

INTERNATIONAL MONETARY FUND

**Guidance Note for Fund Staff on the Modified Poverty Reduction Strategy Framework  
and the Implications for PRGF and HIPC Operations**

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In consultation with other Departments

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1. During the discussion of *Poverty Reduction Strategy Papers—Progress in Implementation* (SM/04/292, 08/19/04) on September 3, 2004, the Executive Board endorsed modifications to the Poverty Reduction Strategy (PRS) framework.<sup>1</sup> Amendments to the PRGF and PRGF-HIPC Trust Instruments to give effect to these modifications were approved by the Executive Board on November 9, 2004.<sup>2</sup>

2. **This note provides preliminary guidance on the changes in Fund rules and procedures for PRS documents and the implications of these changes for PRGF and HIPC Initiative processes.** This note does not provide a comprehensive treatment of the expected content of the Bank-Fund Joint Staff Advisory Notes (JSANs) relating to PRS documents produced by the authorities. Guidelines on the content of JSANs for full PRSPs and PRSP annual progress reports and their respective JSANs are included in the joint Bank-Fund guidance notes: *Guidelines for Joint Staff Advisory Notes (JSAN) for Poverty Reduction Strategy Papers* and *Guidelines for Joint Staff Advisory Notes (JSAN) of PRS Annual Progress Reports on Implementation (APR)*.<sup>3</sup> While this guidance note has benefited

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<sup>1</sup> See *The Acting Chair's Summing Up, Poverty Reduction Strategy Papers—Progress in Implementation* (BUFF/04/175, 09/10/2004).

<sup>2</sup> The proposed decisions presented in *Poverty Reduction Strategy Papers—Proposed Amendments to the PRGF Trust and PRGF-HIPC Trust Instruments* (SM/04/374, 11/04/2004) were adopted November 9, 2004 as Decisions No. 13373-(04/105) PRGF and No. 13374-(04/105) PRGF.

<sup>3</sup> As most countries pursuing the PRSP process already have full PRSPs or expect to issue them shortly, relatively few additional I-PRSPs or PRSP Preparation Status Reports are expected. Accordingly, no new guidance notes on the content of I-PRSPs or PRSP Preparation Status reports are planned. Authorities and staff may choose to refer to the earlier

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from informal consultation with Bank staff, this note is focused on Fund policies, documents, and procedures.

**3. These key operational changes for Fund staff to the procedures for PRS documents and related changes for PRGF and HIPC Initiative processes are:**

- The elimination of the requirement for explicit endorsement by the Fund and Bank Boards of the PRS document as a satisfactory basis for Fund (and Bank) concessional financial assistance;
- The replacement of the Joint Staff Assessment (JSA) of the authorities' PRS documents by a Joint Staff Advisory Note (JSAN) and the elimination of the requirement that the concluding paragraph of this document recommend that the Fund and Bank Boards endorse the staffs' assessment that the PRS document provides a satisfactory basis for concessional financial assistance;
- The elimination of the requirement for a JSAN for PRSP preparation status reports (except if such a report is the PRS document for a HIPC decision point);
- Establishment of 18 months as the outside limit within which PRS documents must have been issued to the Fund Board prior to a PRGF or HIPC Initiative operation; and
- Establishment of a convention that, in all but exceptional cases, JSANs for APRs will be issued to the Boards for information rather than for discussion by the Boards.

The rules on the operational links between PRS documents and PRGF operations were consolidated in the PRGF Trust Instrument, the PRS document requirements for HIPC Initiative decision points were included in the PRGF-HIPC Trust Instrument, and definitions related to PRS documents were included in the PRGF-HIPC Trust Instrument and cross-referenced in the PRGF Trust Instrument.

**Definitions and Timelines for Poverty Reduction Strategy Documentation**

**4. The authorities' PRS continues to be set out in Poverty Reduction Strategy documents.** The various forms that these documents can take are now defined in the PRGF-HIPC Trust Instrument and set out in Box 1. PRS documents should normally be produced on a 12-month cycle and aligned with other domestic policy cycles. However, in addition to defining the various PRS documents in a single legal instrument, the revised Instruments now establishes **an outside limit of 18 months** between the time of issuance of a PRS

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guidelines for these documents as an indication of best practice. However, the content of the JSANs and operational procedures are superseded by those set out in this note.

document to the Fund Board and the time of the Board decision on the subsequent PRGF or HIPC Initiative operation.

**Box 1. Poverty Reduction Strategy Documents**

- *Interim Poverty Reduction Strategy Paper (I-PRSP)*, a document prepared by a member that sets out a preliminary poverty reduction strategy as a precursor to a full PRSP.
- *PRSP Preparation Status Report*, a document prepared by a member, reporting on the updates to the preliminary poverty reduction strategy set out in an I-PRSP in anticipation of a PRSP.
- *Poverty Reduction Strategy Paper (PRSP)*, a document prepared by a member in a participatory process involving a broad range of stakeholders, which sets out a comprehensive three-year poverty reduction strategy that could be extended to as much as five years.
- *Annual Progress Report (APR)*, a document prepared by a member reporting on the implementation of the PRSP and updating it as appropriate.

**Joint Staff Advisory Notes**

5. **The Joint Staff Advisory Note (JSAN) replaces the Joint Staff Assessment (JSA).** The JSAN is a document prepared by the staffs of the Bank and the Fund containing an analysis of the strengths and weaknesses of the poverty reduction strategy of the member concerned and identifying priority areas for strengthening the poverty reduction strategy during implementation.<sup>4</sup>

6. **A key objective of the JSAN is to provide focused, frank, and constructive feedback to country authorities on their PRS.** Accordingly, JSANs should present a limited number of priority areas for strengthening the PRS. They are expected to be substantially shorter than most past JSAs, reflecting increased selectivity and focus.<sup>5</sup> The

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<sup>4</sup> In the case of a PRSP APR report, the JSAN may also provide feedback regarding the implementation of the strategy. In the case of an interim PRSP, the JSAN should focus on the roadmap for preparing the strategy, provide advice on these preparations, and consider the need for technical assistance.

<sup>5</sup> Indicative page limits were discussed with the Bank but could not be agreed. As an indication of the baseline from which JSANs were to be shortened, Fund teams might note

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JSANs should identify weaknesses in the PRS that would need to be addressed, including in the context of existing or possible future PRGF-supported programs. Such serious concerns regarding the authorities' poverty reduction strategy should first be raised in the JSAN, which would then provide a basis for further discussion in the context of the program on improvements to the strategy. However, while the JSAN is to be frank, it should not assess whether the strategy as a whole constitutes a sound basis for concessional assistance (as had been the case with JSAs), in keeping with the elimination of the requirement for endorsement of PRS documents. Accordingly, the JSAN should avoid normative language in assessing the PRS as a whole and, in particular, avoid language that suggests that the PRS document meets or falls short of overall standards.

7. **A JSAN for an I-PRSP or PRSP should end with suggested points for discussion by the Executive Boards of the Fund and the Bank.** The concluding paragraph should draw on the advice in the main text of the JSAN to highlight areas for discussion and seek the Boards' views on staffs' conclusions regarding: (i) priority action areas for strengthening the PRS; and (ii) areas where (a) there are inconsistencies between the PRS and its policy framework and the analytical basis that underpins Bank- and Fund-supported programs that reflect existing analysis; or (b) areas in which further analysis or adjustments to the strategy are needed for the PRS to provide a framework for Bank and Fund assistance.

8. **JSANs for APRs would not suggest issues for discussion apart from those exceptional cases in which they are sent to the Boards for discussion rather than information.** More specifically, the Executive Board has decided that there is no need to discuss an APR and its JSAN explicitly, so long as progress in implementing the PRS is deemed broadly satisfactory and this is clearly signaled in the relevant program documents. Consequently, APRs and their JSANs are normally issued to the Boards for information but their discussion can be proposed in exceptional cases (e.g., where the related program documents do not clearly signal that progress in implementing the PRS is deemed broadly satisfactory, or where the APR elaborates on a major shift in a country's PRS or where the APR is being used to document one year of satisfactory implementation of the PRS for purposes of the HIPC completion point). They may also be put on the Board's agenda at the request of an Executive Director, although this is not expected to be common.

9. **As has been the practice with JSAs, Bank and Fund staffs should divide responsibilities in preparing the JSAN.** Bank and Fund staffs are expected to contribute to the JSAN in their areas of primary institutional competencies, taking account of overlapping competencies and important linkages among areas. In particular, in the latter areas, the staffs need to reach a common understanding.

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that the indicative guidelines for JSAs of full PRSPs suggested 10 single-spaced pages while the guidance for JSANs of PRSP APRs suggested a length of 4-5 single-spaced pages.

**10. No JSAN is needed for PRSP preparation status reports (with the exception of a PRSP preparation status report that is the PRS document for a HIPC decision point).**

Instead, the first regular staff report that is sent to the Board after the receipt of the preparation status report should comment on the timetable and action plan for finalizing the PRSP. Generally, a single paragraph should suffice to briefly highlight progress and constraints in preparing the PRSP, discuss the feasibility of the roadmap for its completion, and possibly provide advice on further steps including recommendations for technical assistance. While the Fund staff country team should coordinate with World Bank counterparts to promote a common understanding and seek to characterize their views accurately, Fund staff would be solely responsible for these comments.

**Poverty Reduction Strategies and the PRGF**

**11. The operational link between the PRSP process and the PRGF and timing requirements are modified under the new approach (Box 2).** While nationally-owned poverty reduction strategies will continue to provide the basis for IMF (and World Bank) concessional lending, there is no longer a requirement that the Fund and Bank Boards determine expressly that the PRS document provides a satisfactory basis for such concessional lending. However, there continues to be a requirement that members have in place a poverty reduction strategy set out in a recent PRS document for PRGF lending decisions, and the approval of a new arrangement or completion of a review can only take place if weaknesses in the poverty reduction strategy that are critical to Fund support have been addressed. The basis for the conclusion that critical weaknesses have been addressed needs to be clearly set out in PRGF staff reports drawing on the authorities' LOI/MEFP. Executive Board approval of a new PRGF arrangement or the completion of a review under an existing PRGF-supported program will imply that the requirements under the PRGF Trust Instrument regarding a member's poverty reduction strategy have been met. The concessional assistance is being provided to support the implementation of member's overall poverty reduction strategy, as laid out in the PRS documents as well as documents related to the PRGF-supported program.

**12. The timing requirements on PRS documents have been modified.** A request for a new PRGF arrangement or a completion of a review under a PRGF arrangement now requires that a PRS document has been issued to the Executive Boards normally within 12 months and in any event within the previous 18 months. The document must also be discussed in a JSAN (except for PRSP preparation status reports unless the PRSP preparation status report is the PRS document for a HIPC decision point) also issued to the Executive Boards. The establishment of an explicit maximum interval between a PRS document and a subsequent PRGF request or review should not be interpreted as creating an 18-month cycle for PRS documents. Rather, this provision is intended to provide scope to align the PRS document with domestic policy cycles. As these cycles are generally annual, particularly for the budget, the expected normal interval between PRS documents continues to be 12 months. There is no scope to waive the 18-month limit in individual country cases; after the 18-month limit is reached, a new PRS document and JSAN (except in the case of PRSP preparation

status reports) would need to be issued to the Boards before a decision on a PRGF or HIPC operation could be approved.

**Box 2. PRS-related Conditions for the PRGF**

- The member should have a PRS set out in a PRS document issued to the Board during the previous 18 months (normally within the preceding 12 months). No requests for new PRGF arrangements or conclusion of PRGF reviews can be considered unless a PRS document has been issued to the Executive Board within the preceding 18 months. **No waivers of this 18-month limit are possible.**
- An analysis of the PRS document should be prepared jointly by staffs of the Fund and the Bank. For PRSPs, I-PRSPs, and APRs, such analysis should be in the form of a JSAN, which is issued to the Board. For a PRSP preparation status report, such analysis should be included in the staff report, a JSAN is not required (unless the PRSP preparation status report is the PRS document for a HIPC decision point).
- The authorities should satisfactorily address the weaknesses of the PRS that are critical to Fund support under a PRGF arrangement (including any such weaknesses identified in a JSAN or PRGF staff report). The authorities can address the weaknesses through relevant program conditionality or by undertaking other relevant commitments in the LOI and MEFP.

13. **It will not always be the case that the PRS documents are fully aligned with other national policy documents (e.g., the budget) and the policies set out in the PRS documents may not, by themselves, provide a satisfactory basis for a Fund-supported program.** In these circumstances, IMF staff teams have to consider the implications of any significant inconsistencies between the policies set out in poverty reduction strategy documents and policies that could be supported by a Fund arrangement and any implications for program ownership or implementation.

14. **A lack of alignment between the PRS document and other national policy documents would normally be the result of differing vintages of PRS and other documents and policies.** Where this is the case, the PRGF staff report and the more recent of the authorities' documents (e.g., the budget, the PRGF-supported LOI/MEFP, or a national development plan) should explain the difference in timing and the reasons for a modification in the strategy, and the next PRS document should discuss these modifications and how they relate to the broader strategy.

15. **More rarely, PRS documents might differ from other roughly contemporaneous national policy documents (such as the budget or the PRGF LOI/MEFP).** In these circumstances, IMF staff teams would need to evaluate whether a Fund-supported program would be appropriate in light of the inconsistencies between the policies set out in poverty

reduction strategy documents and policies that could be supported by a Fund arrangement. Conflicts between PRS documents and other national policy documents clearly have implications for likely program ownership and implementation. Should a decision be made to proceed with a PRGF-supported program in spite of the lack of alignment in nearly simultaneous policy documents, the PRGF LOI/MEFP should explain how the authorities intend to modify policy coordination procedures to ensure alignment with future PRS documents and prevent a recurrence of conflicting national policy documents. The ownership implications and implementation concerns should be explicitly and frankly assessed in JSANs and PRGF staff reports. While missions should urge the authorities to improve internal coordination mechanisms to avoid a recurrence of such conflicts and IMF staff teams should provide frank advice to country authorities on policies that could be supported by a PRGF arrangement, they should not directly set conditions for the contents of PRS documents.

**16. PRGF staff reports and LOIs/MEFPs need to discuss how significant weaknesses in the poverty reduction strategy, including those identified in the JSAN, have been addressed so that appropriate assistance can proceed.** In supporting a request for a PRGF loan disbursement, IMF staff and management would recommend approval of the operation based in part on the country's PRS and taking into account the JSAN, as well as specific measures to remedy weaknesses in areas under the IMF's mandate (in particular, the macroeconomic framework). Weaknesses in the poverty reduction strategy or significant inconsistencies with other policies (including PRGF-supported programs) and measures to correct these weaknesses or inconsistencies should be addressed in the authorities' LOI/MEFP and discussed in the PRGF staff report. Fund conditionality should be used to remedy weaknesses in the strategy as it is implemented in PRGF-supported programs (e.g., an unrealistic macroeconomic or fiscal framework) where correction of the weakness is critical to achievement of program objectives.

### **Poverty Reduction Strategies and the HIPC Initiative**

**17. There is little change to the operational link between the PRS and the HIPC Initiative processes.** Fund staff will recommend approval of an operation under the HIPC Initiative if, among others, the PRS requirements for HIPC Initiative decisions set out in the PRGF-HIPC Trust Instrument are met. For the completion point, these include a requirement for the satisfactory implementation of a full PRSP for at least a year, as evidenced by an APR that has been issued to the Board within the previous 18 months and has been analyzed in a JSAN also issued to the Board. The Executive Boards' determinations as to whether the HIPC Initiative decision point and completion point conditions related to the members' poverty reduction strategies (Box 3) are met will continue to be made at the time of the decision and completion points rather than at the time the JSAN for the PRS document is submitted to the Boards (including in the case where PRS documents were circulated to the Boards some time before the HIPC Initiative decision).

**Box 3. PRS-related Conditions for Assistance under the HIPC Initiative**

- *At the decision point*, a member should have in place a satisfactory PRS set out in one of the PRS documents issued to the Board within the previous 18 months and analyzed in a JSAN that has also been issued to the Board.
- *At the completion point*, a member should have in place a PRSP with at least one year of satisfactory implementation. Evidence of satisfactory implementation of the PRSP should be provided in an APR issued to the Executive Boards within the previous 18 months and analyzed in a JSAN that has also been issued to the Board.
- Standalone decisions on HIPC Initiative interim assistance do not require a PRS document issued to the Boards within the previous 18 months.

**Other issues**

18. **Circulation to the Boards.** The PRS documents and the corresponding JSANs are issued to the Executive Board in the EBD series as soon after the PRS documents are officially received (i.e., with a transmittal letter from a senior official indicating that the document is final and can be issued to the Executive Boards and posted on the external websites of the Bank and Fund). A PRSP or I-PRSP will be issued together with the accompanying JSAN for Board discussion when feasible. If the JSAN is not ready, issuance of the PRS document should not be held up. APRs are normally issued for information of the Boards rather than discussion (see paragraph 8). If it is not possible to issue the JSANs together with PRS documents, the JSAN should be issued to the Boards within three months of official transmission of the PRS document to which it relates.

19. **Board discussion.** The Boards will either discuss a PRSP or I-PRSP (and the related JSAN) together with a PRGF or HIPC Initiative operation, an Article IV consultation, or on a standalone basis if no such operation is contemplated following the finalization of the relevant PRS document.<sup>6</sup> Executive Board discussions at the Bank and the Fund should normally be scheduled within five working days of each other; the institution taking an

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<sup>6</sup> In a few cases, full PRSPs or I-PRSPs have been prepared by non-PRGF-eligible members or members for which no PRGF or HIPC operations are expected; in these circumstances, the PRS document can be issued to the Board for information rather than discussion.



operational decision would normally have the later Board date.<sup>7</sup> It should be noted that since the requirement for a jointly endorsed PRS document has been lifted, there is no longer a need for Bank Board consideration of the PRS for PRGF decisions to become effective.<sup>8</sup> As I-PRSPs are needed only as an interim document pending completion of the full PRSP, I-PRSPs should be finalized by the authorities and issued to the Boards only when there is an operational need at either the Bank (rarely) or the Fund. Thus, standalone Board discussion of I-PRSPs at the Fund would only be expected in the unusual circumstance that there is an operational need at the Bank but not at the Fund. As noted above, APRs and PRSP preparation status report are not normally scheduled for Board discussion.

20. **The publication of PRS documents and JSANs is voluntary, but presumed.**<sup>9</sup> A member must explicitly consent to their publication. This consent is expected to be communicated to the Fund within one month of the consideration of the papers by the Executive Board. Where relevant, area department staff should remind the authorities of this expectation. Where the authorities' consent has been received, for PRS documents that are issued to the Boards for discussion, publication should take place immediately following their circulation to the Executive Boards while the JSAN should be published only after both Boards' discussion. A Chairman's statement will also be released after the Board meeting as part of a press release. For PRS documents and JSANs that are circulated to the Boards for information rather than discussion, the publication of the PRS document should take place immediately after their circulation to the Board while publication of the JSAN should proceed as soon as it is established that no Executive Director requests that the JSAN be placed on the agenda of the Board.<sup>10 11</sup> No draft summing up or Chairman's statement should

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<sup>7</sup> The Fund's minimum circulation period for PRS documents and JSANs is two weeks. However, the Bank generally requires a three week circulation period and additional time for document preparation.

<sup>8</sup> As a result, there will be no more PRGF decisions taken "in principle." However, Fund HIPC Initiative decisions will continue to be taken "in principle" if Fund Board consideration takes place before the Bank Board meeting (the HIPC Initiative is a joint Initiative, and the Fund's decisions will only become effective after the Bank has approved the operation in question).

<sup>9</sup> Provisions of the *Consolidated Guidance Note on the Publication of Fund Documents—Update* (SM/05/95, 03/09/2005), apply.

<sup>10</sup> SEC's cover memo to the Executive Board for an APR issued "for information" should read: "Attached for information of Executive Director's is [member's] APR for its PRSP. The authorities of [member] have consented to the publication of the document. It is intended to post this paper on the Fund's external website after [date + 5 working days]."

<sup>11</sup> The cover for the related JSAN issued "for information" should read: "Attached for information of Executive Director's is the JSAN prepared by the staffs of the Fund and the

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be prepared for JSANs sent for information, and draft summings up and Chairman's statements for subsequent PRGF and HIPC Initiative operations should not normally include references to these JSANs (unless the Board places the JSAN on the Board agenda).

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International Development Association on [member's] APR. The authorities of [member] have consented to the publication of the document. It is intended to post this paper on the Fund's external website after [date + 5 working days].

## **Guidelines for World Bank and IMF Staffs for Joint Staff Advisory Notes (JSAN) for Poverty Reduction Strategy Papers**

1. After a country prepares a Poverty Reduction Strategy Paper (PRSP), Bank and Fund staffs prepare an advisory note (the Joint Staff Advisory Note—JSAN) to provide feedback to the country and to the Executive Boards of the World Bank and the International Monetary Fund on priority areas for strengthening the PRS and its implementation. When a PRSP is presented by a government to the Executive Boards of the World Bank and the International Monetary Fund, it is accompanied by the JSAN. This note provides guidance to Bank and Fund staff on preparing JSANs of full PRSPs. These guidelines, which update and replace the previous “Guidelines for Joint Staff Assessment of a Full Poverty Reduction Strategy Paper (April 16, 2001),” may be revised periodically in light of experience and feedback from countries and development partners.

### **Implications of Recent Changes to the PRS Architecture**

2. Based on recommendations made in the *Poverty Reduction Strategy Papers—Progress in Implementation*,<sup>1</sup> some modifications have been made to the PRS architecture, including the replacement of the Joint Staff Assessment (JSA) of the authorities’ PRS documents by a Joint Staff Advisory Note (JSAN) and the elimination of the requirement that the concluding paragraph of this document recommend that the Fund and Bank Boards find the JSAN a satisfactory basis for concessional lending. These modifications do **not** change the fundamental underpinnings of the PRS initiative. Rather, they are meant to re-emphasize certain key elements of the approach: (i) a country’s poverty reduction strategy needs to be tailored to country characteristics and initial conditions, both in terms of content and processes; (ii) the PRS initiative needs to emphasize improvements in analysis, policies, institutions, and processes that underpin a PRSP rather than emphasizing production of papers; and (iii) partners should align their support with country priorities and find ways to deliver more and better aid in support of strong PRSPs. The changes are also intended to also help address the perception that Washington “signs off” on a country’s PRS; to enhance the candor and focus of staffs’ feedback on a country’s PRS; to increase transparency in how Bank and Fund concessional assistance is aligned with a country’s PRS, and to encourage better alignment of the PRS process with existing domestic processes.

3. These JSAN guidelines continue to reflect the main principles underlying the PRSP approach. The PRSP is prepared by the government through a *country-driven* process, including broad participation that promotes *country ownership* of the strategy and its implementation as well as *partnerships* among the government, domestic stakeholders, and development partners. *Comprehensive diagnosis*, a *long-term perspective*, and *results-orientation* are important. The JSAN guidelines also reflect the

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<sup>1</sup> *Poverty Reduction Strategy Papers—Progress in Implementation*, IMF Staff Memorandum SM/04/292; World Bank Report Number 30063.

general expectation that, although the specific content of PRSPs will vary widely among countries, a PRSP will include four core elements: (a) a description of the country's participatory process; (b) poverty diagnosis; (c) targets, indicators, and monitoring systems; and (d) priority public actions.<sup>2</sup> Full PRSPs are generally expected to summarize the priority public actions over a medium-term horizon (three to five years) by inclusion of: (a) a table(s) presenting the country's macroeconomic framework; (b) a table(s) summarizing the overall public expenditure program and its allocation among key areas;<sup>3</sup> and (c) a matrix of key policy actions and institutional reforms and target dates for their implementation.

4. **Purpose and Content of the JSAN.** The objective of the JSAN is to provide focused, frank, and constructive feedback to countries on their PRS. All JSANs should present staffs' views on priority areas for strengthening the PRS during implementation over the coming year. Staffs should ensure that advice is prioritized, and consistent with a country's starting point, capacity, and available support. In addition, where there are significant weaknesses in the PRS that, in the view of Bank and Fund staffs, need to be addressed, such concerns should be raised in the JSAN. Specifically, the JSAN should note in particular those areas where:

- a. there are significant inconsistencies between the PRS and its policy framework and the content of Bank and Fund programs that reflect existing analytic work, and/or
- b. further analysis is needed

in order for the PRS to provide a framework for Bank and Fund assistance. Those issues identified in the JSAN would then provide a basis for further discussions on enhancing the strategy.

5. Annex 1 provides a range of issues that staffs should consider when determining their advice. This annex does not represent a checklist of issues that must be covered in each case. In fact, JSANs should be selective, and present a limited number of priority areas for strengthening. JSANs are expected to be substantially shorter than most past Joint Staff Assessments, reflecting increased selectivity and focus. Staffs should continue to use other avenues to provide feedback, as warranted, on other issues not discussed in the JSAN.

6. While the JSAN is to be frank, it should not assess whether the strategy as a whole constitutes a sound basis for concessional assistance (as had been the case with JSAs). The link between concessional assistance and a country's PRS should be made in the Bank's Country Assistance Strategy and project documents and in arrangements under the IMF's Poverty Reduction and Growth Facility (PRGF). These documents

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<sup>2</sup> See Appendix 1, "Possible Elements of a PRSP," Poverty Reduction Strategy Papers: Operational Issues, Joint IMF/World Bank Paper, December 10, 1999, which is available on the Bank and Fund websites.

<sup>3</sup> Data on the public expenditure program should be as comprehensive as possible and should not be limited to activities financed by budgetary savings from HIPC debt relief and/or by projected increases in external assistance. However, allocations of specific uses of HIPC debt relief should also be presented.

should explicitly discuss the alignment with the country's PRS, and how a country is addressing any serious concerns that were noted in the JSAN.

7. The JSAN should comment on the four core elements of the PRSP (paragraph 3), including particular attention to issues raised in JSANs for the PRSP APRs, the previous PRSP, or—where there is no previous full PRSP, the Interim PRSP. Where appropriate, the JSAN should address how to better use the PRS as a partnership framework and how to better integrate the PRS into domestic processes. The JSAN should also consider measures to help address implementation risks. The JSAN should avoid description and repetition of the PRSP. To the extent that, for readability, the JSAN needs to summarize parts of the PRSP, this summary should be as brief as possible and preferably separated from the sections providing overall advice. The JSAN should avoid normative language in assessing the PRS as a whole and in particular avoid language that suggests that the PRS document meets or falls short of overall standards.

8. A JSAN of a PRSP should end with suggested points for discussion by the Executive Board. The concluding paragraph should draw on the advice in the main text of the JSAN to highlight areas for discussion and seek the Board's views on staff's conclusions regarding: (i) priority action areas for strengthening the PRS; and (ii) areas where (a) there are inconsistencies between the PRS and its policy framework and the analytical basis that underpins Bank- and Fund-supported programs that reflect existing analysis; or (b) areas in which further analysis or adjustments to the strategy are needed for the PRS to provide a framework for Bank and Fund assistance.

9. In preparing a JSAN, lead responsibility among Bank and Fund staff should be divided in line with primary institutional competencies, taking into consideration that there are areas of overlapping competence and important linkages among areas. The staffs need to reach agreement on common overall advice. Where differences cannot be addressed between country teams, these issues should be raised with OPCS and region management in the Bank and PDR and area department management in the Fund to make it less likely that resolution of disagreements between country teams hold up Bank or Fund operations. The Fund's core areas are macroeconomic policies (monetary, fiscal, and exchange policies) and directly related structural reforms. The Bank's core areas are design of poverty reduction strategies (including poverty diagnostics, sectoral strategies, effectiveness of public expenditures, and social safety nets) and structural, and social reforms and governance reforms (including legal and judicial reforms). Overlapping areas are the environment for private sector growth, trade, financial sector, tax and customs policy administration, and issues related to public expenditure management, budget execution and monitoring, and fiscal transparency, as well as public sector governance.

### **Structure of the JSAN**

10. As with JSAs, there is no mandatory outline for a JSAN, and staffs should tailor the JSAN to country needs. However, recognizing that a somewhat standardized format for the JSA has emerged, a flexible structure is suggested below, which teams can

customize to country conditions. JSANs should not necessarily follow the proposed outline, which is for general guidance only.

- **Overview.** This section could be used to briefly provide whatever context is needed. All JSANs should describe the participatory process. As instructed by the Executive Directors, care should be taken not to evaluate the participatory process. It is recognized that the participatory process is designed and managed by the government and that staff knowledge of the process and its impacts will often be incomplete. This section could also include brief descriptions of the key PRS "blocks": (i) poverty diagnostics; (ii) targets/indicators; and (iii) public actions (macro and structural), which are often described by countries as their PRS "pillars."
- **Link to domestic processes and how to strengthen.** More effort is needed to encourage countries to embed the PRS in their domestic processes. Given this focus, it may be useful to have a section (or sub-section) on how these linkages can be strengthened, including for progress reporting.
- **Advice for strengthening the PRS and enhancing implementation.** Rather than a mechanistic treatment across all sectors, teams should consider whether or not there are organizing themes. JSANs should be selective in the issues covered. Rather than attempting to equally treat all sectors and cross-cutting issues in the JSANs, advice should be prioritized.
- **Conclusions and Issues for Discussion.** This section should summarize staffs' views on: (i) the main implementation risks; and (ii) priority areas for strengthening the PRS and its implementation which could lead to better results. When warranted, it should also note those critical areas where current policies do not match those articulated in the PRSP, where the policy framework of the PRSP is inconsistent with existing analytic work, or where more analytic work is urgently needed to support the policy choices of the PRSP, and where these inconsistencies have implications for Bank and Fund assistance.

The JSAN could conclude with the following set of issues for discussion. Do the Executive Directors concur with the areas identified by staffs: (i) as key implementation risks; and (ii) as priorities for strengthening the PRS and its implementation? When warranted, issues for discussion would also include those areas identified by staff where action by the authorities is needed as related to Bank and Fund concessional assistance.

## **Annex 1: Questions for consideration when determining what advice to provide in the JSAN**

A range of questions are presented below which staffs should consider when preparing a JSAN. The bullet points associated with some of the key questions are only reminders of potentially important issues for consideration, **not a checklist of issues** that must be covered in every case. There may be other issues not included in the bullet point that are important in a particular country and that should be covered.

Given institutional capacity constraints, the quality of data, diagnosis, analysis, strategies and other elements in PRSPs will vary widely among countries, and it is not expected that all PRSPs will address thoroughly all of the issues raised in the questions below.

Moreover, in preparing the JSAN, staff need to consider each of the questions below but should focus in the JSAN on those that are most relevant in the country context. **JSANs should not attempt to address all these questions. JSANs should prioritize the advice which is provided.**

### **A. Building Country Ownership through Participation<sup>4</sup>**

A.1 Does the PRSP describe the participatory process that the government conducted to design and to build ownership for the strategy?

- Participatory processes within government (among central ministries, parliament, and subnational governments).
- Other stakeholder involvement (for example, civil society groups, women's groups, ethnic minorities, policy research institutes and academics, private sector, trade unions, and representatives from different regions of the country).
- Bilateral and multilateral external development partners' involvement, including collaborative analytical work to support PRSP development.
- Mechanisms used to consult the poor and their representatives.

A.2 Does the PRSP summarize major issues raised during the participatory process and the impacts of the process on the content of the strategy? How has the participatory process evolved over time?

- Extent to which the participatory process has been well integrated with existing processes of the government for policy and decision making.
- Comparison with earlier practices and with the plans in previous PRS documents.

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<sup>4</sup> The Executive Boards have instructed the staffs to describe, but not to evaluate, the participatory process. It is recognized that the participatory process is designed and managed by the government and that staff knowledge of the process and its impacts will often be incomplete.

A.3 How closely is the PRSP related to any other current government documents that set forth national or sectoral development plans and/or budgets?

A.4 What are the plans for public dissemination of the PRSP?

## **B. Poverty Diagnosis**

B.1 How adequate are existing poverty data?

- Extent of disaggregation of poverty data by regions and by demographic groups, including by gender.
- Degree to which quantitative data were complemented by qualitative information.
- Accessibility of data for policy analysis, especially outside government.

B.2 How well have the nature and determinants of poverty outcomes (income and non-monetary dimensions) been identified? Have trends in key poverty determinants and outcomes been presented?

- Extent of income/consumption and other dimensions of poverty (health, including environmental diseases and HIV/AIDS, education, natural resource degradation, vulnerability, disempowerment) and their evolution over time.
- Analysis of gender dimensions of poverty.
- Distribution of assets of various types—natural (especially land), physical, financial, and human.
- Identification of economic, social and institutional (including corruption and poor governance) constraints to poverty reduction.

B.3 To what extent have the growth and distributional impacts of past policies and programs been assessed?<sup>5</sup>

- Macroeconomic policies, including the ability to respond to exogenous shocks.
- Structural and sectoral policies, including the distributional impacts of past reforms and policies affecting private sector development, trade, the operation of product and factor markets, and environmental management.
- Equity, effectiveness and efficiency of existing pattern of public expenditures, service delivery, and systems for budget management, financial management, and procurement.
- Other key constraints on implementation capacity.
- Policies with regard to gender inclusion and social inclusion.

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<sup>5</sup> Monitoring and evaluation systems are usually weak, and rigorous quantitative assessments are seldom possible. Nevertheless, judgments about the efficacy and impacts of past policies, even if qualitative, are crucially important for improving strategies over time.



## **C. Targets, Indicators, and Monitoring**

C.1 Does the PRSP define medium- and long-term goals for poverty reduction outcomes (monetary and non-monetary), establish indicators of progress, and set annual and medium-term targets? Are these indicators and targets appropriate given the assessment of poverty and the institutional capacity to monitor? And are they consistent with the policy choices in the strategy?

- Selectivity in the choice of monitorable indicators and targets, in line with priority public actions and capacity.
- Inclusion of indicators related to the Millennium Development Goals, recognizing that the appropriate indicators, as well as specific targets, will vary among countries.
- Indicators and targets which appropriately capture disparities by social group, gender, and region.

C.2 Are current and proposed monitoring and evaluation systems adequate and sustainable?

- Adequacy of efforts to improve data collection and analysis.
- Transparency of arrangements for, and results of, monitoring the PRSP, including service delivery to the poor.
- Use of participatory methods for monitoring.
- Adequate use of results of monitoring and evaluation in policy formulation.

## **D. Priority Public Actions**

D.1 Does the PRSP present **clear priorities for public action**? Are these priority actions appropriate and feasible in light of the diagnosis, the targets, their estimated costs, available resources, institutional capacities, and the effectiveness of past policies? In making this overall assessment, staff should also consider the following questions:

### ***Macroeconomic Framework, Fiscal Choices, and Financing Plan***

D.2 Does the **macroeconomic framework** promote: (i) growth that is consistent with the poverty reduction objectives laid out in the PRSP; (ii) a level of inflation that does not undermine macroeconomic stability, private sector growth, or the purchasing power of members of society without access to inflation hedging financial instruments; (iii) an external position that is sustainable in the medium- to long-run; and (iv) an overall fiscal stance that is compatible with the PRSP's poverty reduction and growth objectives?

- Growth projections that are realistic and take into account likely sources of growth, including external trade.
- Possible tradeoffs between the pursuit of short-term versus long-term poverty reduction and other macroeconomic goals.

- Robustness of the macroeconomic program in light of the risks of exogenous shocks.

D.3 Are **fiscal choices** consistent with the poverty reduction and growth objectives of the PRSP? Is the allocation of expenditures consistent with the strategic priorities, institutional capacities and efficiency, and realistic cost estimates? Have domestic revenue measures been designed in light of likely distributional impacts? Is fiscal management capacity adequate to effectively implement the proposed expenditure program?

- Quality of cost estimates for key programs.
- Comprehensiveness of budget data, i.e., extent to which all programs (including externally financed projects) are included in an integrated budgetary framework.
- Status of a Medium-Term Expenditure Framework to improve the capacity to undertake pro-poor budget allocations over time.
- Disaggregation of expenditure programs by sector and key programs for poverty reduction and by recurrent and investment expenditures.

D.4 Does the strategy have an adequate and credible **financing plan**—including domestic borrowing and projected aid (and other external) flows?

- Realism of external financing projections and implications for long-term debt sustainability.
- Extent to which external development partners have begun—or indicated their intention to align and coordinate their own strategies with the PRSP.
- Contingency plans for expenditures in the event of a shortfall in revenues or financing.

***Structural and Sectoral Policies, Policies for Social Inclusion and Equity, Governance and Public Sector Management***

D.5 To what extent do the **structural and sectoral policies** address the key policy, incentive, and institutional constraints to poverty reduction? How well has the PRSP estimated the likely impact of its proposed policy measures on the poor and included measures to mitigate any negative impacts?

- Measures to expand opportunities for the poor and to distribute the benefits of growth and public services more equally by region, by economic and social groupings, and by gender.
- Prioritization and sequencing of reforms, considering expected impacts on the poor.
- Private sector and financial sector development, including sector, financial and labor market regulations, trade policies, and domestic pricing policies.
- Key social sector policies and programs, including those related to HIV/AIDS.

- Policies and institutions for environmental sustainability.
- Cross-sectoral linkages.

D.6 To what extent do **policies for social inclusion and equity** address the key policy, incentive, and institutional constraints to poverty reduction?

- Measures to promote fair and equitable treatment of all people under the law and avenues of recourse, including with respect to property rights.
- Social protection and labor policies.

D.7 To what extent are improvements in **governance and public sector management** being pursued in areas that are important for poverty reduction? How adequate are proposed improvements in laws and in institutions at the central and local levels with regard to ensuring accountability for use of fiscal resources and better service delivery?

- Measures to address systemic problems in budget formulation and execution, financial management and procurement systems, and monitoring of public spending, as well as short-term measures to ensure accountability for the use of HIPC debt relief.
- Plans for improvements in governance arrangements and service delivery, including the role of local communities and local government.
- Steps to be taken to improve transparency and ensure accountability of public institutions and services vis-à-vis the needs and priorities of the poor.
- Efforts to address critical problems inhibiting civil service performance and any issues of corruption in the public service.

**Guidelines for World Bank and IMF Staffs  
for Joint Staff Advisory Notes (JSANs) of  
PRS Annual Progress Reports (APR) on Implementation**

1. The Poverty Reduction Strategy (PRS) approach is intended to be a continuing effort through which low-income countries improve public actions for poverty reduction and in doing so enhance the effectiveness of both domestic resources and development assistance. It is envisaged that countries will prepare Poverty Reduction Strategy Papers every three to five years in a participatory process involving a broad range of stakeholders and setting out a comprehensive poverty reduction strategy. In each of the intervening years, annual progress reports (APRs) would be reporting on implementation updating it on and near-term priorities as appropriate. APRs should be used by country authorities to assess progress and set the agenda for the year ahead. This note provides guidance to Bank and Fund staff on preparing JSANs for APRs on PRS implementation. These guidelines, which update and replace the previous “Guidelines for Joint Staff Assessments of PRSP Annual Progress Reports on Implementation” (June 4, 2002), may be revised periodically in light of experience and feedback from countries and their development partners.

**Implications of Recent Changes to the PRS Architecture**

2. Executive Directors of the Bank and the Fund agreed to changes in the APR to encourage its closer alignment with domestic processes. Given this focus on setting the domestic policy agenda, in most cases the APR and its accompanying JSAN will not be discussed by the IMF and World Bank Boards. Instead, APRs and the associated JSANs will be distributed to the Executive Directors for information.<sup>1</sup>

3. The intention is to emphasize strengthening the linkage between the PRS documents cycle and domestic processes, to encourage customization of annual reporting to country needs and processes, and to reduce the perception that the Executive Directors of the IMF and World Bank sign off on a country’s PRS on an annual basis. The goal is to allow each country to determine for itself how it will carry out its annual reporting, and how it wishes to use this instrument.

4. While there is no required format for APRs, as part of the PRS Initiative, the APR will be expected to have three basic elements: (i) an evaluation of performance and analysis of outturns relative to benchmarks, for monitoring and evaluation purposes; (ii) an overview of the coming year’s policy intentions, particularly, but not exclusively, as reflected in the budget; and (iii) a report on how specific shortcomings identified in past JSANs/JSAs have been addressed. In addition, the APR should indicate how annual reporting is being used to

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<sup>1</sup>Exceptions will be made where the APR elaborates a major shift in the country’s PRS, in which case staffs will recommend that the APR and the JSAN be discussed by the Boards, or where these are associated with countries reaching their HIPC completion points.

provide information on implementation progress to key domestic and external stakeholders. When warranted, the APR could also note modifications to strategies, policies, targets or indicators, or provide updates on poverty or other relevant analysis. The APR's content could be expanded if it suits country needs. The authorities and their external partners could, for example, agree to use the APR as an instrument of donor coordination and harmonization. In such a case, the authorities would want to ensure that the information needed by the donors for their performance assessments is adequately presented in the APR, thereby reducing the need for additional reports to donors.

5. Bank and IMF staff should actively encourage countries to link their annual reporting to domestic processes. Ideally, therefore, the APR should be an integral part of the domestic PRS monitoring process, rather than a self-standing exercise. The process of preparing it should be as administratively light and non-duplicative as possible. Wherever feasible, governments could draw on existing information, such as budget reports. In some countries, utilizing existing processes should be relatively straightforward. In other cases, where existing processes are weak and do not provide the requisite information, the transition to embedding the APR into domestic processes may take longer, and institutional strengthening will need to be supported by the country's development partners, including the Bank and the IMF. In any event, Bank and Fund staff and other partners should be flexible in the form of documents accepted as APRs. To the extent that existing domestic policy documents address the elements in paragraph 4, the APR can be extremely succinct by referencing these documents as attachments. Where a particular element is not addressed in existing domestic policy documents, the APR would need to report in more detail.

6. The APR will continue to be a public document. In the event that existing documents are not publicly available, or are quite technical and thus inaccessible to some audiences, the authorities may wish to produce a short note that could accompany and refer to existing national documents, and summarize their conclusions in a way that fosters domestic participation and enhances government accountability. As has been the practice, the government may choose to prepare the APR without an extensive participatory process, deciding instead on the best point in the process to consult with local stakeholders (including the parliament) and with external partners.

### **Purpose and content of the JSAN**

7. The objective of the JSAN is to provide focused, frank, and constructive feedback to countries on progress in implementing their PRS. Staffs should note priority areas for strengthening the PRS and its implementation over the coming year. Staffs should ensure that advice is prioritized, and consistent with a country's starting point, capacity, and available support. In addition, where there are significant weaknesses in the articulated PRS and its implementation that, in the view of Bank and Fund staffs, need to be addressed, such concerns should be raised in the JSAN. Specifically, the JSAN should note areas where:

- i. there are significant inconsistencies between the PRS and its policy framework and the analytical basis underpinning Bank- and Fund-supported programs, and/or

- ii. further analysis is needed in order for the PRS or its implementation to provide a framework for Bank and Fund assistance. Those issues identified in the JSAN would then provide a basis for further discussions on enhancing the strategy or its implementation.

8. JSANs should be selective and present a limited number of priority areas for strengthening the PRS and enhancing its implementation. JSANs are expected to be substantially shorter than most past Joint Staff Assessments, reflecting increased selectivity and focus. Staffs should continue to use other avenues to provide feedback, as warranted, on other issues not discussed in the JSAN. In preparing the JSAN, staffs should consider, as reported in the APR and from other sources where appropriate: (i) performance relative to benchmarks, for monitoring and evaluation purposes; (ii) priorities for the coming year, as reflected, for instance, in the budget; (iii) progress made in addressing specific shortcomings identified in past JSANs (see Guidelines for Joint Staff Advisory Notes (JSAN) for Poverty Reduction Strategy Papers for a range of questions to be considered when prioritizing advice in the JSAN for the PRSP); and (iv) the extent to which progress reporting provides transparent information on implementation to key domestic and external stakeholders.

9. The JSAN should emphasize graduated advice, rather than reaching a binary conclusion. In particular, while the JSAN is to be frank, it should not assess whether implementation of the strategy as a whole constitutes a sound basis for continued concessional assistance (as had been the case with JSAs). The link between concessional assistance and a country's PRS should be made in the Bank's Country Assistance Strategy and project documents and in Fund staff reports for new arrangements and reviews under the Poverty Reduction and Growth Facility (PRGF). These documents should explicitly discuss the alignment with the country's PRS, and how a country is addressing any serious concerns that were noted in the JSAN.

10. In preparing a JSAN, lead responsibility among Bank and Fund staff should be divided in line with primary institutional competencies,<sup>2</sup> taking into consideration that there are areas of overlapping competence and important linkages among areas. The staffs need to reach agreement on common overall advice. Where differences cannot be resolved between country teams, these issues should be raised with OPCS and region management in the Bank and with PDR and area department management in the Fund to help ensure that such

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<sup>2</sup> The Fund's core areas are macroeconomic policies (monetary, fiscal, and exchange policies) and directly related structural reforms. The Bank's core areas are design of poverty reduction strategies (including poverty diagnostics, sectoral strategies, effectiveness of public expenditures, and social safety nets) and structural, social, and governance reforms (including legal and judicial reforms). Overlapping areas are the environment for private sector growth, trade, financial sector, tax and customs policy administration, and issues related to public expenditure management, budget execution and monitoring, and fiscal transparency, as well as public sector governance.

disagreements between country teams can be resolved without delaying Bank or Fund operations.