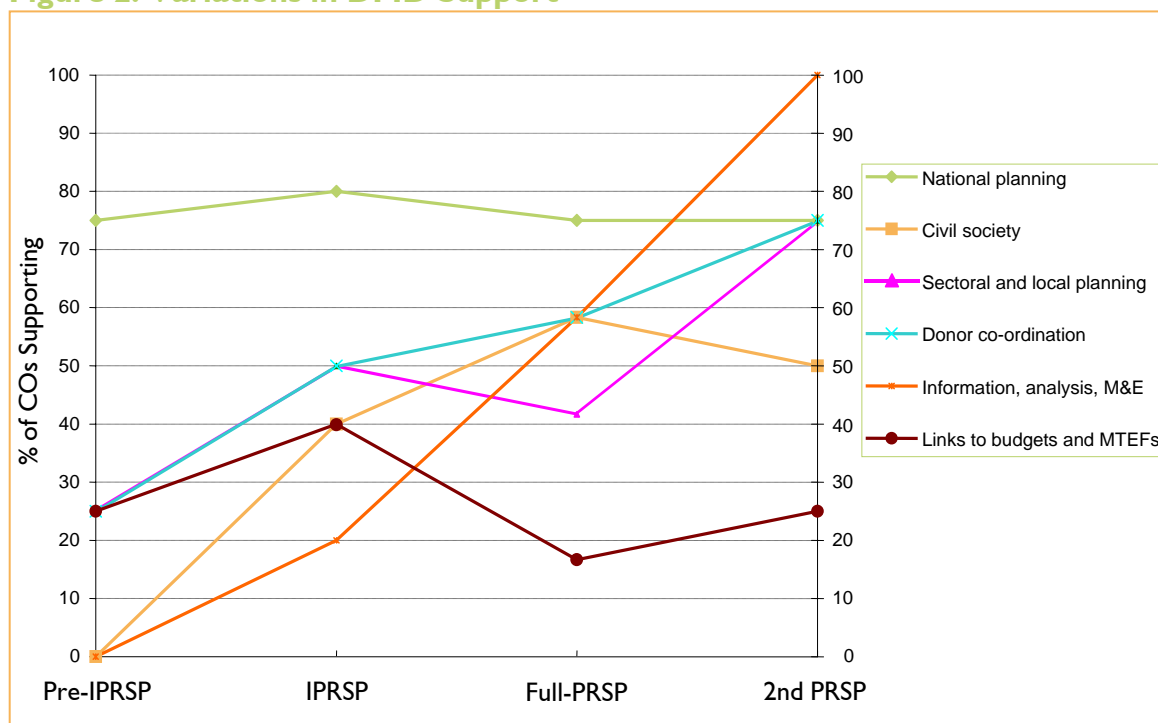
## 2.3 DFID engagement at different stages of the process

2.3.1 The type of support provided by DFID varies between countries at different stages of the PRS process.<sup>2</sup>

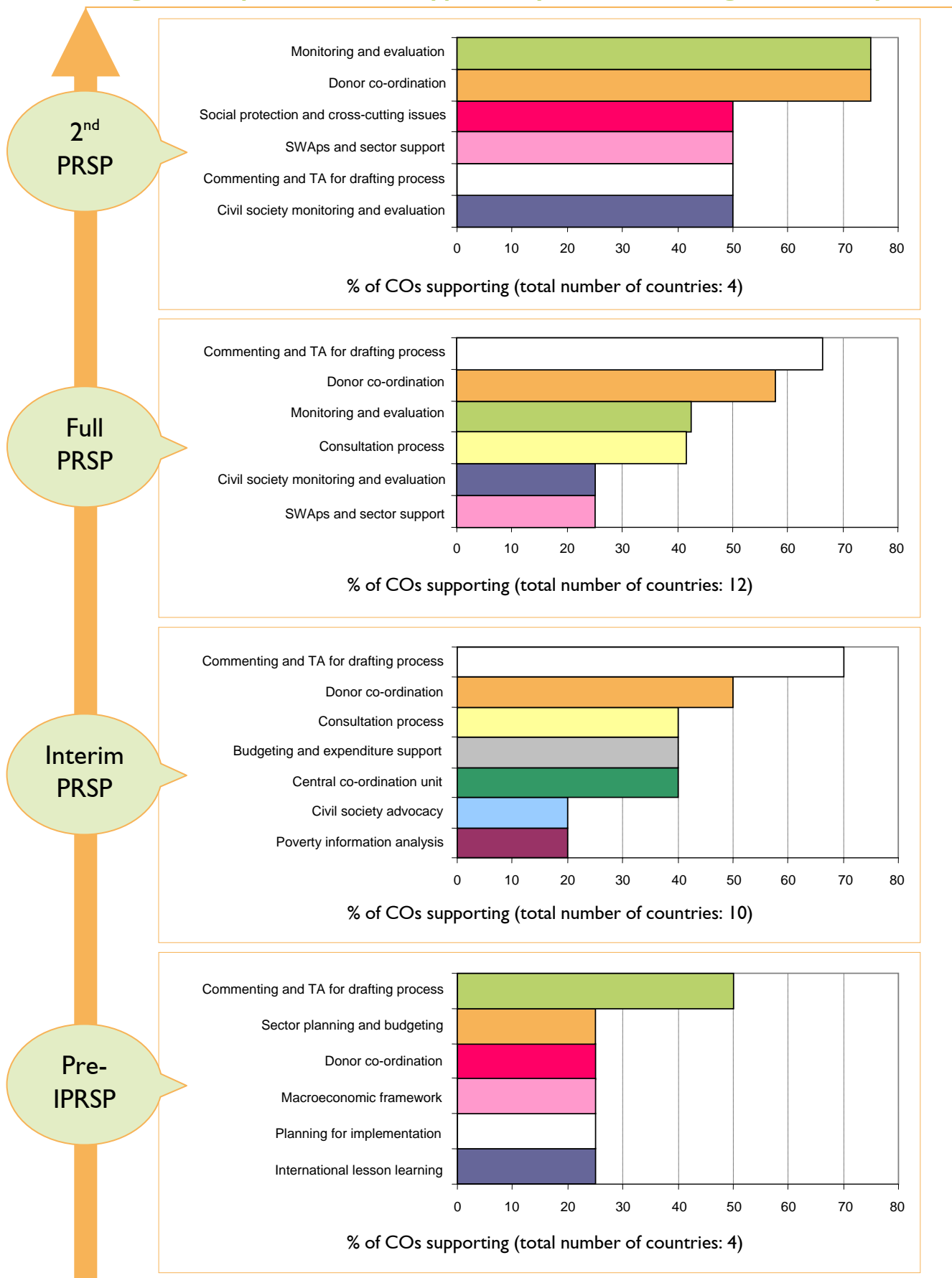
<sup>2</sup> The following are very tentative conclusions, as two of the samples compared here contain only four countries each.

- In the four countries ‘at the initial stages’ of the process, which in our sample are all SSA conflict-affected countries, DFID support is heavily focused on drafting the IPRSP and fulfilling associated basic requirements such as timetables, roadmaps, and macroeconomic frameworks. Support for donor co-ordination and harmonisation activities is less common in these countries than in others. Interestingly, in countries affected by armed conflict which have progressed beyond the very early stages of the PRS process (such as Nepal and Sierra Leone), the type of support provided by DFID is broadly consistent with that provided for other countries that have reached a similar stage in the process.
- In countries which already have an IPRSP, DFID support focuses on drafting the full PRS. DFID support also focuses on key elements that need to be put in place in order to progress to a full PRS, such as a consultation process, expenditure planning, costing, sector planning and a central PRS co-ordination unit. Support for donor co-ordination and harmonisation is much more significant in this group and in countries at later stages of the process.
- In countries with a full PRS, DFID support focuses on monitoring and evaluation, including support for monitoring by civil society. Whereas in countries at the initial stage, DFID’s sector support was focused on planning and budgeting, in these countries support tends to be focused more heavily on programmatic support and sector working groups.
- In the four countries which are producing their second PRS, DFID support is characterised by a much stronger focus on monitoring and evaluation, including by civil society. Support for the drafting process is much less common than in countries at earlier stages, presumably because governments have already been through the process once. Sector work appears to increase slightly in importance. Support for donor co-ordination and harmonisation activities remains significant, indicating that alignment concerns remain high on the agenda, even for these more advanced PRS countries.

**Figure 2: Variations in DFID Support**



**Figure 3: Top Six Activities supported by COs at each stage of the PRS process**



## 3. ENHANCING OWNERSHIP

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### 3.1 Progress with country ownership

3.1.1 In all regions, government engagement in PRS processes appears to be mainly concentrated in a few central government departments. Ownership is predictably highest where PRS co-ordination units are located, principally in Ministries of Finance, Planning, Development or Social Welfare, and in offices of (Deputy) Prime Ministers or (Vice) Presidents. Where PRS processes are less embedded, for example in countries affected by conflict and weak governance environments, ownership tends to be confined to a small number of individuals working directly on the PRS.

#### Box 1: Ownership and existing plans in Guyana

There appears to be very little ownership of the PRS outside of the Office of the President in Guyana. Within the Office of the President there is ownership by one or two consultants funded by the World Bank. The President and others have viewed the PRS largely as a hurdle to overcome in order to achieve HIPC Completion Point. It is unfortunate that the donor community also insisted on the development of the PRS as a new document when a National Development Strategy (NDS) developed through a consultation process already existed. A prioritised implementation plan for the NDS could potentially have been much more useful and would have promoted greater country ownership.

3.1.2 In countries where the Ministry of Finance is not in charge of PRS co-ordination, it does not necessarily follow that its ownership of the process will be weak. Even in these countries, Ministry of Finance ownership of PRS processes appears to increase from moderate to high when there are clear links between the PRS process and budgets or MTEFs.

3.1.3 PRS processes generally have weak or uneven horizontal reach in central government. The exception is where the PRS is based on pre-existing sectoral plans, as is the case in Ethiopia, Mozambique and Zambia. Bangladesh provides an interesting example of sectoral engagement. Smaller line ministries such as Environment, Disaster Management, and Women's Affairs/Gender have used the PRS process to try and strengthen their place in the government's policy portfolio and they feel some sense of ownership over the PRS process as a result. There is little sign of this among major line ministries, such as health and education.

3.1.4 Engagement with PRS processes is also limited at sub-national levels of government, such as regional, state, provincial and district institutions. In all regions, successful efforts have been made to involve sub-national tiers of government in consultations around the PRS and in poverty analysis such as PPAs. A deeper sense of ownership remains elusive.

3.1.5 In countries where strong links exist between the PRS and other national development plans, both appear to engender similar levels of ownership, especially in central government. Where the PRS introduces new and challenging areas of work, or links with previous plans are weak, governments predictably feel a greater sense of ownership of the pre-existing plans. Many DFID offices in Asia thought that ownership of the PRS was likely to increase over time.

3.1.6 In some governments, there is a greater sense of ownership of the PRS than of other national development plans. This may result from the engagement in PRS processes of a broader cross-section of government officials and institutions, as in Yemen and Georgia, than was the case for other national development plans. Alternatively, links between the PRS and access to HIPC finance can make it more appealing than previous paper plans. This applies in Zambia, for example, where debt stock is twice the size of GDP.

## 3.2 DFID engagement in support of country ownership

3.2.1 Support for country ownership is provided in various ways by DFID COs. Best practice entails encouraging governments not only to link the PRS to existing national plans, but also to use the PRS approach to improve upon those plans.

3.2.2 Vietnam's PRS, for example, draws on the government's 10-year economic development plan, but develops it into prioritised goals with clear targets for reducing poverty. Pakistan's IPRSP references the government's 10-Year Plan and Debt Management Strategy, but gives more weight to human development concerns and sets in train a more realistic costing process. Elsewhere, existing weaknesses in national plans have ended up hampering the PRS process. In Sudan, for instance, a connection has been made with the 25-year strategic plan through use of the same consultation material, but this is proving unhelpful because the plan's consultations were not poverty-focused.

3.2.3 In a majority of countries, DFID support is focused on the challenge of deepening and broadening ownership beyond the centre of national government and into other sector line ministries and sub-national levels of government. This reflects the changing demands of the PRS process as countries move from the formulation to the implementation phase.

3.2.4 DFID staff describe a number of institutional incentives that are succeeding in enhancing government ownership beyond the centre of government, amongst both officials and politicians. Those include:

- the prospect of accessing additional financing;
- the chance to shape PRS monitoring frameworks;
- willingness to produce sectoral or sub-national plans linked to the national PRS; and
- associated support for decentralised capacity-building.

## 4. LINKS WITH THE BUDGET

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### 4.1 Links between PRSs and annual budgets and MTEFs

4.1.1 Links between PRSs and annual budgets and MTEFs (where these exist) appear to be either very weak or non-existent in most countries. DFID staff describe how these weak links are manifested in a number of ways:

- Weak costings and prioritisation, especially in sector plans;
- Weak links between PRS policies, priorities and budget allocations;
- Weak links within the budget system between the PRS, sector programmes, outputs and outcomes;
- Budgets which are not comprehensive, with projects often ‘off-budget’, and separate ‘recurrent’ and ‘development’ budgets;
- Limited Public Expenditure Management (PEM) systems, which make it difficult to track, control and account for expenditure, creating wide disparities between allocations and actual disbursements;
- Slow reporting and disbursement mechanisms;
- MTEFs which are not themselves linked to budget processes; and
- Serious overspends on non-PRS priorities at the expense of PRS priorities, such as social expenditure.

4.1.2 These problems are especially acute in countries affected by conflict. In Eritrea, for example, there are few mechanisms in place to link policy, planning and budgeting. In Sri Lanka, although technical capacity is relatively strong, the government has weak territorial authority over the North and East of the country, resulting in fiscal disbursement channels that are weak or non-existent in some areas.

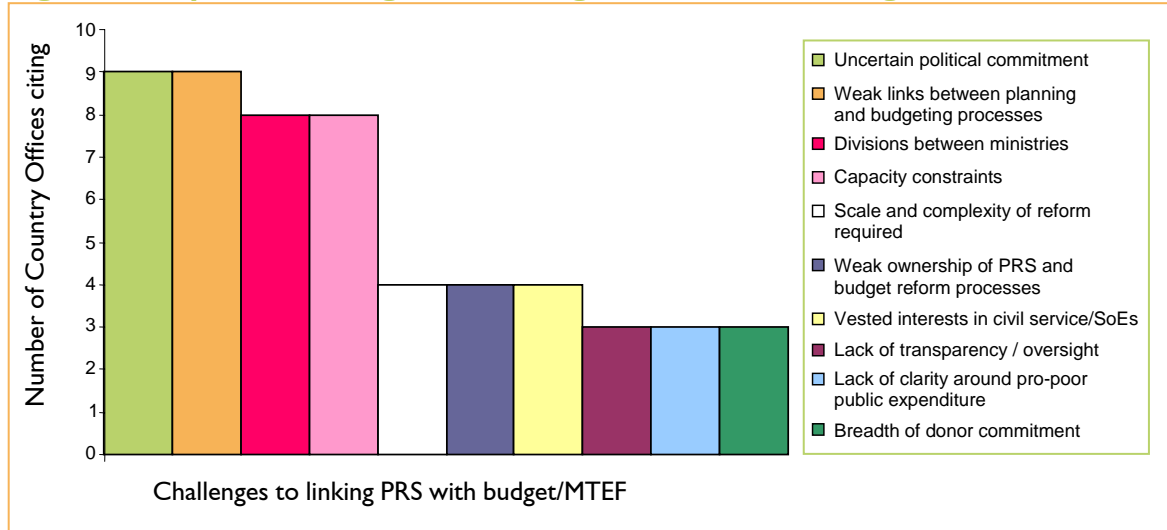
4.1.3 In many of the countries where DFID is working, weak links between PRSs and budgets and MTEFs reflect serious underlying technical and political obstacles to reform of public finances. On the technical side, there are often very tenuous links between planning and budgeting processes, serious capacity constraints, and the scale and complexity of the required reforms are enormous. DFID staff suggest that there is also a lack of clarity around pro-poor public expenditure in some countries, with a disproportionate emphasis on capital investment and insufficient attention to recurrent costs, especially in the social sectors.

#### Box 2: Weak links with budgets

There are very few links between the PRS and the budget in **Zambia**. There is no MTEF yet, although an MTEF document is under preparation. A number of serious weaknesses persist. The PRSP ‘financing tables’ do not link to budget categories and the accounting system for budgeting and expenditure is not linked to defining the inputs into line ministry programmes implied by the PRSP. The cash-budgeting system means that actual expenditures are often up to 50 percent different (plus or minus) from predicted expenditure figures. Past outturn figures show overspends regularly occurring on non-PRS focused programmes (such as Zambia’s foreign embassies and civil service pay) while PRS priorities suffer (for example, capital investment in communications and roads). For the MTEF to work, underlying PEM systems must be improved.

4.1.4 On the political side, high-level commitment to public finance reform appears to be patchy at best in many countries. Staff describe serious divisions between ministries, weak ownership of reform efforts, vested interests in the civil service and state-owned enterprises, and a lack of transparency and oversight.

**Figure 4: Top ten challenges for linking the PRS to the budget**



4.1.5 In Africa, staff report that the greatest challenge to linking policy and resource flows is uncertain political commitment,<sup>3</sup> closely followed by capacity constraints. In Asia, the picture is slightly different, with divisions between ministries thought to be the principle obstacle, followed in equal measure by capacity constraints, lack of ownership, and weak links between planning and budgeting processes. The latter are also the dominant challenge in Central Asia. In countries affected by conflict, peace and stability were thought to be essential pre-requisites for reform of this kind.

### Box 3: Prioritising and costing in practice

In **Nepal**, some efforts are being made to prioritise and cost the PRS but these are hampered by a lack of unit cost data for service delivery, both national and disaggregated. There is little information on the extent of donor support to service provision, which is thought likely to have many hidden subsidies. The MTEF, however, has introduced a project screen system, under which development projects have to be scored and justified on the basis of poverty-related criteria. This has contributed to a prioritisation process in which between 50 and 70 percent of sector budgets are allocated to so-called 'PIs' and should be protected from mid-year cuts. A link is being made between the compilation of these lists of 'PIs' and the sector strategies embodied in the Tenth Plan (national development plan on which the PRS is based).

## 4.2 DFID engagement with the budget/PEM process

4.2.1 Country offices clearly recognise the importance of a PRS process which is linked to resource allocations, but they are struggling to find effective ways of addressing the deep-seated political and technical obstacles that constrain the achievement of this ideal. While fully aware of the political blockages, they appear to have little confidence that these can be overcome and so are focusing largely on technical challenges instead. Staff at DFID headquarters are leading a process of operationalisation of the Drivers of Change approach as a means of addressing this knowledge gap.

4.2.2 Support for prioritisation and costing of PRS policies is given mainly in the form of TA, with some direct funding of ministries of finance and line ministries. DFID frequently works in partnership with the IMF, World Bank and other donors through trust funds or co-financed projects and programmes. Most DFID support is focused on supporting the development of MTEFs, PEM/PFM systems, and Public Expenditure Reviews.

4.2.3 Vietnam typifies the form of support increasingly offered by DFID. Here, the World Bank and DFID are close to approving a Public Finance Management Reform Project, which will include a component focused on

<sup>3</sup> Terms such as 'political commitment' were not clearly defined by respondents.

strengthening the Medium-Term Fiscal Framework, and an MTEF in four line ministries. It will also pilot a Medium-Term Expenditure Plan in a limited number of provinces. The project aims to improve alignment of capital and recurrent budgets and strengthen the link between policies set out in the CPRGS (Vietnam's PRS) and resource allocation.

4.2.4 In a number of other Asian and Central Asian countries, DFID support is focusing on producing sector-level costings and policy reform. Other areas of support include budget monitoring by civil society, anti-corruption and legal reforms, and informal sharing of international experience around PRS costing and prioritisation.

## 5. MONITORING AND EVALUATION

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### 5.1 Progress with M&E Plans

5.1.1 Strong plans for monitoring and evaluating PRS implementation, including clear institutional responsibilities, are largely associated with countries and regions where PRS processes are more embedded. Government plans approaching this standard are now fairly common in Africa (except in countries affected by conflict) and in Latin America and the Caribbean. Progress remains mixed in Central Asia and the Balkans, while most DFID offices in Asia, where PRS processes are generally less advanced, report that effective plans are not yet in place and that M&E strategies remain rather thin and rudimentary.

#### Box 4: What does a PRS plan for monitoring and evaluation look like?

- In **Moldova**, the Poverty Monitoring Unit in the Ministry of Economy will be responsible for elaborating indicators and monitoring poverty reduction. The Inter-Ministerial Committee will be the co-ordinator responsible for PRS monitoring. Monitoring groups will be established in central and local state bodies on the basis of territorial and sectoral criteria. The Participation Council will ensure that all stakeholders are involved in monitoring, while line ministries will be responsible for monitoring policies in their sectors. The Household Budget Survey run by the Department of Statistics will be strengthened to provide adequate data.
- In **Pakistan**, the government is developing a framework integrating inputs, outputs and outcomes in each sector, concentrating initially on health and education, but now broadening to cover employment, environment and gender. Data sources are straightforward for expenditure, but Pakistan is debating whether to use household-survey or administrative data, or a combination of the two. The PRSP Secretariat has the responsibility for compiling quarterly reports on PRS implementation.
- In **Yemen**, there is a PRS ministerial-level committee responsible for follow-up and monitoring. A technical committee for policy is headed by the Vice Minister for Planning and includes other government departments, donors and private-sector representatives. The Ministry of Planning is trying to involve civil society and the governorate level and local sub-units will be established next year.
- In **Zambia**, there are many stakeholders with clear responsibilities, including civil society organisations. Line ministries use their own monitoring systems (well advanced in education and health) and the Ministry of Finance and National Planning provides a central co-ordination point. Core indicators to track inputs, outputs, outcomes and impacts have been agreed for each thematic area.

5.1.2 M&E plans for the PRS are very weak in almost all countries affected by conflict. Where M&E plans are in place, they are running into serious difficulties at the implementation stage because of associated weaknesses in data, human capital and government systems.

5.1.3 Most governments are attempting to link PRS M&E to existing mechanisms at centre, sector and local government level, but government capacity in this area also tends to be limited. In Asia, low capacity is affecting the quality of M&E plans, but the process of PRS formulation has led some governments to recognise and begin to address underlying weaknesses. In Africa, many DFID staff describe low capacity as being likely to jeopardise the successful implementation of even the best-laid plans for PRS M&E. The underlying problem is often weak understanding of evidence-based approaches to planning, combined with highly centralised, top-down M&E systems which rely heavily on quantitative data. DFID offices in Nigeria and Ghana speak for many in describing a lack of evidence-based planning and a very weak M&E culture in the public service, while those in Nepal and

Mozambique point to overly 'centrist' and top-down systems that are as yet not providing the level of information that would enable the Government to link actions to achievements.

5.1.4 Countries in LAC are grappling with particular challenges associated with decentralised and participatory approaches to M&E. These include, but are not confined to, problems of co-ordination between central and sub-national levels of government, and between local government and civil society. Other challenges include weak systems, data and indicators for M&E at local government level, and limited incentives for poor people to participate in monitoring and evaluating the PRS. DFID and other donors are actively supporting work to meet these challenges.

#### Box 5: Decentralised and participatory M&E in LAC

- In **Bolivia**, the World Bank, CAF and DFID are initiating work to improve access to data at the local level. Despite having an inter-institutional committee, which includes the Vice Ministry of Decentralisation, Bolivia has had trouble finding indicators at the municipal level and co-ordinating effectively with civil society's 'national control mechanism'.
- In **Guyana**, the World Bank is funding a monitoring unit that has recently been staffed with several consultants within the Office of the President. Theoretically, this unit is meant to co-ordinate monitoring through line ministries and structure a process that would involve communities, but there are limited incentives for this kind of participation.
- In **Honduras**, DFID and other donors, including CIDA, are planning to help clarify and strengthen existing mechanisms for M&E. More work is needed on indicators and decentralised M&E, including support to civil society organisations.
- In **Nicaragua**, there is no M&E system in place, just some work on national indicators. The SINASIP system is large, unworkable and based on IT rather than people. The government proposes to make this system more participative and set up monitoring systems at departmental level as part of the PRS.

5.1.5 Work is also underway to develop systems that facilitate alignment of donor performance-assessment requirements with mechanisms for monitoring PRS implementation. The Ethiopian government is working with the World Bank to develop a menu of indicators and annual targets for the PRS. Direct budget support (DBS) donors will each draw from, and only from, this menu for their DBS review processes. The situation is similar in Mozambique, where a General Budget Support (GBS)/ Poverty Reduction Support Credit (PRSC) monitoring framework is currently being designed. It will use the annual PES (Economic and Social Plan) and budget-execution monitoring, which the government and donors plan to make the central instrument in PRS monitoring. This is expected to improve as sectors are brought more effectively into PES preparation and monitoring, and as SWAp monitoring is in turn aligned with GBS monitoring.

5.1.6 However, the path to alignment of programmatic instruments with mechanisms for monitoring PRS implementation is not always a straightforward one. In Zambia, for example, the short-term multilateral instruments under negotiation are at risk of adopting similar but different performance-assessment frameworks. Bilaterals, including DFID, are seeking to create a unified approach, which will create a 'roadmap' for everyone, so that donors can move towards GBS and a PRSC. DFID staff feel this is probably at least two years off, given present political turmoil and reform delays.

## 5.2 DFID engagement with M&E

5.2.1 M&E concerns are moving up the agenda of DFID country offices as they begin to grapple with the challenges of PRS implementation. Support for monitoring by both governments and civil society organisations<sup>4</sup> is a major focus of DFID engagement in countries that have reached the stage of preparing their second PRS. LAC stands out from other regions for its emphasis on decentralised and participatory approaches to PRS monitoring.

5.2.2 Good practice involves building on existing M&E mechanisms wherever possible, while using PRS support to help governments address key capacity and data constraints. A typical example of this is Vietnam, where DFID is providing support through the World Bank (as part of a larger trust fund (TF) arrangement) to the government's statistics office and has assisted in defining the Vietnam development goals as a basis for M&E.

5.2.3 A central challenge for DFID's engagement regards how to support alignment of donor performance-assessment requirements with PRS monitoring frameworks when the latter often remain rather rudimentary. There is a risk that a move to aid instruments associated with the PRS approach (such as SWAps and budget support) will create a multiplication rather than a reduction in reporting requirements on governments if PRS monitoring mechanisms do not reach the standard required by donors. One way around this is for donors to focus initially on process indicators, rather than outputs and outcomes. This issue is explored in more detail in section 6.

5.2.4 DFID experiences indicate that over time it is possible to develop PRS monitoring frameworks that work for both donors and governments. In Ethiopia, for instance, the government is firmly in the driving seat, but has worked with donors to develop a menu of PRS targets and indicators that they must choose from. In Mozambique, budget-execution reports have been chosen as the central instrument for donor monitoring of PRS implementation. These and other examples are discussed in more detail below.

5.2.5 In conflict countries and weak governance environments, DFID's engagement in monitoring issues is proving very challenging, bolstering the case against widespread use of SWAps and budget support there. For instance, in Kenya no clear institutional responsibilities have been put in place, in spite of recommendations from a donor taskforce to that effect, although a monitorable matrix has been appended to the PRS to guide the M&E function. In Angola, donors have consistently reminded the government of the need to include an M&E strategy that engages with a range of stakeholders in their IPRS, but DFID staff do not appear confident that this will materialise.

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<sup>4</sup> Monitoring by civil society organisations is discussed in more detail in Section 5.

## 6. CONSULTATION AND PARTICIPATION

### 6.1 Civil society engagement

6.1.1 NGOs are by far the most active civil society organisations in PRS processes, especially international NGOs, and those based in the capital or other urban areas. Community-based organisations are carrying out PPAs. Faith groups, trades unions and (in a very limited way) private-sector organisations are involved in broad-based coalitions and advocacy activities. Academic organisations are engaged in the provision of specialist research and expert advice, often at the final stages of PRS formulation. Engagement is taking place at national and, to a lesser extent, regional and local levels. In some countries, especially in Asia and LAC, NGOs and faith groups are facilitating PRS consultations directly, sometimes with the help of donor or government funding. In most cases, however, consultations are government-led.

6.1.2 In general, civil society organisations engaged in PRS consultations appear to represent poor people either to a limited extent, or not at all. More significant representation of poor people has been achieved in only a very small number of countries, such as Guyana and Ethiopia. Weak representation of poor people appears to mirror their weak representation in civil society organisations more generally.

6.1.3 Some NGOs are beginning to take advantage of new opportunities to play an active role in monitoring and evaluating PRSs, especially in Africa and LAC. Emerging spaces for this activity include both formal channels provided by governments, such as the 'National Social Control Mechanism' in Bolivia and the 'Poverty Observatory' in Mozambique, and more informal channels created by campaign coalitions, like 'Civil Society for Poverty Reduction', a network of thirty-six national organisations in Zambia.

#### Box 6: Civil society participation in Nicaragua's PRS

At the consultation stage, Nicaragua set in train two processes for civil society participation. The first was a series of locally organised civil society meetings and the second was 'Proconsulta', a set of focus groups and presentations from group leaders in nine geographical departments.

At the monitoring and evaluation stage, two civil society umbrella groups are working together. The 'Coordinadora Civil' is a membership organisation of about three hundred civil society organisations engaged in advocacy work, and the 'Red de Desarrollo Local' is a network of local development NGOs. The two organisations have developed a social auditing methodology, which is being piloted in seven municipalities as a way of monitoring the PRSP, with funding from GTZ, DFID and Oxfam.

An organisation called 'Campesino a Campesino' is also engaged in monitoring and evaluating the PRS. It is developing a livelihoods approach to measuring poverty and growth dynamism, which is being tested in sixty communities across Nicaragua. 'Campesino a Campesino' is working together with World Bank statisticians to improve Nicaragua's poverty-measurement methodology, with the help of a DFID secondee.

6.1.4 Successful civil society engagement in consultations around the PRS appears to depend not only on governments and civil society organisations, but also on synergies existing between the two. On the government side, DFID staff describe how lack of experience in and capacity to carry out consultations is leading to poor-quality exercises with narrow geographical reach in many countries. Within civil society, some NGOs appear ill-equipped to contribute effectively to government policy-making processes. Nevertheless, DFID staff report that PRS processes are helping to build closer links between civil society organisations and governments, and contributing towards the beginnings of a culture of consultation in government policy-making. In Ethiopia, for instance, consultations were imperfect but were enabling more public discussion of development and political issues than ever before. In Nepal, consultations are described as a vast improvement on typical five-year planning exercises despite being confined to Kathmandu and district headquarters.

6.1.6 In most of the countries covered by the survey, parliaments and national or state assemblies have played little or no role in PRS processes until recently. In the two regions where PRS processes are most embedded, Africa and LAC, small signs are emerging of increased parliamentary involvement. Examples include parliamentary scrutiny as a dimension of M&E plans and the creation of a parliamentary committee on Ghana's PRS one year after the beginning of implementation.

6.1.7 A small number of countries witnessed more extensive engagement in PRS processes by their legislatures. In Armenia, National Assembly Members and experts have been active in the PRS steering committee and working groups, and have participated in thematic seminars and roundtables. Opposition representatives and other political parties have also held discussions on the draft PRSP. A similar story emerges in the Kyrgyz Republic, where many Members of Parliament have actively participated in discussions and chaired working groups. Bosnia-Herzegovina hosted a meeting of forty parliamentarians at an early stage in the PRS drafting process, and a great deal of effort has since been devoted to securing the continued involvement of parliamentary representatives and Prime Ministers.

## 6.2 DFID engagement with civil society

6.2.1 DFID support for civil society engagement is most significant during the earlier stages of the PRS process. It typically includes funding for PPAs, awareness-raising activities, training and other capacity-building work, roundtables and workshops, all aimed at increasing civil society participation in consultations around PRS content. Support is given either via government, usually as part of a broader package of support for the PRS, or direct to umbrella or individual NGOs. Increasingly, and especially in Africa, LAC, and countries furthest ahead in the PRS process, DFID is providing support for civil society engagement in monitoring and evaluation of the PRS.

6.2.2 Best practice clearly entails working with other donors to develop a coherent approach to supporting civil society engagement in PRS processes. In Nicaragua, a multi-donor civil society challenge fund has been set up with this in mind. Such an approach helps to ensure that donors are complementing rather than duplicating each others' efforts, and makes funding channels easier for national organisations to negotiate. It also helps counteract the tendency among donors to select support for those organisations that match their own objectives, thereby undermining national representation and ownership.

6.2.3 Aside from financial support, many country offices appear to set great store by their dialogue with governments as a means of encouraging civil society participation in PRS processes. In Ethiopia, for example, staff describe how they and other donors continuously encouraged Government to bring civil society more into the process. Many DFID country offices also engage in direct dialogue with civil society organisations, which has aimed at enhancing their inclusion in PRS processes.

6.2.4 Country offices identify PPAs as one way of improving representation of poor people, but also suggest that more effort is needed to broaden participation beyond the usual development suspects to include key stakeholders, such as parliamentarians. Examples of good practice in this respect include:

- Angola, where donors and civil society are attempting to raise awareness of the PRS amongst parliamentarians;
- Nicaragua, where DFID and the World Bank recently funded two Assembly Deputies to attend a regional World Bank conference on participation in PRSPs;
- Ethiopia and Moldova, where academic organisations have been enlisted to provide media training on the PRSP; and
- Bangladesh, where DFID is working with the government to encourage private-sector participation in the PRS process.

## 7. AID INSTRUMENTS<sup>5</sup>

### 7.1 Share of DFID assistance related to PRS support

7.1.1 In defining the share of DFID country assistance supporting PRS processes, most country offices chose to include both direct support to the PRS process (such as TA for central co-ordination units) and other support given under the auspices of the PRSP (ranging from general budget support to project and programme funding). Many acknowledge that, with the exception of budget support, much of this funding could have been provided even without a PRS, so this definition does not serve as a reliable proxy for the true extent of country-programme alignment with the PRS. It does, however, give some indication of the extent to which PRS processes are beginning to shape decisions about funding at country level.

7.1.2 The share of DFID assistance that relates directly to PRS processes<sup>6</sup> appears to be approaching 90-100 percent in many African countries and some countries in LAC. In Central Asia and other parts of LAC, this share accounts for between 10 and 50 percent of total DFID assistance. The picture is less clear in Asia, where many country offices were awaiting the emergence of a full PRS or contributing to the formulation of a new CAP at the time of the survey, but most express confidence that, over time, up to 100 percent of their assistance will fall into this category. Information on absolute expenditures on PRS-related activities was not collected by this survey.

7.1.3 In conflict countries and weak governance environments, support for PRS processes still accounts for less than five percent of total DFID assistance, and there is little optimism that this will increase in the immediate future.

**Table 2: Shares of DFID assistance related to support for PRS processes**

Approximate %age share relating to PRS	Africa	Asia	Central Asia	Balkans	LAC
<b>Zero</b>	Kenya Sudan				
<b>0 - 10</b>	Angola Burundi Nigeria Sierra Leone		Georgia Kyrgyz Republic Moldova	Bosnia-Herzegovina Serbia-Montenegro	
<b>30 - 70</b>	Lesotho Tanzania		Armenia		Nicaragua Honduras
<b>90 - 100</b>	Ethiopia Ghana Mozambique Zambia	Pakistan Vietnam			Bolivia Guyana
<b>Unclear, but expected to be substantial over time</b>		Bangladesh Cambodia Nepal			

<sup>5</sup> See Section 8 for further discussion of alignment of aid instruments.

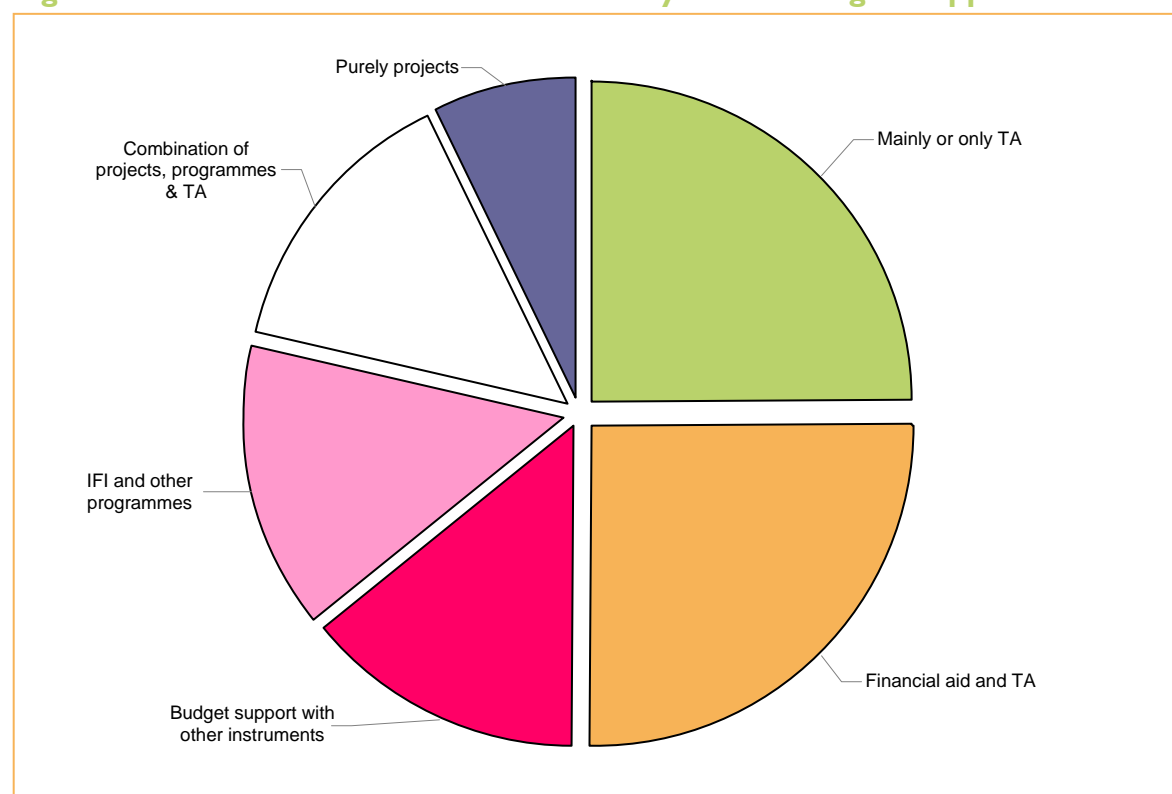
<sup>6</sup> In defining the share of DFID country assistance supporting PRS processes, most country offices chose to include both direct support to the PRS process (such as TA for central co-ordination units) and other support that is given under the auspices of the PRSP (ranging from general budget support to project and programme funding). Many acknowledge that, with the exception of budget support, much of this funding could have been provided even without a PRS, so this definition does not serve as a reliable proxy for the true extent of country programme alignment with the PRS. It does, however, give some indication of the extent to which PRS processes are beginning to shape decisions about funding at country level.

## 7.2 Aid instruments used by DFID

7.2.1 DFID country offices typically provide assistance for the PRS through combinations of different aid instruments. A mixture of financial aid and TA for the government is being deployed in countries as far apart as Lesotho, Bangladesh, Serbia and Guyana. General budget support accounts for between 20 and 95 percent of total assistance for the PRS in a number of African countries and in Pakistan, with the remainder provided through projects, programmes or TA. Co-financing of IFI programmes is the instrument of choice in many parts of Asia, often alongside SWAs. Different combinations of TA, projects and programmes are used across all regions.

7.2.2 In a significant number of countries, assistance for the PRS is provided mainly or only through TA. This group includes conflict countries and weak governance environments but also others, such as Armenia and Honduras. Projects alone are used in smaller country programmes, such as Yemen and the Kyrgyz Republic.

**Figure 5: Which aid instruments are country offices using to support the PRS?**



7.2.3 In almost all countries, shifts in the modalities of DFID assistance are being considered in the light of the PRS. The most significant anticipated change is greater use of general budget support, provided fiduciary requirements are met, in countries such as Ethiopia, Ghana, Mozambique, Sierra Leone, Zambia, and Pakistan. This shift is likely to take place gradually and to be preceded by increased use of programmatic instruments and basket-funding arrangements such as SWAs in countries such as Kenya, Bolivia and Lesotho.

### Box 7: Meeting Fiduciary Requirements

The move to GBS in **Zambia** is dependent on evidence of (a) public expenditure management reform and (b) public-sector reform (e.g. on pay) plus (c) PRS monitoring improvements. Putting money through the existing opaque and undisciplined system is unlikely to lead to more effective PRS implementation or poverty impact, and it will be high risk. The question is how much progress on (a) + (b) + (c) is needed in order to justify general budget support?

7.2.4 Some change is also expected in the composition of DFID assistance as a result of the PRS, with countries anticipating a stronger focus on 'drivers of change' and governance issues, and on support for civil society organisations. In some Asian countries, and in those affected by armed conflict, changes are difficult to predict at this stage because PRS processes are less advanced.

### 7.3 Joint-donor financing arrangements

7.3.1 Results from the survey show that DFID is increasingly active in joint-donor financing arrangements linked to PRSs, such as GBS and SWAp, especially in Africa. In Asia, participation in joint-donor financing focuses less on GBS and more on SWAp, pooled trust funds and IFI programmes. Country offices in Central Asia and the Balkans have yet to participate in joint-donor financing arrangements on a significant scale, although a health SWAp is under discussion in Georgia, and a regional assistance development plan is being prepared in Serbia-Montenegro. The picture is mixed in LAC, with DFID Guyana not participating in any joint donor financing, Honduras considering developing some SWAp, and Nicaragua participating in health, education and agriculture SWAp.

#### Box 8: Joint donor financing in practice

In **Ghana** DFID is engaged in a multi-donor budget support arrangement and a health sector SWAp. These are aligned with objectives of the PRS and are becoming increasingly aligned with its budget cycle. Performance assessment takes place through a biennial review that will become linked with the World Bank's PRSC process. Reporting on the PRS is one of several pieces of evidence that will be taken into account.

DFID **Mozambique** is a member and currently chair of eleven donors providing general budget support. It also participates in a health SWAp and pooling arrangements for public sector reform and public financial management reform. The latter are deemed critical for the successful implementation of the PRS. Aligning the objectives of these joint financing arrangements with those of the PRS is proving difficult because sector plans have changed over time, but the PRS has not been updated to reflect this. Health and education plans have been revised to take account of HIV/AIDS and agriculture has moved from an approach based on outputs such as 'amount of maize grown' to one based more on process. 2003/4 has been set as the date for full alignment of budget support with the PRS cycle and sector cycles expected to align shortly afterwards. From 2004, performance assessment will be carried out increasingly on the basis of the PRS review, instead of on the basis of priority donor concerns.

DFID **Nicaragua** is considering budget support but lacks the budget for this at present. It is leading on a health SWAp and has seconded a staff member to the EC to help it lead education and agriculture SWAp. The education SWAp is most advanced and is aligned directly with the implementation of the national education plan contained in the PRSP both in its objectives and budget cycle.

## 8. ALIGNMENT AND HARMONISATION

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### 8.1 Alignment of country strategies and instruments

8.1.1 The first step for donors to take towards PRS alignment is that of their country strategies and plans. Country offices suggest that they themselves, the World Bank, and other like-minded bilaterals are performing fairly well in this respect, while the EC and, to a lesser extent the African Development Bank and Inter-American Development Bank (IADB), are making efforts to follow suit. On the other hand, there is very little evidence that the US, Japan and the Asian Development Bank are moving towards PRS alignment in even this most basic way.

8.1.2 According to DFID country offices, Africa is the region in which donors are moving fastest towards alignment of country strategies and plans.<sup>7</sup> In Central Asia, the Balkans and LAC, the picture is more mixed and varies by country. Alignment of country strategies and plans is very problematic in Indonesia, Georgia, Bolivia and Guyana. In Asia, conflict countries' and other Low Income Countries Under Stress' (LICUS) PRS processes have not reached the stage where donors can align in this way, but DFID staff are optimistic that alignment will take place over time.

8.1.3 Other challenges include alignment of aid instruments with the PRS cycle and the national budget calendar, and improved predictability of aid flows. DFID offices note that alignment of instruments with the PRS and PRS cycle remains some way behind alignment of donor plans and strategies. DFID, the IFIs and some bilaterals are committed to budget support and programmatic instruments, but will only deliver support in this way once they are satisfied on key variables, such as fiduciary risk and the broader political context in the country. Other bilateral donors have a stronger corporate commitment to (often tied) projects and TA, and remain unlikely to switch to budget support in the immediate term, even if fiduciary risks and political instability are reduced.

#### Box 9: Who holds the key to alignment of aid instruments – donors or governments?

In **Mozambique**, DFID staff express frustration about inconsistent attitudes to budget support among other donors. Many see budget support as just another project. Others are keen to maintain a balanced approach. Lack of clarity is often exacerbated by different ministries – treasury versus development – being involved in the decision-making in donor capitals

In **Bangladesh**, budget support is also seen as important for achieving alignment with the PRS and PRS cycle, but progress on this front is not guaranteed. The bilateral donor community is unsure on the pros and cons of general budget support due to uncertain political commitment from the Government of Bangladesh, with some ministers wanting to retain a strong focus on projects. Donors are also concerned about the Government's weak performance on governance, human rights and fiduciary risk.

In **Pakistan**, the government has not tried to organise donors differently around the PRS. The Government and donors are still reeling from the poor experience with co-ordination in the 1990s under the Social Action Programme Project. Donors are modestly adapting their aid instruments: the IMF's Poverty Reduction Growth Facility (PRGF) includes PRSP expenditure as an Indicative Target and the World Bank's federal and provincial Structural Adjustment Credits appeal to the policies and targets set out in the Interim PRSP. Once the full PRSP is finished, this link looks likely to be strengthened. As for DFID, its new financial aid instruments are focused heavily on assisting the government to achieve emerging targets in the PRS.

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<sup>7</sup> Several country offices note that alignment of donor strategies and plans, including those of DFID, should ideally entail more than simply rewriting existing documents in language borrowed from the PRS. They identify a risk of 'window dressing', whereby donors use PRS language to avoid more fundamental change, but they also recognise that where the PRS is poorly prioritised rewriting may be the first step donors can take towards more substantive alignment.

## 8.2 DFID support for alignment and harmonisation

8.2.1 DFID is supporting donor alignment and harmonisation through its corporate commitment to alignment of its Country Assistance Strategies, aid instruments and performance-assessment requirements with the PRS wherever possible.

8.2.2 Best practice is clearly to pursue this agenda at country level, through partnerships with national governments and other donors. Many country offices are taking a leading role in associated activities such as joint donor groups, assessments and comments on PRS drafts. Where they have successfully enlisted the services of Ambassadors and High Commissioners, the latter have added value to these efforts.

8.2.3 In joint-working with other donors, country offices tend to focus more on like-minded donors and less on those with more problematic behaviours. While understandable, this tendency creates the risk that large aid flows into the country from non-like-minded donors could end up immune from alignment pressures. One way to address this could be for DFID to examine how non-budget support instruments such as projects and TA could be aligned with the PRS, so that lessons can be shared with donors using mainly these instruments, rather than budget support and SWAps.

8.2.4 There are further challenges in improving predictability of aid flows beyond the small number of countries in receipt of budget support. Staff at headquarters suggested that it may be possible to introduce improvements to financial predictability within the constraints of the UK Spending Round, but even if this proves impossible, Memoranda of Understanding at country level are proving a useful mechanism for improvements to the predictability of the aid relationship. They are discussed in more detail below.

### Box 10: Improving predictability in practice

#### Ghana

Multi-year direct budget support provides for a base tranche payable on continued progress against the IMF programme, and a performance tranche based on progress against agreed triggers. DFID is committed to announcing its planned budget support in December for the following Ghana Financial Year. Other donors are also coming on board.

#### Mozambique

The GII and World Bank have agreed that there will be greater transparency in the performance-assessment framework. The GII have agreed that from 2004 no cuts will be made to budget support in year but the World Bank still makes changes in year depending on fulfilment of 'prior actions'. The Government and GII partners are working on convincing the World Bank to live up to its theoretical commitment to more predictability.

#### Pakistan

World Bank and Asian Development Bank resources tend to be based on the Government of Pakistan achieving specific policy milestones before disbursement. Allocations are therefore sometimes delayed if milestones have not been met. Over the last year, the size of Pakistan's budget and reserves means that these delays do not necessarily cause a problem to expenditure programmes. The impact is a temporarily increased government financing requirement, which is not desirable. DFID is trying to improve in this regard through four-year health-sector budget support. Before this, DFID's PRS support was approved at late stages in budget implementation, although an advance notice was given of committed levels.

8.2.5 DFID is also seeking to work with other UK Government Departments, for example with the Foreign Office (FCO) in areas such as human rights, governance and the environment (although its budgets are much smaller than those of DFID), the Department of Trade and Industry (DTI) in specific areas such as Export Credit Guarantees, and the Ministry of Defence (MoD) in the security sector.

8.2.6 There is, however, increasing evidence of joint-working at a conceptual level among DFID, FCO and the MoD in countries affected by conflict, often through the Global Conflict Prevention Pool. In Nepal, this is not directly linked to the PRS, but in Sri Lanka, mainstreaming conflict sensitivity in the PRS is one of DFID's key objectives. The different elements of UK assistance appear least 'joined up' around the PRS in Central Asia and the Balkans, but positive examples of joint-working are found in Angola, Burundi, Ghana, Mozambique, Pakistan, Vietnam and Honduras. A small number of country offices note the potential for scaling up the impact of UK support for the PRS by enlisting the services of UK Ambassadors and High Commissioners in a more systematic way.

## 9. REPORTING AND REVIEW

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### 9.1 The Annual Progress Report and Joint Staff Assessments

9.1.1 In many countries, PRS processes remain at too early a stage for clear expectations to have developed around the production of the Annual Progress Report (APR) and the Joint Staff Assessment (JSA). Where the PRS process is reasonably advanced, donors and governments seem to expect that these documents will be produced, shared, and play a role in determining decisions on the release of donor funds, but little beyond this.

9.1.2 There is also a lack of clarity regarding the role of joint donor assessments in relation to the JSA. In Nepal, for example, staff have taken steps to ensure that the JSA process takes place in-country and includes consultations with donors. In Ethiopia, by contrast, donors have decided to do a joint assessment that remains separate and acts as a counterpoint to the JSA.

9.1.3 In Africa and LAC, where PRS processes are most advanced, there is some evidence that expectations around the APR are becoming clearer and have heightened over time. As PRS processes become more embedded, donors and governments seem to be slowly becoming more confident that the APR will become a useful monitoring mechanism that could eventually inform iterative government planning and help fulfil donor reporting requirements.

#### **Box 11: Changing lines of accountability in Tanzania**

Expectations around the production of the annual PRS progress report are subject to a great deal of change in Tanzania at present. Following recent discussions about second generation PRSs in Washington, a team from the World Bank recently suggested to the Ministry of Finance that there was no need to produce a progress report this year as the PRS was being revised anyway. This decision undermined expectations not only that the progress report would contribute to external accountability, especially for general budget support, but also that it could eventually contribute to domestic accountability.

9.1.4 There are few indications at this stage that the APR is being used for domestic accountability and reporting purposes. Tanzania is one exception to this rule, as here the APR has been used as part of a Poverty Policy Week involving a range of civil society stakeholders. Legislatives remain largely unengaged in APRs, reflecting a pattern of weak engagement with all dimensions of PRS processes.<sup>8</sup>

9.1.5 There is, however, some recognition among governments and donors that the APR has the potential to improve domestic accountability and reporting, and some very preliminary steps are being taken to realise this potential. In Ghana, for example, the APR has helped to establish an annual reporting cycle and it is being used to expand government reporting beyond inputs to include outcomes. DFID staff suggest that improved parliamentary engagement in APRs would help realise their potential contribution to domestic accountability and reporting.

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<sup>8</sup> See Section 4 for further discussion of involvement of legislators in PRS processes.

## 10. IFIs AND THE PRS PROCESS

### 10.1 IFI orientation towards the PRS

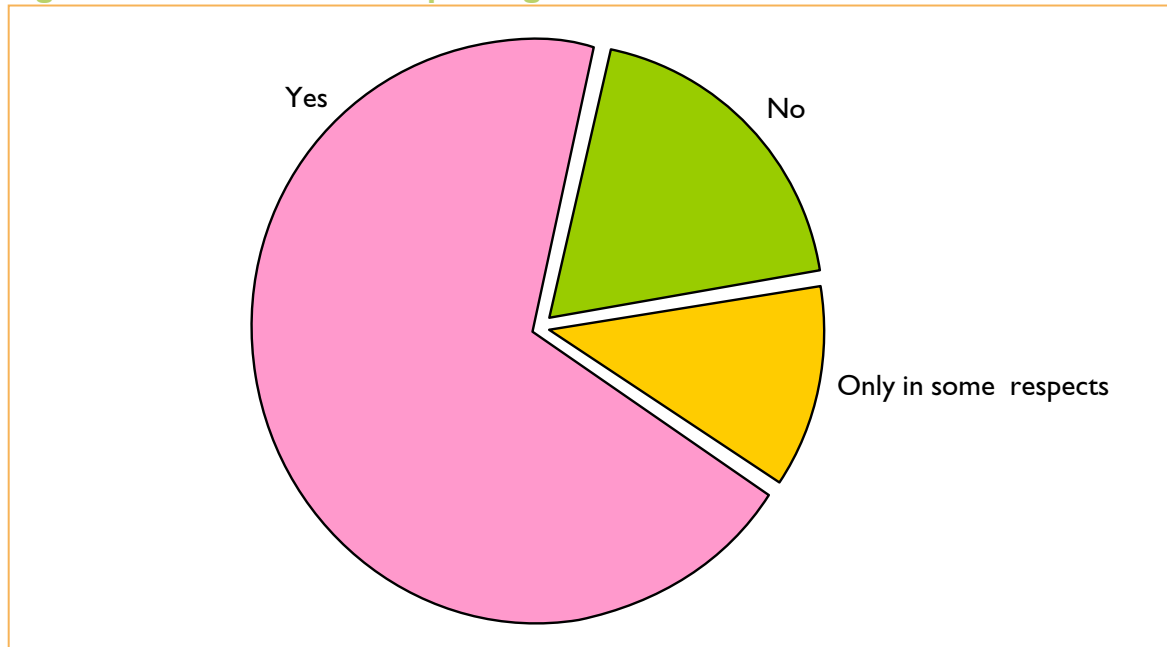
10.1.1 A majority of DFID country offices describe the World Bank as in the process of becoming fully oriented towards the PRS. Alignment efforts by the Bank appear to be most successful in Africa, but in Asia orientation is currently difficult to gauge because PRS processes are less embedded. DFID staff generally accept that some projects may have to remain in place for the time being, but welcome moves by the Bank to align the Country Assistance Strategies (CAS) and country programmes with PRSs.

10.1.2 The presence of in-country staff plays a crucial role in catalysing IFI orientation around the PRS. Without them, there is often a disconnection between PRS-related agreements at headquarter level and practical action at the country level.

10.1.3 In LAC, the IMF is criticised by DFID staff for its macroeconomic and fiscal prescriptions, and their incompatibility with broader PRS processes. One or two individuals at headquarters are concerned about the IMF's strict interpretation of its role as a gatekeeper of aid flows, arguing that there is a case in some countries for allowing higher levels of aid to be absorbed and used to finance PRS implementation. They suggest that this could be achieved without adverse effects on stability and growth.

10.1.4 IFI behaviour in relation to the PRS principles (for example, respect for country ownership) appears to be improving in Central Asia, LAC, and especially in Africa, according to DFID staff. The pace of change is slower in the Balkans and also in Honduras. In some countries, the IFIs are improving only in certain limited sectors or institutions. In Georgia, for instance, improvement is evident only in the health sector. In Nicaragua, while Bank behaviour is improving, the IMF is viewed as fairly static but trying hard, and the behaviour of the IADB does not appear to be improving at all.

**Figure 6: Is IFI behaviour improving?**



10.1.5 In a large number of countries, especially in Asia, conflict countries and weak governance environments, PRS processes remain at an early stage and JSAs have yet to be prepared. Where JSAs have been prepared, levels of stakeholder participation were generally low, or limited to a few donors or thematic areas. This may reflect in part a lack of clarity around expected levels of participation in the JSA, as the JSA guidelines do not address this

issue. Reasons cited for low or limited stakeholder participation include the fact that JSA preparation took place outside of the country, tight timeframes, weak consultation processes, and in one country, lack of enthusiasm from donors. Reasonable stakeholder participation appears to have taken place in Ghana, Vietnam and the Kyrgyz Republic. Many DFID country offices elsewhere did not have any information on how the JSA was prepared, two of them commenting that this probably means it was done with minimal stakeholder involvement.

## 10.2 Changing relations between DFID and the IFIs

10.2.1 In a majority of countries, DFID's relations with the World Bank and IMF look set to become closer as a result of PRS processes. Country offices from all regions except the Balkans describe how PRSs have created the space and the framework for closer co-ordination and joint-working, although some uncertainty remains about how relationships based around particular sectors will play out. In some countries, closer relationships may take time to form, or depend on improvements in IFI attitudes to joint-working and transparency.

10.2.2 In a significant number of countries, especially where relations with the World Bank and IMF are already good, expectations of change arising from the PRS are lower. DFID Pakistan, for example, describes how there is already close collaboration on priority issues such as health, education and economic management, and the PRS only affects relations with the IFIs on poverty monitoring and PRS-related expenditure.

10.2.3 A number of country offices express uncertainty about whether the PRS can overcome formidable obstacles to closer working with the IFIs, especially the regional development banks. In Nepal, staff suggested that the ADB is constrained by being accountable to its management for the PPA, which has few links with the PRS. In Indonesia, while the ADB and World Bank have a MoU at headquarters level for greater collaboration, practical work at the country level has proven very difficult.

### Box 12: How the PRS is changing donor-IFI relations in Africa

- In **Burundi**, there is already co-ordination on TA but there may be the possibility of stepping up co-ordination on economic and sector work. No major bilateral programme is planned at this stage but DFID will be working closely with the IFIs to unblock obstacles to post-conflict re-engagement.
- DFID, the World Bank and, increasingly, the IMF are probably the key external players in **Ethiopia's** PRS. They have become particularly close to the Bank in terms of co-funding TA and working as allies on donor groups, but the Bank has some way to go in terms of transparency and working with other donors.
- **Kenya** has a more joined-up approach with the World Bank as a result of the PRS. DFID has agreed a joint-poverty monitoring mechanism with the Bank.
- In **Mozambique**, closer relations appear inevitable as DFID and the IFIs are now aligned around the same PRS and performance-assessment framework. Closer relationships are also working in practice and helped in Africa as a whole by a strong regional leadership.
- Donor co-ordination has strengthened around **Nigeria's** PRS and this has coincided with the arrival of a country director for the World Bank and with the African Development Bank opening an office in Abuja.
- Strong relationships already existed in **Sierra Leone**. DFID is co-ordinating with the IFIs on several sectoral support initiatives, especially around governance.

10.2.4 DFID country offices note the following activities as part of their efforts to engage more effectively with IFIs (largely the World Bank) and Regional Development Banks (RDBs):

- Information-sharing, dialogue and consultation;
- Donor co-ordination groups and harmonisation efforts;
- Multi-donor budget support arrangements;
- Sectoral programmes and SWAPs;
- Staff secondments;
- Technical assistance;
- Project design and co-financing;
- IFI credit design and co-financing;
- PSIA.

10.2.5 Improved engagement appears to entail both using general activities opportunistically for ‘influencing’ purposes, and consciously creating strategic opportunities to work together with the IFIs. In Ethiopia, for example, staff describe how providing a secondee and TA has created an open-door to discussion and negotiation about the IFI approach. In Indonesia and Vietnam, co-financing with IFIs is now the norm, and this provides space for influencing. Other factors that maximise DFID’s ability to work well with the IFIs include financial and political weight in-country, ability to disburse funds quickly and flexibly, and reputation amongst other donors.

10.2.6 Nevertheless, DFID staff do identify a range of challenges to successful engagement with the IFIs and RDBs. In some cases, these are of an institutional nature and include:

- the absence of in-country staff;
- the breadth of the Bank’s agenda;
- the requirement for ‘equal treatment’ by the Bank of all bilateral donors, which results in DFID being excluded, along with others, from discussions on its priority areas;
- a tendency for the IFIs to be ‘driven by their own agendas’; and
- incentives inside the Bank that prioritise spend over harmonisation and consensus.

## 11. THE EC AND PRS ALIGNMENT

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### 11.1 EC engagement in the PRS process

11.1.1 DFID staff consider the EC to be a major development player in all regions except for Asia. Many point out that the EC is a financial heavyweight but one which is far from realising its full potential at present. In Ethiopia, for example, staff describe the EC as a major player in terms of finance which tends to under-hit in terms of influence. The reasons most commonly cited for this chronic under-performance are: limited in-country capacity and poor co-ordination with other donors.

11.1.2 EC engagement with PRS processes is generally weak in Africa, especially in conflict countries (though Ghana, Kenya and Mozambique are exceptions to this rule). The picture in Asia, Central Asia and LAC is rather more mixed, with evidence of both strong and weak engagement. DFID staff describe how positive engagement takes a number of forms, ranging from technical assistance and joint budget support to alignment of Country Strategy Paper (CSP) priorities, performance-assessment indicators and disbursement schedules with the PRS.

11.1.3 In the Balkans, European accession continues to shape EC engagement in PRS processes. In Bosnia-Herzegovina, for instance, DFID staff describe how the EC was closely involved when the process started but how it has increasingly viewed the process as interfering with progress towards the negotiation of a Stabilisation and Association Agreement (SAA) with the EU. In contrast, Serbia-Montenegro reports limited but increasing EC engagement in the PRS.

11.1.4 EC engagement in PRS processes appears to be improving somewhat in Latin America due to secondments of DFID staff in Bolivia, Honduras and Nicaragua. Improved engagement is also reported by DFID offices in Serbia-Montenegro and Ethiopia. Sri Lanka is an interesting case of deconcentration leading to worsening performance, an issue which is now being slowly addressed.

### 11.2 Participation in joint budget-support arrangements

11.2.1 The EC appears to be participating in joint budget-support arrangements in all regions except the Balkans, where DFID offices report that the EC does provide budget support but not jointly with other donors. In Africa, staff in half of the surveyed countries report actual or planned EC participation in joint budget support, with the remainder reporting that participation was not (or not yet) planned. Here, joint budget support was generally linked to the PRS, but in Asia and Central Asia participation in joint financing appears to be largely confined to SWAps and the EC Food Security Programme respectively.

11.2.2 The EC is beginning to take forward performance assessment of its budget support through the development of a common framework of indicators with the government. This is generally achieved through working as part of a joint donor group. EC involvement in such groups often extends to sectoral working groups within the main donor group – the ‘*mesa sectorial*’ co-ordinated by the Government of Nicaragua, for instance – and to bilateral meetings with donors on areas of common interest.

11.2.3 However, many examples exist of EC engagement that undermines donor harmonisation and alignment. Staff in Armenia report that the EC is introducing embryonic elements of programme budgeting methodology which are untested, and not formally agreed by the government. Those in Guyana describe how an EU mission looking at budget support is currently developing its own indicators in the health and housing sectors in the absence of an effective monitoring and evaluation framework for the PRS.

### Box 13: The EC and joint financing SWAps in Asia

In **Bangladesh**, the EC is one of five pool funders in the health SWAp with DFID, Sida, the Dutch and the World Bank. Funds are pooled into a World Bank Trust Fund. The EC is also planning to be part of the new SWAp for primary education, pooling its funds with DFID, CIDA, NORAD, the Netherlands, ADB and the World Bank. The EC has been a close partner of DFID and is part of the financial management group trying to develop mechanisms for performance-based financing of the education SWAp with clear annual targets for releasing funds. Donor support will be aligned both with the review cycle of the whole Primary Education Sector Programme and with the national budget cycle. For example, policy-decision targets will be set for financial year June 2003 – June 2004. A review in the first quarter of 2004 will then decide whether to release funds for financial year June 2004 – June 2005.

In Nepal, the EC participates in the education sector's Basic Primary Education Programme in a basket funding arrangement with other donors – Denmark, Norway, Finland, and the World Bank. JICA and the ADB support the programme but are not within the basket. Indicators are negotiated jointly between the donors and government, and support for the programme is aligned to national budget cycles. EC headquarters in Brussels will conduct the evaluation of its budget support but the visiting Mission is expected to consult with other donors as part of this process.

### Box 14: EC good practice on performance assessment

A common performance-assessment framework has been developed by the Government of **Mozambique** and agreed by donors. It consists of a menu of targets and indicators from which donors must select for their own monitoring and evaluation purposes. The EC plans to use performance against a short list of these critical factors to determine the commitment of a fixed tranche (70 percent) of support, and to use performance against wider annual indicators annualised from the PRSP to determine commitment of a variable tranche (30 percent).

## 11.3 Alignment with national budget cycles

11.3.1 The EC has begun to align its support with national budget cycles but it may take some time before disbursement schedules can be fully aligned. Staff in Ethiopia, for example, describe serious attempts by the EC to move in this direction, but recognise that it may take 2 – 3 years before alignment is achieved. Serious delays at headquarter level are preventing the matching of disbursement schedules with national budget cycles. Staff in Honduras describe how heavy EC bureaucracy means that processes are often delayed. Asia, Bangladesh and Nepal offer positive instances of the EC aligning support for SWAps with national budget cycles.

11.3.2 Several DFID country offices note that EC project finance remains out of line with national budget cycles, highlighting broader challenges around alignment of non-budget support instruments in the countries in which DFID works.<sup>9</sup>

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<sup>9</sup> See Section 6 for further discussion of alignment of non-budget support instruments.

### Box 15: EC bad practice on alignment with budget cycles

EC budget support is not provided in alignment with national budget cycles in **Armenia**. The last annual tranche usually arrives into the national budget on the last day of the budget year, thus distorting the entire budget cycle and particularly the final quarter. No visible attempt is made to match government performance against annual commitments with envisaged financial support. There is a delay of at least six weeks between the letter of request from the Minister of Finance and the actual crediting of a tranche in the relevant bank account at the Central Bank. This is entirely due to technical and bureaucratic delays in EC headquarters and occurs against a background of positive conclusions and recommendations by mid-term and final-review Missions. It is a well-known fact that the state budget is under most pressure at the start of the month, yet EC disbursements usually arrive sometime in the third week of each month.

## 12. POVERTY AND SOCIAL IMPACT ANALYSIS

### 12.1 Major PSIA donors

12.1.1 DFID appears to be second only to the World Bank in the extent of its involvement in funding PSIA in the countries surveyed, although it does not, of course, match the Bank's financial weight.

12.1.2 Other donors and regional development banks are playing a more minor role. The Bank is funding PSIA work in Africa, Asia and the Middle East, Central Asia, and Latin America and the Caribbean. DFID is funding PSIA in all these regions except Central Asia. Examples of other donors funding PSIA include GTZ/KFW in Ghana and the Commonwealth Development Bank in Guyana.

### 12.2 Planned work on PSIA

12.2.1 PSIA work is planned in around half of the countries surveyed. LAC stands out as the region where PSIA are most prevalent, but they are also planned in Africa, Asia, and the Middle East.<sup>10</sup> In countries where PSIA work is not planned, most DFID offices explained that this is because it is too early and no firm plans have yet been made.

### 12.3 Policy focus of PSIA

12.3.1 More than one policy area is under consideration in most of the countries planning PSIA. Many of the policy areas are immediately relevant to ongoing IFI lending programmes, while others are more generally relevant to the PRS framework. In Sri Lanka, for example, DFID is keen to use PSIA to mainstream conflict sensitivity into reform programmes being undertaken under forthcoming PRGF-and-PRSC-supported programmes. In Zambia, by contrast, PSIA are planned into poverty analysis, land, fertiliser, and HIV/AIDS – all key elements of the PRS policy framework.

**Table 3: Examples of PSIA work**<sup>11</sup>

Country planning PSIA	PSIA policy areas	
	IFI-related	PRS-related
Ghana	<ul style="list-style-type: none"> <li>■ Electricity tariffs</li> <li>■ Fuel prices</li> <li>■ Commercialisation of agriculture</li> <li>■ Divestiture of Commercial Bank</li> <li>■ Reform of land tenure</li> <li>■ Decentralisation reforms</li> </ul>	<ul style="list-style-type: none"> <li>■ Vulnerability</li> <li>■ Health insurance</li> </ul>
Pakistan	<ul style="list-style-type: none"> <li>■ Electricity pricing</li> </ul>	<ul style="list-style-type: none"> <li>■ Devolution and responsiveness of service delivery to poor people</li> </ul>
Guyana	<ul style="list-style-type: none"> <li>■ Water</li> <li>■ Bauxite</li> <li>■ Sugar</li> </ul>	

### 12.4 Ownership and PSIA

12.4.1 The majority of PSIA are not well embedded in government's own policy processes, according to DFID offices. Two-thirds of DFID offices describing PSIA work reported that it was 'not very' or 'not visibly'

<sup>10</sup> PSIA are reportedly planned in Ghana, Mozambique, Sierra Leone, Zambia, Indonesia, Nepal, Pakistan, Sri Lanka, Vietnam, Yemen, the Kyrgyz Republic, Bolivia, Guyana, Honduras, and Nicaragua

<sup>11</sup> Our information does not indicate which donors are supporting these PSIA.

embedded in the government's own policy processes. Only two offices (out of fifteen) reported that PSIA work was embedded in the government's own policy processes. In Sierra Leone, this was because members of the Economic Planning and Research Unit intend to conduct the work themselves.<sup>12</sup>

#### **Box 16: Embedding PSIA in government processes**

PSIA work appears to be very well embedded in **Ghana's** policy processes. The government has led the process of selecting PSIA topics. The impetus arose from development of the M&E framework for the PRS, where consultation across government revealed that the link between policy and poverty reduction was unclear for a number of policy areas. A schedule of required research and impact analysis studies were produced, and a workshop held with a broad range of stakeholders (including the IFIs) to prioritise six issues for *ex-ante* analyses. A further two were negotiated during the World Bank's PRSC process. The research will be put to competitive tender, and be managed by the Government of Ghana's (GoG) Planning Commission in collaboration with a group of core GoG, CSO and donor stakeholders.

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<sup>12</sup> The Poverty Analysis and Monitoring Team in Policy Division is taking forward work aimed at helping country offices support PSIA as part of an integrated approach to national capacity-building.

## APPENDIX 1: COUNTRY COVERAGE AND STAGE IN PRS PROCESS

Region	Country offices	Stage reached as at mid-July 2003 <sup>13</sup>
AFRICA	Angola	Pre-IPRSP (conflict)
	Burundi	Pre-IPRSP (conflict)
	Ethiopia	Full PRSP July 2002
	Ghana	Full PRSP February 2003
	Kenya	IPRSP July 2000
	Lesotho	Preparation Status Report December 2002
	Mozambique	Progress Report February 2003
	Nigeria	Pre-IPRSP
	Sierra Leone	PSR February 2003
	Sudan	Pre-IPRSP (conflict)
	Tanzania	Second PRSP March 2003
	Uganda	Third PRSP expected shortly
	Zambia	Full PRSP March 2002
ASIA AND YEMEN	Bangladesh	IPRSP March 2003
	Cambodia	Full PRSP December 2002
	Indonesia	IPRSP March 2003
	Nepal	PRSP May 2003
	Pakistan	Preparation Status Report January 2003
	Sri Lanka	Full PRSP December 2003 (conflict)
	Vietnam	Full PRSP May 2002
	Yemen	Full PRSP May 2002
BALKANS	Bosnia-Herzegovina	IPRSP October 2002
	Serbia-Montenegro	IPRSP June 2002
LATIN AMERICA & THE CARIBBEAN	Bolivia	Full PRSP March 2001
	Guyana	Full PRSP November 2001
	Honduras	Full PRSP August 2001
	Nicaragua	Progress Report November 2002
CENTRAL ASIA	Armenia	Preparation Status Report September 2002
	Georgia	Preparation Status Report May 2002
	Moldova	Preparation Status Report April 2002

<sup>13</sup> Latest available data from World Bank at time of publication.