EC-PREP COMMISSIONED STUDY:

IMPLEMENTATION OF POVERTY REDUCTION STRATEGIES IN THE NIS

SYNTHESIS REPORT
TABLE OF CONTENTS

Acronyms and Abbreviations
Preface
Executive Summary
Summary of Recommendations

1. INTRODUCTION

1.1 The Poverty Reduction Strategy (PRS) Process
1.2 Global Status of the PRS Process
1.3 The Study of PRS Implementation in the NIS

2. CHALLENGES TO EFFECTIVE PRS IMPLEMENTATION

2.1 PRS implementation
2.2 When will a PRS be implemented?
2.3 The Depth of Integration of the PRS in the Budget Process
2.4 Sector strategies/work-plans with clear priorities
2.5 Indicators, monitoring and feedback arrangements

3. ISSUES THAT EFFECT PRS IMPLEMENTATION

3.1 What are the factors that effect implementation?
3.2 Institutional Framework
3.3 Political Commitment
3.4 Intra-Government Coordination
3.5 Capacity
3.6 Consultation with other stakeholders
3.7 The Special Role of Donors

4. PRSP IMPLEMENTATION IN THE NIS – OVERVIEW

4.1 The NIS and the Context for PRS Implementation
4.2 Overview of the PRS Process in the NIS
4.3 Institutional Framework
4.4 Political Commitment
4.5 Intra-Government Coordination
4.6 Capacity
4.7 Consultation with other stakeholders

5. PRSP IMPLEMENTATION IN THE NIS – KEY CHALLENGES

5.1 Depth of Integration of the PRS in the Budget System
5.2 Sector strategies/work-plans with clear priorities
5.3 Indicators, monitoring and feedback arrangements
5.4 The Role of Donors in the PRS process in the NIS
6. CONCLUSIONS: LESSONS LEARNED AND RECOMMENDATIONS

6.1 Key Findings and Lessons Learned from Global Experience
6.2 Key Findings and Lesson Learned from NIS Studies
6.3 Recommendations for Countries Implementing NIS
6.4 Specific Recommendations for Countries About to Start PRS Implementation
6.6 Recommendations for Donors

ANNEXES

1. Terms of Reference
2. Documents reviewed
3. Map of the Commonwealth of Independent States
### ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AsDB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>APR</td>
<td>Annual Progress Report</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CDF</td>
<td>Comprehensive Development Framework</td>
</tr>
<tr>
<td>CG</td>
<td>Consultative Group</td>
</tr>
<tr>
<td>DfID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>EDPRP</td>
<td>Economic Development and Poverty Reduction Programme (Georgia)</td>
</tr>
<tr>
<td>EGPRSP</td>
<td>Economic Growth and Poverty Reduction Strategy Paper (Moldova)</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>HPIC</td>
<td>Highly Indebted Poor Country Initiative</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IEO</td>
<td>Independent Evaluation Office</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>I-PRSP</td>
<td>Interim Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>JSA</td>
<td>Joint Staff Assessment</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>NIS</td>
<td>Newly Independent States</td>
</tr>
<tr>
<td>NPRS</td>
<td>National Poverty Reduction Strategy (Kyrgyz Republic)</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OED</td>
<td>Operations Evaluation Department</td>
</tr>
<tr>
<td>PEM</td>
<td>Public Expenditure Management</td>
</tr>
<tr>
<td>PER</td>
<td>Public Expenditure Review</td>
</tr>
<tr>
<td>PIP</td>
<td>Public Investment Programme</td>
</tr>
<tr>
<td>PIU</td>
<td>Project Implementation Unit</td>
</tr>
<tr>
<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>PRS</td>
<td>Poverty Reduction Strategy</td>
</tr>
<tr>
<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
</tr>
<tr>
<td>PRSTF</td>
<td>Poverty Reduction Strategy Trust Fund</td>
</tr>
<tr>
<td>PSIA</td>
<td>Poverty and Social Impact Assessment</td>
</tr>
<tr>
<td>SPPRED</td>
<td>State Programme on Poverty Reduction and Economic Development (Azerbaijan)</td>
</tr>
<tr>
<td>SWG</td>
<td>Sector Working Group</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>UNDAF</td>
<td>United Nations Development Assistance Framework</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
</tbody>
</table>
PREFACE

The European Commission’s Poverty Reduction Effectiveness Programme (EC-PREP) is an initiative aimed at enhancing collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community’s development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DFID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies which are designed by DFID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared within the EC-PREP commissioned study “Implementation of Poverty Reduction Strategies in the NIS”. PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of: (a) five desk studies - Azerbaijan, Georgia, Tajikistan, Moldova and Uzbekistan; (b) two in-depth case studies - Armenia and the Kyrgyz Republic; (c) a comparative study examining global experience with implementation of PRSPs, and; (d) a synthesis report bringing together the findings, lessons and recommendations from the other studies.
In December 1999, the Executive Boards of the International Monetary Fund (IMF) and World Bank approved a new policy instrument, the Poverty Reduction Strategy Paper (PRSP), designed to serve as a framework document for concessional lending. Clearly the term “paper” is inappropriate to describe what is essentially a process but also an approach set within a set of principles. The World Bank has started to use “Poverty Reduction Strategy Initiative” to describe the whole process but also uses “Poverty Reduction Strategy Paper Initiative”. The IMF IEO (2004) on the other hand uses “Poverty Reduction Strategy (PRS) Approach” and only uses PRSP when referring to the document itself.

The PRSP process is envisaged as a new partnership based approach to the challenge of reducing poverty in low-income countries. Nationally-owned poverty reduction strategies are to be at the heart of the new approach. Other major features of the PRSP are that it should be an analytical framework, integrating macroeconomic, structural, sectoral and social considerations, it should lay out a set of poverty reduction measures and policies, and should span an initial three-year time frame. They should also be results-oriented, particularly with respect to the Millennium Development Goals (MDGs) which established targets for reduction of poverty.

This study will identify the key challenges facing governments of the Newly Independent States (NIS) in implementing the PRS process and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards. The consulting processes use a simple analytical framework taken from the Terms of Reference (ToR) that brings together two sets of factors: a) Key Challenges to effective PRS Implementation in the NIS and (b) Potential Underlying Constraints to Implementation.

This study examines the implementation of the PRS from the moment of approval of the PRSP itself. Implementation of the PRS process in this respect means (a) implementing the PRSP itself (i.e. undertaking the actions it contains in its plan of action) (b) learning from the results of the actions, and (c) amending the strategy and actions accordingly. The study is focussed on process and not the contents of the PRSP. In terms of the contents the interest is only on those elements that affect implementation (for example capacity building or budget system reform).

Within the PRS approach, the Annual Progress Report (APR) is the main tool for examining the degree of implementation. It is meant to support monitoring of the PRS process in support of the

---

1 The Terms of Reference for the project can be found in Annex 1
practical aspects of process management but also to support greater accountability. Two specific indicators useful in examining the degree of implementation of the PRS process are: First, the resource allocations to the various public actions set out in the PRSP document, and; second the amendment of the document based on evaluative evidence.

International experience has found that there is a key set of features of an effective PRS framework that allow and support effective implementation. These are:

- The depth of integration of the PRSP in the budget process including both the annual budget and medium-term budget planning instruments (for example a medium-term expenditure framework).
- The existence of sector strategies/work plans with clear priorities in the PRSP framework and the extent to which the PRSP is the focus of the national development planning framework.
- The extent to which indicators, monitoring and feedback arrangements have been put in place and utilized effectively.

These three features relate to the three main tools for implementation i.e. (a) the budget system, (b) clear plans of action and (c) monitoring system. In addition to the key features of the PRS process that will facilitate implementation, it is important to identify the necessary context for effective implementation. An alternative way of looking at this is to say that the PRS and the PRSP should take into account the fact that contexts change.

Aside from the abovementioned “features” of a PRSP there are also a number of issues or constraints to the implementation of the PRSP. These issues/constraints are distinct from the “features” in the previous section as they are not PRSP specific i.e. they are general issues that impact on the features. These are:

- Institutional framework
- Political commitment
- Intra-governmental coordination
- Capacity
- Consultation with other stakeholders (such as parliament, NGOs and donors)

None of these issues or groups of issues can be examined in isolation and there is significant overlap between them. At the same time addressing each set of issues may be necessary for PRS implementation, addressing one set alone will not be sufficient in itself. For example, strong political commitment at the highest level may be necessary for PRSP implementation but implementation will not occur if the capacities are not in place.
Although political (and other) commitment will influence the 3 features/challenges, each of these is also an indicator of commitment. In other words the best indicator of commitment is implementation. The importance of political commitment will also depend to a large extent with the nature of the state in the country and where true power rests. It will also depend on the degree of dependency on external assistance and in turn the importance of IFI lending to the country. Commitment also needs to go beyond rhetoric to implementation of actions in the PRS process.

Related to institutional structures, the degree of intra government coordination affects both central and local levels. It also depends on the scope of the PRSP, which sectors it covers or if it is intended to be a comprehensive strategy covering all government activity. At the central level the introduction of working groups and other institutional structures have supported greater intra-government coordination.

Preparation and implementation of PRSPs have, in many cases, been delayed by limited capacity (human resources/technical support), specifically the shortage of qualified personnel in Government to manage the process (although often delays are in relation to deadlines set by the IFIs and not related to the capacity constraints that exist). It also may concern the rapid turnover of government officials and relates to both central and local levels. But capacity issues are not limited to Government (at central and local level) and for effective implementation of the PRSP capacity is also needed in the private sector, parliament and within civil society (Kavalsky 2004).

Most of the case study countries examined have limited monitoring and evaluation capacity at the national and local levels. Moreover, a large share of the capacity that does exist is associated with Project Implementation Units (PIU) for donor supported projects. While it is clear that most countries face capacity constraints during implementation of PRSPs, it is also necessary to note the direct effect of the PRSP process on capacity itself.

Finally, the study finds that while donors are encouraging significant reforms in the way recipient governments work in terms of the PRS process, for many donors/lenders at the country level, it is business as usual. In fact for the PRS process to be effectively implemented the donors need to change as much as the recipients and in some cases the changes may even be more substantial.

The study also identifies specific features of the transition and characteristics of the NIS that affect the PRSP implementation process. PRSPs are being prepared by seven NISs and, of these, five countries have completed full PRSPs and have started implementation. Tajikistan was the first to have their PRSP approved by the IMF and IDA Boards (for their lending) with a further four countries (Armenia, Azerbaijan, Georgia and the Kyrgyz Republic) having their PRSPs approved in 2003. Moldova has
only recently completed its PRSP (but is awaiting the formal approval of the IMF and IDA boards for its use as a basis for lending)\(^2\) while Uzbekistan is at the early stages of the process and has yet to complete an Interim PRSP.

The years since independence in late 1991 have driven the NIS countries apart. All countries suffered a significant economic decline in the first years of independence and, apart from Uzbekistan, have yet to fully recover. A characteristic of the newly independent countries, which they share with the countries of Central Europe and a few African and Asian countries (for example, Ethiopia, China and Vietnam) is that their PRS process coincides with a fundamental change in social and economic organisation, from central planning to market regulation. As a result, markets in the NISs tend to be underdeveloped, inefficient or absent altogether. The NISs lacked the institutions of states, not only those of policy formation, such as ministries of planning, but also basic agencies of national management. As a result, the NISs entered their transition to the market poorly equipped in terms of institutions to carry out the basic function of government.

The change in the economic system also implied the creation of so-called ‘civil society’, organisations of workers, business people, and issue-focused groups formally independent of the state. While such organisations arise spontaneously in a market society, their relation to the state must be constructed. Especially important in this context are 1) workers’ organisations, which tended to be extensions of the ruling party under central planning, and 2) private employers, who did not exist to any substantial degree. Therefore, the process of participation for the PRS process in the NIS involves the creation of mechanisms and institutions for constructive and sustained interaction between the citizenry and the government.

A weakness of many PRSPs is the lack of clarity concerning the implementation strategy. While there may be sections in the PRSP documents developed for this purpose, most are sub-optimal in that they cannot communicate exactly how the implementation will take place or of the role of the PRSP in the overall development planning framework. The situation in the NIS largely reflects the global one even though the documents contain sections on implementation and M&E. PRSP Annual Progress Reports have been prepared only for three of the five countries that are implementing PRSPs. For the other countries (i.e. those without progress reports) it is more difficult to see if the actions contained in the PRSP have been implemented. The other element of PRS implementation is whether the PRS has been revised as a result of feedback from the actions implemented. This may also be difficult to identify as it may not be reflected by a revision of the PRSP as a whole but by amendments to sectoral strategies or parts of those strategies.

\(^2\) The PRSP has been informally approved by the World Bank as the basis for its lending programme but not by the IMF
The study also presents an overview of the factors that affect implementation in the context of the NISs. For e.g. the Institutional set-up in the NIS has been reasonably uniform with the exception of Uzbekistan where the institutional framework is as yet unclear. The basic model of a permanent PRSP management unit supplemented by a coordination or steering committee of some kind together with sectoral coordination and consultation mechanisms such as working groups.

In terms of rhetoric and symbolism political commitment at the highest level appears to be strong in the region. Statements by senior officials indicate such commitment and the lack of alternative planning frameworks make inter-government rivalries less likely. It is difficult to rigidly identify how stakeholders see the PRS process, whether for resource mobilisation or as an integral part of the planning framework.

In general intra-government coordination at the central and local levels was facilitated during the PRSP preparation phase largely through the institutional framework and also the consultation process. As already noted, most countries introduced a mechanism for improved intra-government coordination during preparation of the PRSP. Such mechanisms were often a combination of a high level steering or coordination group together with a number of sectoral working groups that would bring together different stakeholders including different government agencies.

Finally, capacity issues are clearly and inevitably extremely important for all countries in the region. This is inevitable as the PRSP process involves a radical change in the way things are done and, if optimal, the introduction of a completely new national planning framework and associated systems. As already noted, the implementation of the full PRS process is in many senses a major governance reform addressing economic, administrative and political governance issues. Capacity building is not just important for all stakeholders in the PRS process but for all areas of the process as well, whether PEM reform or development of effective M&E systems, producing prioritised well-costed sectoral plans or consulting with stakeholders. Institutionalising the capacity building process is also a challenge and one that donors needs to address in partnership with government.

While all countries in the region engaged in a consultative process (of varying quality) during the process of preparing the PRSP document, the degree to which this consultation has continued during implementation varies considerably. Azerbaijan is an example of where the broad consultative process undertaken during preparation is being continued with some success. In Georgia the consultation process has continued after approval of the PRSP. In Tajikistan the media has been increasingly involved in discussion of the PRS process.
All seven countries being examined have seen a radical shift in the budgeting process since independence. Apart from reforming the annual budget process new instruments have been introduced such as Public Expenditure Reviews (Armenia, Azerbaijan, Georgia and Moldova) and MTEFs (introduced in all the countries apart from Uzbekistan). While MTEF processes have been instigated, however, only in Armenia and the Kyrgyz Republic does the process have the momentum, commitment and capacity to be effective. Moreover, the quality of the budget system indicates that the reform process still has some way to go in the region. The degree to which the PRS process is integrated into the budget system varies significantly in the region. Most make statements, either in the original PRSP (e.g. Azerbaijan) or in subsequent APRs, on the importance of integration but in practice the degree of integration is limited in most.

All the countries face the complex challenge of reforming the budgeting systems. This ongoing reform process coincides with the introduction of the PRS process. Inevitably the budget reform process is incomplete and this is a major reason for the poor degree of integration. The challenge is therefore to ensure that the reform of the budget system goes hand in hand with the development of a national planning framework surrounding the PRS process. That cannot be seen as separate activity. Only in the Kyrgyz Republic is the PRS Process, and therefore the PRSP, firmly based within a comprehensive national planning framework. But even here, while the instruments may be in place the development of the framework is far from finished. In all other countries in the region, the PRS process has been developed in parallel with existing processes and procedures that while not forming a comprehensive development planning framework nonetheless mean that parallel systems are in place.

TA needs to be refocused from direct support to the development of the PRSP document to the development of a comprehensive national development planning framework. This is almost a comprehensive governance reform programme (apart from elements related to political governance e.g. elections and strengthening judiciary). It is certainly part of a comprehensive public administration reform programme including issues related to PEM and decentralisation. This is extremely ambitious and will take some time.

Attempts to link the PRSP process with the MDGs have varied in the region. At the simplest level the goals and indicators for the PRSP are consistent with the MDGs. This is the case in (for example in Armenia and Azerbaijan). While this is important for the development of an integrated and comprehensive monitoring system it is to a large extent inevitable as the MDGs cover the usual range of social indicators. More important is for the PRSP to have a range of indicators that go beyond those measured in the MDGs.
Many of the findings and lessons from the NIS reflect those of the global studies. This is not surprising and reveals some of the fundamental issues related to the PRSP process across all countries.

(a) Implementation of the PRS process in the five countries with approved PRSPs is weak both in terms of (i) undertaking the priority reforms and interventions and (ii) amending the document.

(b) The three features are not in place and the three challenges therefore remain for NIS governments.

(c) All of the five sets of issues are important and impact on the features/challenges. While political commitment to the PRS process seems to be adequate in all the countries now implementing the PRS process (and it is particularly difficult to ascertain), capacity is a major problem in all.

(d) The fact that none of the countries had comprehensive national planning frameworks at the start of the PRS process is a major advantage compared with countries that had such frameworks already in place and found the PRS process introducing new development management systems.

(e) For the countries in the NIS this is a major change and a complete way of doing business, especially from a political perspective.
SUMMARY OF RECOMMENDATIONS

Recommendations for Donors: The recommendations for donor partners largely reflect those for the countries implementing the PRSPs.

(a) End the dichotomy between direct and indirect support. In other words, to implement the PRS process a broad range of support is needed beyond that based around a PRSP secretariat or management unit. The whole process of public administration reform and reorientation of the state (for example in its relationship with its citizens) is required for effective PRS implementation and this will require some time.

(b) Provide assistance to the strengthening of the public administration in a programmatic way. The PRSP itself should include such a reform programme. While it is often difficult to manage the inter-ministerial cross-cutting programmes of governance reform it needs to be done in line with the PRSP process. Once a strategy for the development of the planning framework is in place, a comprehensive programme of TA can be identified. From here multi-donor support can be coordinated. New approaches such as pooling of funds by donors and generally taking a more programmatic country led approach will be appropriate. Lessons from Azerbaijan can be used in this respect.

(c) Where public administration systems are adequate increase the use of budget support (as proposed by DFID). Even if conditions are not right now there should be a move towards getting those conditions right and a trigger for moving from technical assistance to budget support.

(d) Introduce new mutual accountability mechanisms where the donor is accountable to recipient citizens in the same that it is accountable to its own (citizens or funders). The PRSP/MDG should be developed as a framework not only for coordination and alignment but also for accountability.

(e) Support for regional information sharing in a process that is not driven by the donor community but can if necessary include their full participation. Eg donor poor funds to a regional committee that decided what events should take place and what information/experience sharing initiatives should be implemented.

While the general recommendations for donors apply equally to the EU, there are a number of specific ones that will be added here.
Although the EU has engaged with the PRS process across the region it has not been seen as one of the main players supporting governments in the process. That is not necessarily a bad thing as already noted indirect support for the process may be as important as the direct support to actions labelled “PRSP”. Equally support for implementation of the priority actions contained in the PRSP document may be as important as direct and indirect support for the PRS process as whole. The answer is a balance between the two. Identify a trigger to move emphasis from TA to budget support.

There is probably a role for the EU to play in balancing the influence of the World Bank and the IMF. The UN has attempted to play this role in the in the area of policy advice but has often failed partly as it does not have the resources and the corresponding influence among recipient governments. This is not to say that the EU should encourage one perceived fallacy (for example IMF macroeconomic policy) to be replaced by another (potentially worse in it is impact) but that it should facilitate the identification of clear alternative policies. This is essential if the PRS process is to be truly country driven and unlike the UN, the EU has the financial weight (if perhaps not the neutrality), to support this approach.

**Recommendations for Countries Implementing PRSPs:** The findings and lessons outlined above and taken from the desk, case and comparative studies lead to some important recommendations for the countries implementing PRS process. Many of these apply to all the countries in the region now implementing the process but where appropriate specific countries and recommendations are identified. At this stage it is worth stating that many of the principles of the PRSP and of development effectiveness are not repeated here. It is assumed that recommendations to improve ownership, partnership and result-orientation are well-known and redundant in their most general forms.

(a) Put the PRSP in the centre of the planning process. Using existing institutions where possible, design a comprehensive national development planning framework in both a technical and political sense not just elements of one. Most PRSPs address the multi-dimensional nature of poverty but in so doing need to address all public interventions including areas often not considered as important for poverty such as justice and security. But the latter two have important impact on the poor and the PRS process needs to encompass them. So the PRS process needs to be the core of the national development planning framework that covers everything not just a thematic programmes that covers a number of sectors that are considered to be important to the poor.
(b) Look towards the longer term in this process – don’t expect miracles from the PRSP process but recognize that it may take several versions in the process before the capacities are in place to be truly effective.

(c) Develop mechanisms to ensure greater mutual accountability between government and the donor community (in addition to the accountability mechanisms for the citizens that should also satisfy the donors)

(d) Greater focus needs to be placed on communicating the role of the PRS process in the overall development planning framework and the roles of the various stakeholders. The first part of this will be facilitated by the development of the planning framework itself.

(e) Revise the donor-recipient relationship according to the principles of the PRSP and demand greater accountability for actions.

**Specific Recommendations for Armenia**

With regard to the PRSP implementation, it is crucial that it be reflected in the budgetary process. Efficient tools to provide for this are the organization of discussions between bodies responsible for PRSP implementation and MTEF development and their reciprocal participation in activities of both. MTEF application instructions should also contain sectoral policies mentioned in the PRSP and measures of their implementation.

Discussions on Annual Budget and MTEF should provide for more participation, especially, with regard to the decision-making on MTEF target indicators. Here attention should be paid to ensuring participation of the Members of the National Assembly by providing them with information about PRSP policies, priorities and target indicators.

In order to endure efficient implementation of PRSP program measures for 2004 it is important to identify financing sources for them. That can be achieved through efficient collaboration of line Ministries and stakeholder international organizations and will provide for the efficient use of donor assistance.

It is necessary to organize discussions with stakeholders with the aim of identifying a separate format for the provision of funding in the Annual Budget for PRSP measures. This could be presented in a separate Appendix.
A possible solution to better incorporate the results of assessments and research on the possible impacts of designed policies on the social situation and poverty in the policy implementation phase, could be a legislative amendment, which will require the Government to discuss programs only upon submission of the poverty and social impact assessments (PSIA) document attached to each proposal.

In order to ensure continuity of the PRSP monitoring system and improvement of the monitoring function within the government bodies, it is necessary to include relevant clauses in the Charters of the Ministries. The Head of each agency should appoint the groups in charge of monitoring and lay out their annual task schedules.

The Government should maintain the PRSP implementation process as the focus of its Ministries and agencies by appointing units and defining the scope of their responsibilities. This will ensure that the government bodies will pro-actively participate in the PRSP reviews and adjustments.

In order to ensure utilization of local and regional capacities it is necessary to disaggregate PRSP policies to municipal levels. This, however, should be accompanied by capacity strengthening measures in local government bodies.

**Specific Recommendations for Azerbaijan**

An overall planning framework needs to be clearly defined, as does the role of the PRSP within it. This may not happen in the next phase of the PRS but should be established before the third iteration. Work needs to start now and additional donor support should be provided. Establishment of such a framework should be the priority of government and donors alike. Donors need to start thinking of triggers to move towards budget support once the framework is in place.

The next PRSP must be designed for the needs of government in the first instance and to comply to the demands of the IFIs should not be the primary concern.

Donors need to be more programmatic in their support and to see the PRS process not just as a stand-alone activity but as an integral part of the overall development planning and management framework. This is especially important for those donors who do not engage with public administration reform and may therefore support parallel structures through the PRS process.

**Specific Recommendations for Georgia**
Building Institutions Good governance and democratic consolidation remains a major challenge for Georgia as does accountability in financial and economic management. Therefore capacity building and promotion of the rule of law, building democratic institutions and promotion of human rights require particular attention.

Government and Bureaucratic Management Intra-governmental coordination and the balance of power is quite important. The government institution responsible for the management of the EDPRP must have the power to manage other line ministries and departments, while at the same time ensuring that there is a fair amount of participation by other stakeholders. This is quite a challenge in practice and it is hoped that the changes in the coordination of the EDPRP will have a positive effect on the overall implementation of the program.

Resource Mobilisation Apart from improvements in revenue collection and management, the government needs to find ways of bringing informal sector into the tax net by introducing some minimal form of taxation that is not prohibitive for small business (vendors fees, market fees etc). Reduction of bureaucratic requirements may also encourage formal registration of business.

Financial and Technical Support The success of the EDPRP depends on timely, predictable donor financing. Given the problems that the Georgian government has had in raising adequate domestic revenue, it is quite clear that the country will require significant amounts of financial support for its programmes. However, there are concerns raised about the unpredictability of donor funding. Additionally, external assistance should be largely grant-based, and consistent with the commitments made with respect to attainment of the MDGs. Georgia has limited access to international financial institutions and therefore will continue to rely on concessional official external financing.

Technical assistance will also continue to be important in the medium term. However, there should be recognition that unlike many countries undertaking PRSPs, the levels of education in Georgia are relatively high. It is estimated that Georgia has a literacy level of between 75 and 85 per cent as a result of the positive impact of Soviet education policies. It is assumed that the quality of civil servants reflects this. Therefore, the task is mainly one of retraining people in the management of a market oriented economy and the level of government involvement that goes with this. The Government of Georgia has prepared a project proposal for financing support to the implementation of the EDPRP. The emphasis of the proposal is for the provision of financing to engage experts in the various sectors that will manage the implementation process. The German government has already

---

3 Oxfam (2004), From Donorship to Ownership ?, p45
provided technical assistance to the Ministry of Economy for EDPRP implementation. This may provide encouragement for other donors to follow.

**Donor Coordination** The establishment of the Donor Framework Group for the preparation of the EDPRP should form the basis of coordination for implementation as well. Apart from ensuring that the donors’ individual programmes are in tune with the EDPRP, it also provides a contact point for the Georgian government and reduces pressure on government officials that are responsible for aid coordination and management.

**Building National Ownership** While there is much rhetoric about building partnerships and ownership, donors are sometimes reluctant to give full responsibility for implementation to recipient governments particularly in cases, such as Georgia, where there have been problems of corruption and lack of accountability in some areas. Nonetheless, it is important to emphasise that the country is ultimately responsible for its own progress and development.

**Specific Recommendations for the Kyrgyz Republic:** The following issues have to be considered in the process of the NPRS implementation:

A clear message should be sent that the NPRS is not strictly a Government-donor deal and that the participation and feedback of other stakeholders is mandatory; for example, an annual implementation report has to be complemented by a summary of consultations on its content with the civil society; this summary could also describe the lessons, which the Government learnt from these consultations;

More attention could be paid to the link between the poverty analysis and the action plan in the strategy; for every priority activity area in the strategy there should be a description of the mechanism transmitting the activities into poverty reduction with all the assumptions clearly defined;

The issue of costing is also very relevant as it is impossible to prioritise without good cost estimates, and the Government requires support in this area; it is important that the capacity of all major stakeholders – the Ministry of Finance, line ministries, regional authorities and local self-governments – be improved;

There is a need not only for prioritised sectoral plans, but also for a well-developed regional component of the strategy, describing all the approaches and links between resources and activities of the Government and the sub-national (including local) authorities.
Specific Recommendations for Tajikistan: The following recommendations emerge on the basis of the identified challenges to the implementation of the PRSP in the Tajikistan:

(a) Switch the mindset from treating the PRSP as a document for the donors by the government. Rather, it should be treated as a document for the people, by the people with enhanced participation and feedback from various stakeholders. The absence of a publicly available progress report is indicative of the shortcomings in the mechanism to monitor implementation and its completion must be treated as a priority and indeed, essentially inbuilt part of the implementation process in the future.

(b) There is a need for prioritised sector plans and for improving the capacity of line agencies to implement these plans successfully. The PRSP does not discuss either of these issues in detail and the specific mechanisms surrounding each strategy need to be clearly laid out.

(c) Technical capacity and capacity to carry out poverty analysis needs to be enhanced and better linked to the action plan described in the strategy. As in the case of the line agencies and required actions, in this case too there should be a specific description of the way in which the problem identified in the PRSP will be addressed during the implementation phase. This can be accomplished by paying more attention to the link between the poverty analysis and the priorities laid out in the PRSP.

Recommendations for Countries about to Start PRSP Implementation: While most, if not all, of the above recommendations will apply to those countries yet to start implementation of the PRSP, there are some specific recommendations that relate to Uzbekistan countries in the region. These “latecomers” in the process have the advantage of being able to learn from the experiences of their neighbours and to undertake PRS processes that are not only well implemented but more importantly have better results in terms of poverty reduction. In relation to the scope of this report, the following are recommendation for one or both of the countries:

(a) For Uzbekistan at its early stage of the PRSP process, there are a number of recommendations stemming from the finding that the development of the PRSP itself has an impact on the success of its implementation. For example, the degree to which line ministries are involved in the development of the PRSP will help determine their engagement in implementation.

(b) The most important recommendation is for the government to avoid the development of an island of a PRSP management unit and a single parallel PRSP framework. Rather it should use this opportunity to development a national development planning framework that is based around a three-year planning tool which for the purposes of IMF/WB financing will be a PRSP.
1. INTRODUCTION

1.1 THE POVERTY REDUCTION STRATEGY (PRS) PROCESS

In December 1999, the Executive Boards of the International Monetary Fund (IMF) and World Bank approved a new policy instrument, the Poverty Reduction Strategy Paper (PRSP), designed to serve as a framework document for concessional lending. Specifically, PRSPs were intended as a basis for external debt relief under the Heavily Indebted Poor Country Initiative (HIPC), begun in 1996 and ‘enhanced’ through more generous terms in 1999. Since the launching of the idea of the PRSP in 1999 there has been some discussion as to the meaning of the terms and its appropriateness. Clearly the term “paper” is inappropriate to describe what is essentially a process but also an approach set within a set of principles. The World Bank has started to use “Poverty Reduction Strategy Initiative” to describe the whole process (for example in the 2004 Operations Evaluations Department [OED] evaluation of the PRSP process) but also uses “Poverty Reduction Strategy Paper Initiative” (for example in chapter 1 of the same OED document). The IMF Independent Evaluation Office (IEO) on the other hand uses “Poverty Reduction Strategy (PRS) Approach” and only uses PRSP when referring to the document itself. (IMF IEO 2004)

The PRSP process is envisaged as a new partnership-based approach to the challenge of reducing poverty in low-income countries. Nationally-owned poverty reduction strategies are to be at the heart of the new approach. Following its mandate to integrate the objectives of poverty reduction and growth more fully into its operations in its poorest member countries, the IMF established the Poverty Reduction and Growth Facility (PRGF) in 1999, replacing the Enhanced Structural Adjustment Facility. Programmes supported by the PRGF and IDA (International Development Association, the World Bank’s concessional window) must be framed around a comprehensive, nationally owned PRSP prepared by the borrowing country. The PRSP is then endorsed in their respective areas of responsibility by the Boards of the IMF and World Bank as the basis for the institutions’ concessional loans and for relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The PRSP approach also stresses the underlying principle that national poverty strategies should foster domestic and external partnerships that improve the effectiveness of development assistance. Many bilateral donors have also joined the partnership in support of the PRSP approach.

The declared objective of the PRSP (as enunciated by the World Bank and IMF) is “to assist low-income countries in developing and implementing more effective strategies to fight poverty (that is, strengthening the poverty impact of public actions, including policies and spending) through supporting and sustaining a country-driven Poverty Reduction Strategy process” (WB/OED 2004). Other major features of the PRSP are that it should be an analytical framework, integrating macro-
economic, structural, sectoral and social considerations, it should lay out a set of poverty reduction measures and policies, and should span an initial three-year time frame. They should also be results-oriented, particularly with respect to long-term international development goals. These goals are addressed in the five main principles of Poverty Reduction Strategy (PRS) documents, the so-called Comprehensive Development Framework (CDF) Principles:

- **Country-driven**, involving broad-based participation
- **Comprehensive** in recognizing the multi-dimensional nature of poverty
- **Results-oriented** and focused on outcomes that benefit the poor
- **Partnership-oriented**, involving coordinated participation of development partners
- Based on a **long-term perspective** for poverty reduction.

Since its initiation, the PRS process has evolved considerably in both form and content, as implementing governments, the international financial institutions and donor agencies have learned from experience. Practice evolved as the multilateral and bilateral development agencies embraced poverty reduction strategies as a foundation for their development cooperation programmes. Governments of developing countries hoped that the PRSP offered a fresh approach to confronting the problem of poverty that would be linked to an effective macroeconomic framework and a participatory process. As the international development community embraced the principles of the PRS process, there was a move toward coordinating all development initiatives within the framework of the PRSP. This means that bilateral, multilateral and international financial institutions have made a commitment to ensuring that all their programmes of supporting less developed countries are aligned with a country-driven PRS process.

The PRS process is also explicitly linked to the Millennium Development Goals (MDGs) which established targets for reduction of poverty. In April 2003 the UN Development Group and the World Bank issued a joint letter setting out how the MDGs relate to the PRS process. It states that “for over 70 of the poorest countries, the PRSP will constitute the primary strategic and implementation vehicle to reach the MDGs”. At the country level, donor agencies are making some effort to ensure that their programmes are linked to the PRSP. This includes the EU Country Strategy Papers and the United Nations Development Assistance Framework (UNDAF). Section 3.8 examines donor responses to, and support of, PRSP implementation in more detail.

### 1.2 GLOBAL STATUS OF THE PRS PROCESS

The set of actual and potential PRSP countries has expanded from HIPC relief countries, to all IDA borrowers (for which a PRSP is necessary for a Bank programme and concessional IMF lending), to
middle income countries (for example, Indonesia). In terms of process, the PRSP countries can be divided into four major categories:

- **PRS Plus**: In this category are those countries which were the earliest to complete full PRSP and have begun to implement policies and programmes in their PRSPs. Some have produced PRSP Annual Progress Reports (PRSP APRs).
- **PRSP**: These countries completed their PRSPs more recently and are still in the initial stages of implementation.
- **I-PRSP**: Those countries whose I-PRSPs have been presented to the IMF/World Bank and are yet to complete the full PRSP.
- **Non-participants and nominal participants**: This last group are those that have not begun the I-PRSP process, but may do; which have suspended or abandoned the process (e.g. Angola); or reached an agreement with donors and lenders that some national planning documents would be accepted as the I-PRSP and PRSP (for example, India).

As at end-July 2004, forty countries had completed full PRSPs and forty-nine completed I-PRSPs (see Table 1 below). A table of the status of the various countries is found in Annex 2. Given the time required to prepare a PRSP a number of the early starters are now preparing or have produced second generation PRSPs (including Bolivia, Burkina Faso, Nicaragua, Tanzania and Uganda).

<table>
<thead>
<tr>
<th>World Bank Region</th>
<th>Countries</th>
<th>I-PRSP</th>
<th>PRSP</th>
<th>APR 1</th>
<th>APR 2</th>
<th>APR 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>29</td>
<td>26</td>
<td>20</td>
<td>12</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>East Asia Pacific</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Latin America Caribbean</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>South Asia</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>54</td>
<td>49</td>
<td>40</td>
<td>18</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: World Bank list of Board Presentations of PRSP Documents as at July 31, 2004

1.3 THE STUDY OF PRS IMPLEMENTATION IN THE NIS

This study will identify the key challenges facing governments of the Newly Independent States (NIS) in implementing the PRS process and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards. The consulting process involves the preparation of:
• five desk studies (Azerbaijan, Georgia, Moldova, Tajikistan and Uzbekistan);
• two in-depth case studies (Armenia and the Kyrgyz Republic);
• a comparative study examining global experience with implementation of PRSPs
• a synthesis report bringing together the findings, lessons and recommendations from the other reports.

The consulting processes uses a simple analytical framework taken from the Terms of Reference (ToR) that brings together two sets of factors:

(a) Key Challenges to effective PRS Implementation in the NIS: Preparation of a PRSP document is only a stage of the PRS process and global experience suggests that on completing the PRSP document countries will face significant challenges in ensuring its effective implementation. These key challenges will relate to establishing the key features of the PRS, for example effective integration into the budget or utilisation of an appropriate monitoring and evaluation system.

(b) Potential Underlying Constraints to Implementation: With respect to each of the above challenges, each country will face a number of underlying constraints or groups of constraints. These may include, for example, such issues as political commitment, institutional structures or existence of adequate capacity.

The overall approach is to use the simple analytical framework to undertake the following actions:

• Examine international experience related to PRSP implementation and the lessons learned, identifying those lessons that are applicable to the NIS. As ‘later’ countries in the PRSP approach, the NISs of the former Soviet Union can benefit from the experience of their predecessors, particularly African countries that were the first set of countries to complete the PRS process, and begin implementation by identifying both challenges and examples of good practice. In this regard, a large volume of literature has accumulated on PRSs from which implementing countries can draw lessons.

• Draw lessons from the process of preparation of the PRSP document in the NIS region, and from the nature of the document itself, that impact on the subsequent implementation process.

• Draw lessons from the limited period of implementation in the 5 relevant NIS countries.

• Based on the relevant global and regional lessons that have been learned, examine the context in which the PRSP will be implemented effectively.

4 The Terms of Reference for the project can be found in Annex 1
• Provide a set of recommendations in ways in which government can best achieve PRS implementation and how the international community, the EC in particular, can support them in this process
• Specifically for the two relevant NIS countries without a complete PRSP, identify what can be done in the process of preparing the PRSP and in the nature of the PRSP itself that will facilitate future implementation

Based on the above the synthesis report follows the following structure:
• Chapter 2 examines the global experience with PRS implementation, focussing on the three challenges identified in the ToRs.
• Chapter 3 examines the global experience regarding the issues (as identified in the ToRs) affecting these challenges.
• Chapter 4 examines the NIS and the context for implementation together with the key issues related to PRS implementation in the region.
• Chapter 5 examines the key challenges to implementation in the NIS
• Chapter 6 covers lessons learned and recommendations.
2. CHALLENGES TO EFFECTIVE PRSP IMPLEMENTATION

2.1 PRS IMPLEMENTATION

What is implementation?
In this paper, the acronym PRS (Poverty Reduction Strategy) will be used with ‘process’ to refer to chronology and dynamics associated with the design, writing and implementation of a country’s poverty strategy. The acronym PRSP (Poverty Reduction Strategy Paper) refers to the document that is the outcome of one stage in the process. This distinction draws attention to the nature of the process, whose long-term purpose is poverty reduction, not the generation of a series of documents. Implementation can refer to the PRS Process or the PRSP. Implementation of the PRSP refers to undertaking the set of priority actions and policies contained in the PRSP document. Implementation of the PRS refers to implementation of the PRSP and the whole cycle of development, monitoring and revising a PRSP.

This study examines the implementation of the PRS from the moment of approval of the PRSP itself. Implementation of the PRS process in this respect means (a) implementing the PRSP itself (i.e. undertaking the actions it contains in its plan of action) (b) learning from the results of the actions, and (c) amending the strategy and actions accordingly. These amendments will occur regularly, perhaps on an annual basis, although it is possible that amendments of certain sector or thematic policies and interventions could occur on a more ad hoc basis as appropriate. It is likely that every three years this would lead to a significant change in the PRSP document itself. The study is therefore focussed on process and not the contents of the PRSP. In terms of the contents the interest is only on those elements that affect implementation (for example capacity building or budget system reform).

Although implementation, as defined for this study, should begin immediately after approval, whose approval is referred to: government or the Boards of the IDA and IMF? The timing of approval also has implications for implementation as it will effect integrated into the annual budget, a document usually prepared according to a strict timeframe. If the initial PRSP development process was not integrated into the budget development process then inclusion of some public actions included in the PRSP may inevitably have to wait until the next budget. Even in this situation much of the PRSP may have been inherited from ongoing programmes and strategies and this may give the impression of greater integration (in terms of the budget implementing activities included in the PRSP) than may be the case in reality.
Is the PRS process being implemented? How can we tell?

Within the PRS approach, the Annual Progress Report (APR) is the main tool for examining the degree of implementation. It is meant to support monitoring of the PRS process in support of the practical aspects of process management but also to support greater accountability. Although there is no explicit section defining the purpose of the APRs in the World Bank’s PRSP Sourcebook, the World Bank Guidelines for a Joint Staff Assessment (JSA) of the Progress Report are quite clear in the structure and role of the document in the PRS process. They suggest the following:

• The APR should be produced annually and get feedback from the World Bank/IMF through a PR JSA (also for World Bank/IMF operational decisions)
• So as to minimise administrative burden the reports should be integrated with regular government processes
• The timing should be flexible so as to fit in with national reporting and decision making processes

The World Bank/IMF JSA guidelines set out the following key questions on the PR which indicate what it expects a good PR to look like:

• Does the progress report provide sufficient information and analysis regarding the achievements and shortfalls experienced to date with respect to the poverty targets, priority public actions, and the monitoring and evaluation systems as set forth in the PRSP?
• Does the progress report propose any important changes in the strategy and, if so, are these changes appropriate in light of implementation experience to date, changes in exogenous factors, and new data and analysis regarding poverty and its determinants?
• To what extent has the government used its annual progress report to inform and/or involve domestic stakeholders and partners regarding implementation and to build support for its strategy?

While the focus on the results will help us understand the outcomes and impacts of various actions, it is also important to monitoring the delivery of inputs and outputs representing these actions\(^5\). The actions may produce a very favourable result only if implemented. Two indicators are therefore useful in examining the degree of implementation of the PRS process (as defined above in the context of this study): First, the resource allocations to the various public actions set out in the PRSP document, and; second the amendment of the document based on evaluative evidence (in other words, the degree to which the PRSP is truly a “living document”).

The WB/OED 2004 evaluation (p24) suggests that the APRs have “Strengthened the PRS process by increasing the relevance of the strategy and providing a yardstick for accountability”. Examples included:

\(^5\)Using the following monitoring terminology: Inputs ➔ Outputs ➔ Outcomes ➔ Impacts (of which the last two are results)
• Ethiopia, where production of the APR increased the government’s focus on monitoring and evaluation and resulted in a comprehensive plan for monitoring.

• Albania, where the APR was used to revise and update PRSP objectives. It was also used to align the PRS process with the MDGs as well as the European Union accession process.

### 2.2 WHEN WILL A PRSP BE IMPLEMENTED?

International experience has found that there is a key set of features of an effective PRS framework that allow and support effective implementation (in the sense defined above). Developing this set of key features is the challenge faced by many governments and the lack of these features is the main reason for poor implementation (the next section looks at the issues that determine whether these features are in place). These have tentatively been identified as the following:

- The depth of integration of the PRSP in the budget process including both the annual budget and medium-term budget planning instruments (for example a medium-term expenditure framework).
- The existence of sector strategies/work plans with clear priorities in the PRSP framework and the extent to which the PRSP is the focus of the national development planning framework.
- The extent to which indicators, monitoring and feedback arrangements have been put in place and utilized effectively.

These three features relate to the three main tools for implementation ie (a) the budget system, (b) clear plans of action and (c) monitoring system. These should be reflected in the PRSP document and set out in a clear manner that all stakeholders can understand. All three are important and are interconnected. Without clear priorities and sectoral strategies/programmes then costing and budget preparation will be difficult. At the same time well prepared strategies and priorities will not be implemented if they are not integrated into the budgeting process or are poorly costed. Without adequate feedback arrangements implementation will not be effective.

In a similar way, the IMF sets out its vision of implementation of the PRS process in its IEO evaluation (IMF 2004 p123) “The process was expected to lead, over time, to the establishment of an operationally meaningful growth and poverty reduction strategy composed of:

- strategic guidance, or a “road map,” for setting priorities and resolving tradeoffs between competing objectives; and
- working institutional arrangements for implementing, monitoring and updating this road map.”

---

6 The 3 challenges were identified in the project Terms of References and subsequently amended following discussions with eth EC during the inception phase.
But this vision for implementation does not seem to have been achieved. The IMF IEO evaluation of
the PRS process reports that on examining the case studies the following messages emerge:

- **To date, no country has both components of such an operational framework. Vietnam comes
closest, but the development plan—rather than the PRS per se—provides much of the strategic
framework.**

- **Progress is being made over time in some countries (e.g., Mozambique and Tanzania) to put in
place the institutional arrangements for implementing/updating the strategic roadmap.**

- **More generally, the three-way linkage between the PRSP, medium-term expenditure framework,
and budget is typically poor, reflecting some combination of limited costing and prioritization in
the PRSP and the generally poor state of public expenditure management (PEM). Of these, the
PEM weaknesses are probably the most fundamental challenge, requiring comprehensive
institutional reforms and capacity improvements without which any enhanced prioritization in the
PRS will remain wishful thinking.**

In addition to the key features of the PRS process that will facilitate implementation, it is important to
identify the necessary context for effective implementation. Are there contextual factors that will
influence the success of PRS implementation? If so then no matter how well the PRS is designed and
no matter how significant are the features of a good PRS, the process will not be implemented. Nepal
provides a good example of where a “good” PRSP (in terms of having the right kind of features) is not
being implemented as a result of a context that is unsuitable, in this case serious conflict in parts of the
country (Weeks et al 2003).

An alternative way of looking at this is to say that the PRS and the PRSP should take into account the
fact that contexts change. Shocks and significant changes in context occur and are possibly
characteristics of those countries that engage in the PRS process. A “good” PRSP should therefore
take them into account through offerering different scenarios or direct risk reduction interventions. For
example, a PRSP should develop scenarios for macro-economic performance or should include
activities aimed at disaster prevention and mitigation or conflict reduction. The importance of
alternative strategies to take into account unforeseen events and/or events outside the control of the
national government is highlighted in the World Bank OED review (WB/OED 2004 p23). For
example, in Sri Lanka the JSA notes: “The PRSP lacks alternative frameworks or contingency
policies. Notably, the PRSP does not include an assessment of how the upcoming elimination of textile
quotas will affect Sri Lanka’s economic growth or the poor. For this reason, staffs encourage the
Government to develop an alternative, lower growth scenario and design contingency plans that fully
reflect the envisaged risks.”

---

7 The specific issue of change in Government is examined in the next chapter in the context of political commitment to the
PRS process.
2.3 THE DEPTH OF INTEGRATION OF THE PRS IN THE BUDGET PROCESS

The depth of integration of the PRSP in the budget process including both the annual budget and medium-term budget planning instruments (for example a medium-term expenditure framework).

The PRSP will contain a series of government interventions, both policies and investments, that will be implemented within a specific time frame and with clearly allocated responsibilities. This plan of actions should be developed from the analysis of poverty as well as analysis of the enabling environment. Implementation requires resources, including financial resources, as well as commitment. The budgeting process indicates the financial resources allocated to implementing the PRSP and in so doing indicates the commitment.

The PRSP and Public Expenditure Management

The integration of the PRSP in the budget process therefore focuses on public spending and specifically on the system of public expenditure management (PEM). Bevan (2004) starts his analysis of the linkages between PEM and the PRSP process with two observations:

- Public spending and its management is the central (though by no means only) instrument for implementing a Government’s PRS.
- Both the PRSP and PEM are ongoing processes rather than events or final outputs. Hence the need for a close relationship between the two requires that these two processes are well coordinated; this implies that there needs to be a two-way relationship between them.

While the annual budget may be the fundamental unit of the national budget system, the MTEF is increasingly seen as an essential part of that system. Other elements of the system of Public Expenditure Management (PEM) include the Public Investment Programme (PIP), and public expenditure reviews (PERs). In examining the relationship between the PRSP, METF and the budget, Bevan (2004: p28) notes that “It is vital that each of these be realistic, based within a common institutional framework, and closely integrated”. Equally, processes such as Public Expenditure Reviews (PERs) need to be timed so that they fit in with the PRS process. Two additional issues need to be examined:

- While integration of the PRS into the budget system may be good for implementation of the process what if the budget system is sub-optimal (for example subject to weak management, significant extra-budgetary funds or revision by political whim)? Weakness in PEM (or in the budget system as a whole) is a different factor behind poor PRS implementation than non-alignment of the PRS and the budget system. Development of the PRS process needs to go hand in hand with reform of the budget system. PRSPs should be explicit about such reforms.
• Links between the PRS process and budget system are not just one way. Bevan (2004: p27) notes that “the requirements of the PRSP add to the incentive to try to improve the very poor PEM systems that exist in most of these countries” (referring to the case study countries covered by the WB/OED PRSP evaluation (2004)).

The special role of the MTEF
The MTEF provides the “linking framework that allows expenditures to be driven by policy priorities and disciplined by budget realities”. Le Houerou (2002) notes “conceptually, MTEFs are the ideal tool for translating PRSPs into public expenditure programmes within a coherent multi-year macroeconomic and fiscal framework”. The Development of MTEFs is also motivated by the IMF’s PRGF as well as by the World Bank’s PRSC which rely on the medium term costing of interventions in the PRSP. It facilitates integration of external assistance and depending on the design of the MTEF, can facilitate greater participation in the PRS process. Unfortunately while the integration of the PRSP into the national budget system is essential for effective implementation, the WB OED evaluation (2004) found that “The priorities for expenditure in the PRSPs have not been translated into priorities in the budget, because the three-way linkage of the PRSP, the budget, and the Medium-Term Expenditure Framework (MTEF) is typically weak or absent.”

Other Issues
The integration of the PRSP gives rise to a larger set of issues that need to addressed, including:

• Local budgets: The degree of fiscal decentralisation and the role of local government in the PRSP implementation process will determine the importance of the integrating the PRS process in local as well as central budgeting systems.

• Parliament, accountability and transparency: Integration of the PRS into the budget system may support a greater role for parliament in the PRS process in situations parliament has a key role in the budgeting process. Where parliaments are less effective the impact will not be so important. Again, if the budget system is transparent then this will lead to greater transparency of the PRS process.

• Budgets and monitoring: The introduction of programme/outcome/results budgeting has often been undertaken alongside the PRS process and the development of the MTEF. It links the budget process with the M&E system.

• Flows of aid: Integration of the PRSP in the budget system requires the integration of aid into the budget. It also requires greater predictability of aid flows.

• Financial Resources: It may be possible to have PRS and budget processes fully integrated (and well costed and prioritised programmes and strategies) but resources may not be adequate financed. Sanchez and Cash (2003) note that there is a clear risk that PRSPs will remain strategies
on paper alone as they lack the financial resources. These funding shortages could be caused by
national economic constraints, external economic issues (e.g. declining terms of trade), failure of
donors to fulfil pledges and the insufficiency of debt relief.

2.4 SECTOR STRATEGIES/WORK PLANS WITH CLEAR PRIORITIES

The existence of sector strategies/work plans with clear priorities in the PRSP framework and the
extent to which the PRSP is the focus of the national development planning framework.

Sector and thematic strategies are the basic building blocks in the development of the PRSP and are
equally important in its implementation. In some respects this feature should come before the above
since without clear, prioritised strategies in place at the sectoral and thematic level it is difficult to
prepare a budget or even a MTEF.

Without clear strategies, implementation becomes ad hoc – in some countries business as usual. Two
specific issues are extremely common from global experience. First, the costing of the interventions,
whether policy reforms which have fiscal implications or direct investments, needs to be accurate.
These have been seen to be weak in many PRSPs. Second, and related to the first, is prioritisation of
the interventions. Among the list of desired interventions, the PRSP needs to clearly indicate which
ones have the greatest priority. It is also important to note that donor alignment to the PRSP is made
difficult without accurate costing and prioritisation. While this study focuses on process and not
content it is clear that the development of the strategies should be in line with the poverty analysis of
the PRSP.

Clear responsibilities and time frame

A fundamental feature of the PRSP is that it should have clear responsibilities, implementation
arrangements and timeframes. But even these features will not lead to effective implementation if the
PRS process is not integrated within a national development planning framework. Even where that
planning framework is weak and consists on no more than a budget system and some sectoral
strategies, lack of integration will lead to sub-optimal implementation and wasted resources. A major
issue for many countries occurs when existing planning frameworks exist and the PRS process
establishes a parallel process and framework. The alternative option of strengthening existing
frameworks has not been fully explored. The IMF IEO 2004 evaluation recognises that this may have
been a mistake and that “alternative approaches aimed at adapting/influencing the existing domestic
process may have achieved similar results more effectively, avoiding the creation of parallel
processes” p122.
The WB/OED PRSP evaluation (2004) notes that “The PRSP process has brought together sector strategies in one policy document, but in most cases the individual sector strategies were not changed substantially in the formulation stage”. This is often considered sub-optimal as it destroys the possibility of a clear and logical link between the poverty analysis and the development of programmes and strategies to address the problems identified. It is, however, inevitable to some extent at the early stages of the PRS process where the re-orientation of sector programmes, especially those developed with donors, may be difficult or perhaps impossible. The integration of the PRS in the national planning framework and the alignment of the donors to the process will make sure that sector strategies and programmes are developed in a more consistent and analytically rigid manner.

While PRSPs have often been developed along side longer term plans (for example Vision 2020 initiatives, country MDG plans or regional initiatives such as the NEPAD) “they do not analyze how they will achieve these long term goals, nor do they reconcile their own long term targets with those of other long-term plans” WBOED2004 p20

Costing and Prioritization

Actions in PRSPs should be accurately costed and prioritised, but this remains one of the most serious deficiencies in the PRS process globally. The IDA/IMF Progress Report 2003 (p28) identifies a number of specific problems in this area:

- The costing of specific measures in PRSPs and their integration into Medium-Term Expenditure Frameworks (MTEFs) generally remains weak.
- Line agencies are often not in a position to reliably estimate the total (capital and current) costs of the proposals submitted for the PRSP.
- Weaknesses in costing have adverse repercussions for the prioritization and focus of PRSPs.

But the report also finds that in countries where PRSP implementation is at an advanced stage, the costing of priority actions is better harmonized with the MTEF.

WBOED2004 (p16) refers to a review of 25 completed PRSPs found 8 had serious deficiencies in the costing of programmes - some had not been costed at all, others had insufficient detail, inconsistencies or lack of clarity in their costing. It goes on to state “In almost all PRSPs, the assumptions underlying the costings are not discussed, nor is any attempt made to relate the costs of activities to success in achieving desired outcomes” and “The hard choices in prioritising actions over the short to medium term have not been made in most PRSPs”

Adequately communicated to all stakeholders

The sectoral and thematic strategies that make up the PRS process should be adequately communicated to all stakeholders. The need for clarity about the PRS Initiative as a whole and what it
means to the different stakeholders is essential/important for effective implementation. WB/OED 2004 notes that the PRSP initiative means different things to different people. Its examinations of case study countries reveal that in most:

- Governments see the PRSP as added conditionality that give them access to resources through HIPC debt relief, or to continued concessional assistance from the BWIs.
- NGOs in many countries see the PRSP as a means for gaining greater political participation and voice.
- For many donors, the PRSP is an opportunity to enhance accountability and transparency in the use of external assistance.

It states “These differences in expectations can interfere with collaboration across stakeholder groups toward the PRSP Initiative’s goal of poverty reduction. Greater clarity and transparency in the Initiative’s focus and objectives are needed at the country level to minimize this challenge.” (Box 1.4 page 7)

2.5 INDICATORS, MONITORING AND FEEDBACK ARRANGEMENTS

The extent to which indicators, monitoring and feedback arrangements have been put in place and utilized effectively

A good system of monitoring and evaluation of the implementation and results of the PRS process together with adequate feedback arrangements is essential if the process is to be effective. Without such a system it will be difficult possibly impossible, for the PRSP to be adjusted and re-orientate to become more effective. The elements of such a system can be defined as follows:

**Goals and Indicators**

A good system requires appropriate goals that truly reflect the national development aspirations. Goals and corresponding indicators need to be time bound and measurable. Have the correct indicators been selected ie in relation to goals? Is the data of high enough quality? Since the MDGs are the long-term, poverty reduction goals adopted by the international community, the PRSPs should be framed within them. Moreover the PRSP goals should to a large extent coincide or at least explicitly contribute towards the MDGs. A major challenge highlighted in the March 2002 Joint Review was the lack of appropriate indicators in PRSPs that would help track the implementation of public programs. Although the situation has improved the report with the following findings:

- A comparison of early and recent PRSPs reveals that the coverage of MDG indicators and baseline data has improved significantly over time, which strengthens the basis for harmonized reporting on results
- In the area of governance, a major pillar of most PRSPs, the process of tracking progress appears to have improved over time.
• PRSPs have proposed a range of indicators to measure private sector development. However, good practices are less evident in this area, in part because of the diversity of conditions, as well as the lack of experience and established international good practice in this area.

• Disaggregation of indicators in order to be able to track key disparities in society is an increasingly common good practice, although the indicators in some PRSPs would benefit from greater disaggregation to capture rural/urban, regional, income, and gender imbalances.

• Some countries may not have been sufficiently selective and strategic in their choice of indicators

On a more positive note, WBOED2004 identifies the fact that “the PRSP has played an important role in encouraging countries to develop indicators and quantitative and qualitative targets for poverty reduction” (p16)

Organisation/mechanics
The organisation of the M&E system is of great importance, for example how the data is collected and the balance between qualitative and quantitative participatory methodologies. Bevan (2003) found that virtually no country has a serious programme of poverty and social impact assessments. The World Bank has developed its own methodology (PSIA) but activity “has been extremely piecemeal and ex post” in the sense that it has not supported decisions yet to be made. With regard to monitoring processes with the IDA/IMF progress report 2003 found:

• The treatment of monitoring and evaluation in PRSPs has generally focused on improvements in data availability and quality, and institutional arrangements have received much less attention.

• Since the 2002 Joint Review, much has been done to improve data availability and quality—especially on poverty outcomes and impacts—through better, more regular, and timelier surveys.

• Most PRSPs set out the proposed institutional arrangements for monitoring in only general terms

• Challenges commonly encountered by countries in setting up and implementing PRSP monitoring systems include lack of coordination and collaboration between actors, overlapping responsibilities, and delays in the flow of monitoring information.

• There has been limited progress in setting up systems to evaluate the impact of poverty reduction strategies

Reporting and Utilization:
Dissemination of actions and results is essential if the process is to result in adequate transparency and accountability. It will also facilitate greater utilisation of the information gained from the implementation process. Utilisation of the information is a key issue and efforts need to be made to ensure that the systems are being used to generate policy reform and reorientation. The APRs are potentially important tools not only for reporting and accountability but also for utilisation including
amendment of strategies. The 2003 IDA/IMF Progress Report sets out the status of progress reporting, noting that such reports are “a key element of the architecture of the PRSP approach to ensure a focus on implementation and ongoing results orientation”. In reflecting on the APRs produced at the time of writing (September 2003) it notes the following:

To date, the content of many PRSP-PRs has been largely limited to providing narrative overviews of implementation, with limited analysis or reflection.

In reporting on results in PRSP-PRs, household surveys are the primary source of poverty data, with qualitative studies and, less often, administrative data also being used.

There is evidence that some countries are using their PRSP-PRs to inform national decision-making processes, although there remains scope for improvement.

In terms of serving the needs of development partners, PRSP-PRs have been presented at donor meetings to good effect.

There have been lags in preparing PRSP-PRs in a number of countries.

According to the 2003 IDA/IMF Progress Report the average country progress report is produced 15 months after the approval of the PRSP. This is a relatively small period of time given the complexity of the process. It may also be due in part to the development of parallel reporting mechanisms even though they should be integrated into mainstream systems.
3. ISSUES THAT EFFECT PRS IMPLEMENTATION

3.1 WHAT ARE THE FACTORS THAT EFFECT PRS PROCESS IMPLEMENTATION?

While the previous chapter sets out the features of a PRSP that will facilitate implementation of the PRS process, this chapter examines the factors that determine and/or influence implementation (directly or though development of the features). Specifically it examines a number of issues or constraints to the implementation of the PRSP. These issues/constraints are distinct from the “features” in the previous section as they are not PRSP specific i.e. they are general issues that impact on the features. The project Terms of Reference identifies the following sets of constraints:\footnote{The issues listed are based on the Terms of Reference but expanded following consultations with the EC during the inception period.}

- **institutional framework** – what are the key weaknesses, if any, in the institutional set-up which hamper the implementation of the PRSP (including annual and medium-term budgetary processes)? How does the institutional set-up facilitate or challenge the identification of priorities for implementation?

- **political commitment** - what is the level of will among the political leadership to support the implementation of the PRSP, and to what extent is this commitment effectively translated into action? How broad is the ownership – is it centralised or broad across central and local government as well as the private sector and civil society?

- **intra-governmental coordination** – what has been the level and quality of interaction between different governmental bodies, and has this been adequate given the scope of the PRSP? What have been the actual and potential roles of local government (regional and sub-regional) in implementation of the PRSP?

- **capacity** – where are the key gaps in financial and human resources available to national governments for implementing priority reforms, and is the PRSP process sufficiently relayed at sub-national political and/or administrative levels

- **consultation with other stakeholders** (such as parliament, NGOs and donors) – what has been the level and quality of the interaction between different stakeholders, and has this been adequate and effective given the scope of the PRSP? What role does parliament play in prioritisation of PRSP interventions though its discussion and subsequent approval of medium-term budget instruments (for example a MTEF)? To what extent are key donors willing and/or able to draw on the PRSP
framework in their own programmes and how key donors in this region are – or will be – supporting the implementation of the PRSPs.

None of these issues or groups of issues can be examined in isolation and there is significant overlap between them. At the same time addressing each set of issues may be necessary for PRS implementation, addressing one set alone will not be sufficient in itself. For example, strong political commitment at the highest level may be necessary for PRSP implementation but implementation will not occur if the capacities (or indeed the right context as discussed in the previous chapter) are not in place.

3.2 INSTITUTIONAL FRAMEWORK

*what are the key weaknesses, if any, in the institutional set-up which hamper the implementation of the PRSP (including annual and medium-term budgetary processes)? How does the institutional set-up facilitate or challenge the identification of priorities for implementation?*

Although the institutional arrangements for the PRS process vary considerably across countries, three elements are commonly found: (a) A Core Unit or Secretariat responsible for the management of the PRS process or elements of it, (b) A Coordinating/Steering Committee structure that brings together different stakeholders (or at a minimum different government agencies), and: (c) a number of Sectoral/Thematic Working Groups. These elements are often newly established specifically for implementing the PRS process and developed in parallel to existing systems of development planning and management. This section will focus on the first of these elements, the organisational unit responsible for the management of the PRS process. The other elements of the organisational framework will be examined in the sections on intra-government coordination and consultation. The institutional framework will have an impact on all three features examined in the previous chapter.

*Integration into the budget system* – the institutional set up is extremely important especially the relationship between the organisation responsible for the budget system and public expenditure management (usually the Ministry of Finance) and the PRSP management unit. A management unit in a rival ministry may find it more difficult to facilitate integration of the PRS process in the budget.

*Sector strategies* – links between PRSP unit and ministries, planning agency, etc will ensure greater coordination of the strategies and their integration into the PRS process While there is no model that seems to work best for all countries but it is clear that the positioning of the institutions will help determine whether the PRS process is integrated into the existing planning framework or is at the centre of a parallel one.

*On Monitoring* – links with sector ministries, planning agency etc will facilitate the development of a single monitoring system as opposed to a parallel PRSP system and a mainstream one.
3.3 POLITICAL COMMITMENT

What is the level of will among the political leadership to support the implementation of the PRSP, and to what extent is this commitment effectively translated into action? How broad is the ownership – is it centralised or broad across central and local government as well as the private sector and civil society?

Although political (and other) commitment will influence the 3 features/challenges, each of these is also an indicator of commitment. In other words the best indicator of commitment is implementation. The importance of political commitment will also depend to a large extent with the nature of the state in the country and where true power rests. It will also depend on the degree of dependency on external assistance and in turn the importance of IFI lending to the country. Commitment also needs to go beyond rhetoric to implementation of actions in the PRS process.

Without political commitment it is unlikely that the PRSP will be implemented (in either of the two senses described in the previous chapter (a) actions (b) reformulation). To a large extent the three features described in the previous chapter are largely technical systems and procedures that can be established by a willing government over time. While having these features in place may be necessary for effective implementation, they are by no means sufficient. There still needs to be political commitment at a number of different levels. In this sense broad political commitment is necessary to ensure that the features are in place. For example:

- On integration into the budget – if seriously committed then this will be ensured. Integration will also indicate commitment by parliament or other budget approving authority not just government.
- On Sector strategies etc – commitment will ensure that sector strategies reflect the true priorities and do not just pander to the donor wants.
- On Monitoring – will make a better system but more importantly will ensure that the stakeholders really utilise the information provided.

It is, however, a broad concept and one raises a number of questions. First, commitment to what? There may be commitment to preparing a PRSP as it seen as necessary to get funds but does that commitment extend to implementation? Is the commitment to the whole process and its principles or just some of them? For example, is there commitment to the development of a pro-poor national planning tool but not to the principles of consultation and transparency? Second, commitment by whom? Internal power plays and rivalries and the structure of the state may be important in determining the degree of implementation. For example, the central government may be fully committed to the PRSP but the Parliament may not be and as a result may not approve the budget that would ensure its implementation. Equally, government at the local level may not be so committed, an important factor in situations of high degrees of decentralisation. Where central government has a high
level champion (for example a President) then this may play an important role in motivating the process (WBOED2004). WBOED2004 (p11) found that

- Commitment is strongest in the organisations closest to the PRS process (for example the Ministry of Finance or Planning) and those ministries and agencies that will benefit most from the process for example through increased resource allocation
- Commitment fades with sectoral ministries, especially ministries with low PRSP priority, and local government
- Civil Society commitment depends on how the PRSP accommodates the specific interest of the organisation (and to how they perceive it is being owned – co-opted by the WB etc)
- Parliaments not well involved in the process (see section 3.6.)

WB OED 2004 notes that government commitment is different from country commitment.

**Third, change in commitment:** A problem not anticipated, at least explicitly, in documents about the PRSP is its status with regard to change in governments. On the one hand, a requirement of PRSPs is that they be government owned; on the other hand, one finds no explicit discussion of their status when governments change (as in Bolivia and Moldova). One can argue that if the PRSP arises from a process of broad consultation, it’s legitimacy may transcend any particular government. However the reality is that few participation processes have been sufficiently broad based to qualify as bestowing a trans-government legitimacy on the PRSP. While a change of government may present a potential problem for BWIs as it is the basis for their multi-year lending programmes, it poses no particular difficulty for the European Union because while it may align with the PRSP, its engagement in a country is not dependent upon the PRSP. On the contrary, if a government wishes to substantially revise its PRSP, EU can provide the assistance in designing alternative policies.

### 3.4 INTRA-GOVERNMENT COORDINATION

*What has been the level and quality of interaction between different governmental bodies, and has this been adequate given the scope of the PRSP? What have been the actual and potential roles of local government (regional and sub-regional) in implementation of the PRSP?*

Related to institutional structures above, the degree of intra government coordination affects both central and local levels. It also depends on the scope of the PRSP, which sectors it covers or if it is intended to be a comprehensive strategy covering all government activity. At the central level the introduction of working groups and other institutional structures have supported greater intra-government coordination. WB/OED (2004 box 3.1) notes that the PRSP has raised awareness about exploring synergies across sectors. Intra-government coordination does not only refer to issues at the centre. It also relates to problems of coordination between the different levels of government.
3.5 CAPACITY

where are the key gaps in financial and human resources available to national governments for implementing priority reforms, and is the PRSP process sufficiently relayed at sub-national political and/or administrative levels

OED Capacity (2004) uses a UNDP definition of capacity - “the ability of individuals, institutions, and whole societies to solve problems, make informed choices, order their priorities and plan their futures, as well as implement programs and projects, and sustain them” - and goes on to distinguish the three levels identified:

- Individual: the ability of skilled administrative, managerial and technical personnel with the incentive to perform effectively
- Organizational: development ministries and agencies with clearly defined objectives, and structures and processes which contribute to the achievement of those objectives
- Societal: the ‘rules of the game’ are clear and observed so that individuals and organisations gain more from playing according to them than from trying to circumvent them.

Preparation and implementation of PRSPs have, in many cases, been delayed by limited capacity (human resources/technical support), specifically the shortage of qualified personnel in Government to manage the process (although often delays are in relation to deadlines set by the IFIs and not related to the capacity constraints that exist). It also may concern the rapid turnover of government officials and relates to both central and local levels. But capacity issues are not limited to Government (at central and local level) and for effective implementation of the PRSP capacity is also needed in the private sector, parliament and within civil society (Kavalsky 2004). In the context of the PRS process it affects all the features required for implementation related to integration in the budget, sector strategies and monitoring and evaluation systems. It also affects all stages of the PRS process and while there are capacity issues related to the preparation of the PRSP, implementation highlights even more serious capacity issues (Kavalsky 2004). A number of specific issues have been identified:

- Conflict between promoting ownership and providing technical assistance when necessary. Concern has been raised about heavy involvement of donor (WB/IMF) personnel in the preparation of PRSPs. But where the PRS process is considered part of an IFI funding mechanism then the recipient may not be too concerned about outside involvement.
- The PRS process itself may damage organisational capacity through the burden of its implementation especially in the preparation of the PRSP documents themselves (including the consultation process). Donors may burden government with their support if inappropriate and/or poorly designed, weakly owned.
- Capacity building takes time and cannot be completed in the timeframe of developing the first PRSP.
• Capacity building needs to be included in the PRSP itself both for direct capacity building and for indirect (i.e. things that would need to be done without the PRSP process in place)

WB/OED (2004) states that most of the case study countries examined have limited monitoring and evaluation capacity at the national and local levels. Moreover, a large share of the capacity that does exist is associated with Project Implementation Units (PIU) for donor supported projects. While it is clear that most countries face capacity constraints during implementation of PRSPs, it is also necessary to note the direct effect of the PRSP process on capacity itself. Kavalsky (2004: para 20) notes two areas where the PRSP process has increased capacity. First, in relation to allocation of government resources where the need for targeting resources towards poverty reduction has become clearer. Second, consultative processes have resulted in greater transparency in government programmes and expenditures. But it also notes that the PRS process entails significant costs in terms of capacity: It is a very heavy exercise taking up much time of technical staff including key senior officials. In this respect donors need to reallocate resources to those priority capacity building activities that use official’s time in the most productive manner.

3.6 CONSULTATION WITH OTHER STAKEHOLDERS

Consultation with other stakeholders (such as parliament, NGOs and donors) – what has been the level and quality of the interaction between different stakeholders, and has this been adequate and effective given the scope of the PRSP? What role does parliament play in prioritisation of PRSP interventions though its discussion and subsequent approval of medium-term budget instruments (for example a MTEF)?

Participation: The complexity of participation requires a brief analytical discussion for background to our conclusions. The PRS process and the associated shift towards budget support by many donors and lenders has important implications for the nature of consultation and participation. The approach that the ‘direct beneficiaries’ of an development activities ‘should have their voices heard’ arose in the context of project assistance. The shift to programme support makes the concept of direct beneficiaries non-operational. Under programme assistance, participation becomes part of the general process of the relationship between the government and civil society, rather than as **ad hoc** consultations over specific products and services. Stakeholder participation would be satisfactory or unsatisfactory depending on the extent to which, and mechanisms by which, government is responsible to civil society. Depending on the strength and nature of formal representative institutions, **ad hoc** participation mechanisms may or may not be necessary or appropriate.
A positive outcome is that the implementation phase has opened up space for local actors to work together in new ways around poverty and development issues (Sanchez and Cash 2003) as illustrated by the example in Box 1 below.

**Box 1: Consultation in Nicaragua:** In the municipalities studied in Nicaragua, monitoring of the implementation has for the first time given space to members of the community organized under the Municipal Development Committees to propose alternatives for the development of their own municipalities. It has also resulted in participative poverty assessments, which have allowed the various social actors to identify the main poverty problems and vulnerabilities (including cultural, ecological and environmental aspects) and to evaluate the factors that could contribute to reducing poverty levels in their municipality. Some of the proposals that have come up through working on the implementation of specific ERCERP (PRSP) projects provide a useful basis for proposals that could in future be integrated in Local Development Plans.


Building ownership and effective participation continued to be a challenge. Preparation of PRSPs has tended to be time consuming due to the amount of time required to consult stakeholders. The quality of participation has also been criticised for being broad rather than deep.

- stakeholders are only consulted when a draft has been prepared
- government may be selective about the civil society/NGOs that are consulted eg urban based elite NGOs and Chambers of Commerce who tend to be more vocal
- some technical aspects of the PRSP, such as the macroeconomic framework have, in many cases, not been presented for discussion beyond the finance ministry
- As the PRSP moves to the implementation phase, considerations have to be made as to how non-government actors will continue to participate in the implementation, monitoring and evaluation process.

In a study looks at the 28 countries in Sub-Saharan Africa currently involved in the PRS process GTZ (2003) found that the position of parliaments vis-à-vis the executive is traditionally weak in the PRS countries of Sub-Saharan Africa and that Parliaments in the region have so far played only a marginal role in the development and implementation of Poverty Reduction Strategies (PRS). “This contradicts democratic principles and in some cases even breaches explicit constitutional rights. In addition, the potential offered by parliamentary involvement is not being harnessed. Practice in current PRS processes is thus not only undermining the long-term institutional development of parliamentary democracies in Africa, but also wastes opportunities for effective poverty reduction.”
3.7 THE SPECIAL ROLE OF DONORS

To what extent are key donors willing and/or able to draw on the PRSP framework in their own programmes and how key donors in this region are – or will be – supporting the implementation of the PRSPs.

In many countries the PRS process is seen by some as a tool of the donor community, either as a method for obtaining additional funds or as a tool for improving coordination and possibly alignment. While these may be outcomes of the PRS process, they are not the primary objectives of the process. Nonetheless donors have a special role to play in the PRS process – either positive or possibly negative – and it will be examined here in the context of what the PRS should be – an integral part of a national planning framework.

In broad terms, there are four ways in which the donors can support the PRS process and implementation in particular:

(a) Direct Support to the management of the process e.g. through supporting the PRSP management unit or supporting specific interventions such as consultation processes.

(b) Indirect support to the management of the process e.g. development of M&E systems, MTEFs, and other systems or instruments essential for effective implementation (these may themselves be public actions and included in (d) below)

(c) Policy support and advisory services (related to the design of the PRSP and also reform measures included in the PRSP itself)

(d) Support to implementation of other elements of the PRSP itself – aligning their programmes to the PRSP and actually supporting implementation of the priority actions identified in it.

As time goes on donor interventions in (a) and (b) may become the same if the PRSP process becomes the focus of the national planning framework and is fully integrated into mainstream government processes. As noted in the earlier section on capacity building, the impact of donors can also be negative including on the PRS process that they are trying to support. By creating an artificial distinction between (a) and (b) there is a risk of perpetuating a parallel system of planning.

Some donors have developed PRSP-specific instruments (for example the World Bank’s PRSP Trust Fund), while others have developed and/or adopted instruments that are suited to countries with good PRSPs (e.g. Direct Budget Support or a more specific example, UNDP’s Poverty Thematic Trust Fund). WB/OED 2004 p19 Neither donors nor the Bank have defined specifically whether or how they should change the content of their programmes to reflect PRSPs. Changes in donor processes are more readily evident.
A key issue is the move towards greater harmonisation of donor procedures and practices and alignment of donor programmes with national strategies. In support of implementing the Monterrey Declaration, Ministers, Heads of Aid Agencies and other Senior Officials representing 28 aid recipient countries and more than 40 multilateral and bilateral development institutions endorsed the Rome Declaration on Harmonisation in February 2003. The Declaration committed signatories to the following activities (among others) to enhance harmonisation:

- Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonisation efforts are adapted to the country context.
- Reviewing and identifying ways to amend, as appropriate, our individual institutions’ and countries’ policies, procedures, and practices to facilitate harmonisation. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonise documentation.
- Developing, at all levels within our organisations, incentives that foster management and staff recognition of the benefits of harmonisation in the interest of increased aid effectiveness.
- Providing support for country analytic work in ways that will strengthen governments’ ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.

Chart one below sets out the framework for ownership, alignment and harmonization (OECD DAC).

![Chart 1: The Rome Commitments on Harmonisation & Alignment](source: OECD DAC)
But while the donors are making the right noises about alignment and harmonisation the reality on the ground is often different. The IDA/IMF Progress Report 2003 notes the following:

- The principle that donor support should be aligned around, and follow from, country-owned poverty reduction strategies is now widely accepted.
- While PRSPs do appear to provide an impetus for enhancing donor coordination, the implementation challenges remain significant.
- Low-income countries see uncoordinated, restrictive, and frequently changing donor procedures and policies as imposing a significant burden.
- Donors, on the other hand, point out that progress in achieving harmonisation is limited by national systems of procurement and financial management that do not meet international good practice standards.
- Country implementation experience is at an early stage although evidence suggests that a diversity of approaches are being used and the recent emergence of some concrete cases of good practice at the country level is promising.
- There is also more openness and transparency of dialogue with partners on goal-setting, resource allocation and outcomes monitoring.
- Bank and Fund staff have proposed a framework for the coordination of donor budget support and its alignment with the PRSP.
- Looking ahead, public expenditure management and national systems for managing aid require strengthening.

World Bank (2004) sets out a clear recommendation for addressing alignment problems. “The Bank, in concert with other donors, should assist the country in defining a partnership framework under the PRSP, with more explicit reference to prioritisation and the expected role of external partners.” p49. This supports the earlier reference to the importance of clarity of the PRS process especially with respect to the role of the various stakeholders in its implementation.

The PRSP can help donor coordinate budget support and streamline performance monitoring (WB/OED 2004), for example (box 2.4 p19):

- Tanzania: A Poverty Reduction Budget Support Group coordinates member’s conditionality using a single monitoring instrument (the Performance Assessment Monitoring or PAF). The PAF uses Tanzania’s PRSP as its guiding framework, and monitoring is synchronised with the PRSP progress reports. With its
- Mozambique: The G-11 donors that provide budget support are also developing a PAF which is intended to better align with the PRSP and harmonize donor conditions (including alignment with the PRGF and a Bank PRSC in the pipeline)
Vietnam: A number of donors are delivering a significant share of their aid through the World
Bank PRSC.

So while the donors are encouraging significant reforms in the way recipient governments work in
terms of the PRS process, for many donors/lenders at the country level, it is business as usual. In fact
for the PRS process to be effectively implemented the donors need to change as much as the recipients
and in some cases the changes may even be more substantial. A set of donor reform measures parallel
to those required by recipients can be identified. For example the need (for some donors) to move
towards longer term financing horizons or towards results oriented management systems for greater
accountability. Changes need to cover not only practices and procedures but the use of new
instruments and most importantly a change in approach that will result in a completely different aid
relationship, one that respects the CDF principles of national ownership and partnership. In addition it
should also lead to greater accountability, not just of donors and recipients to their respective citizens
(or in the case of multilaterals, their funders) but also mutual accountability between donor and
recipient.
4. PRS IMPLEMENTATION IN THE NIS - OVERVIEW

4.1 THE NIS AND THE CONTEXT FOR PRS IMPLEMENTATION

Chapter 2 identified the importance of context for PRS implementation and there are features of the transition and characteristics of the NIS now that affect the implementation process. To a large degree the context will also help determine the applicability of the lessons learned from global experience to the region. Key features/characteristics include:

(a) **The negative impact of the first decade since independence.** The years since independence in late 1991 have driven the countries apart. All countries suffered a significant economic decline in the first years of independence and, apart from Uzbekistan, have yet to fully recover as illustrated by the relative decline in GDP since 1989 (table 2 below). The reform strategies have also been different with a general preference towards following the orthodox strategies set out by the IFIs (with the exception of Uzbekistan). All countries have witnessed significant increases in the level of poverty and declines in the well-being of their population (table 2 below). Using nationally determined poverty lines, poverty affects more than half the population in the majority of the countries with only Georgia and Uzbekistan escaping such levels.

(b) **Fundamental change in Economic System:** A characteristic of the newly independent countries, which they share with the countries of Central Europe and a few African and Asian countries (for example, Ethiopia, China and Vietnam) is that their PRS process coincides with a fundamental change in social and economic organisation, from central planning to market regulation. As a result, markets in the NISs tend to be underdeveloped, inefficient or absent altogether. An example of absent markets would be private institutions for financial risk management.

The underdevelopment of markets implies that the use of market mechanisms, in general and as tools for poverty reduction, may not generate the outcomes sought by policy makers. For example,

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP index 2002 (1989=100)</th>
<th>Income per capita (US$ 2002)</th>
<th>% below national poverty line (latest available)</th>
<th>% below $2.5 per day 1998/9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>78</td>
<td>790</td>
<td>47</td>
<td>44</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>64</td>
<td>710</td>
<td>50</td>
<td>24</td>
</tr>
<tr>
<td>Georgia</td>
<td>38</td>
<td>650</td>
<td>23</td>
<td>19</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>70</td>
<td>290</td>
<td>56</td>
<td>49</td>
</tr>
<tr>
<td>Moldova</td>
<td>39</td>
<td>460</td>
<td>62</td>
<td>55</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>57</td>
<td>180</td>
<td>96</td>
<td>68</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>106</td>
<td>310</td>
<td>28</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: EBRD Transition 2003 and DfID (2004) Central Asia, South Caucasus and Moldova Regional Assistance Plan
programmes to provide credit to the poor may prove ineffective because of the absence of local banking institutions and financial. Thus, the construction of markets and broadening access to them can be more important than direct poverty reduction actions themselves.

(c) **No previous planning framework for a market-oriented economy:** Unlike the Central European countries and the transitional countries in Africa and Asia, the NISs lacked the institutions of states, not only those of policy formation, such as ministries of planning, but also basic agencies of national management. As a result, the NISs entered their transition to the market poorly equipped in terms of institutions to carry out the basic function of government, even if they did not suffer from human resource constraints. As a result, the PRS process involves the creation of relevant institutions in these countries, while elsewhere it merely involves the adaptation of existing institutions.

(d) **Limited participation:** With few exceptions, state institutions dominated the political space in centrally planned, single party systems. Without passing judgement on the relationship between the state and the citizenry, one can point out that in centrally planned systems all participation, however defined, occurred through officially-sanctioned institutions, usually controlled by the ruling party. Thus, the change in the economic system implied the creation of so-called ‘civil society’, organisations of workers, business people, and issue-focused groups formally independent of the state. While such organisations arise spontaneously in a market society, their relation to the state must be constructed. Especially important in this context are 1) workers’ organisations, which tended to be extensions of the ruling party under central planning, and 2) private employers, who did not exist to any substantial degree.

Therefore, the process of participation for the PRS process in the NIS involves the creation of mechanisms and institutions for constructive and sustained interaction between the citizenry and the government. While an analogous process is occurring in some market societies emerging from extended periods of a tightly-constrained political system (for example, Indonesia and South Africa), the process in the NIS is much more basic and incipient. In the NIS where the national legislatures have limited legitimacy, participatory mechanisms become even more problematical.

(e) **Vulnerability:** All vulnerable from economic, environmental or political change. PRSPs do not easily take this into account even if risks are spelled out they are not necessarily linked with the cause. For example the NIS have suffered from different degrees of conflict since independence, as illustrated by Box 2 below, and are vulnerable to further unrest. Although all the conflicts have their origins before independence they have continued into the independent period and have a legacy that contributes to both economic and social decline.
Box 2: Summary of Armed conflicts in the CIS-7

- Armenia and Azerbaijan: As a result of the conflict over the territory of Nagorno-Karabakh (1988-94) approximately one million people have been uprooted from their homes. There are continuing tensions between the two countries.

- Central Asia - The Ferghana Valley: There has been ongoing tension in the Ferghana Valley, which straddles the borders of Kyrgyz Republic, Tajikistan and Uzbekistan. Events escalated in 1989 when violent outbreaks led to hundreds of deaths and extensive damage to property. The level of tension has reduced in recent years but the potential for a significant flare-up of conflict continues.

- Georgia, 1990-94: Fighting in South Ossetia in late 1990 resulted in the displacement of 50,000–90,000 people. This was followed by conflict in Abkhazia when thousands were uprooted. The situation began to stabilise in 1994, although serious tensions remain.

- Moldova 1992: Following a short and intense conflict, the country split with the area of Transnistria declaring independence. Transnistria contains much of the industrial base of the country. The division of the country has continued. To date a political settlement remains elusive.

- Tajikistan 1992-97: The civil war in 1992-3 was followed by continuous unrest until the signing of the peace accord in 1997. It is estimated that during this period 50,000 lost their lives and up to 700,000 people were displaced. Intermittent unrest continues and refugees continue to return from other countries of the CIS.

Source: DfID (2004) Central Asia, South Caucasus and Moldova Regional Assistance Plan

The general implication from these points is that the PRS process in NISs is considerably more complex than in other countries, that has several closely linked levels:

- ‘country-creation’, involving the design of appropriate state institutions;

- emergence of ‘political space’ and the rules governing that space;

- evolution of the organisations through which people pursue their economic interests within the emerging political space; and

- the construction of markets through which the economic aspirations of households will be realised or not realised.

How these four fundamental tasks are achieved will largely determine the process of poverty reduction.

4.2 OVERVIEW OF THE PRS PROCESS IN THE NIS

PRSPs are being prepared by seven NISs and, of these, five countries have completed full PRSPs and have started implementation. Tajikistan was the first to have their PRSP approved by the IMF and IDA Boards (for their lending) with a further four countries (Armenia, Azerbaijan, Georgia and the Kyrgyz Republic) having their PRSPs approved in 2003. Moldova has only recently completed its PRSP (but is awaiting the formal approval of the IMF and IDA boards for its use as a basis for
lending)⁹ while Uzbekistan is at the early stages of the process and has yet to complete an Interim PRSP. Table 3 summarises the situation in the region and the rest of this section will describe the PRS process up to the point of implementation for those that have completed them or to-date for those countries that have not.

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>Approved by IMF/IDA Boards May 2003</td>
<td>2003-2005</td>
</tr>
<tr>
<td>Georgia</td>
<td>Approved by IMF/IDA Boards August 2003</td>
<td>2003-2005</td>
</tr>
<tr>
<td>Moldova</td>
<td>Complete</td>
<td>2004-2006</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Approved by IMF/IDA Boards October 2002</td>
<td>2002-2004</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>I-PRSP being prepared (first draft June 2004)</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: www.worldbank.org/poverty/strategies

**Implementation Strategy**

As already noted, a weakness of many PRSPs is the lack of clarity concerning the implementation strategy. While there may be sections in the PRSP documents developed for this purpose, most are sub-optimal in that they cannot communicate exactly how the implementation will take place or of the role of the PRSP in the overall development planning framework. The situation in the NIS largely reflects the global one even though the documents contain sections on implementation and M&E.

What is not made clear is the role of the PRS process and the PRSP in the national planning framework. How it all fits together. How it fits into the day to day working on the government officials and non-government organisations and individuals involved in implementation and with a stake in implementation. This maybe for a separate document

Also as noted there is an issue over the exact start of implementation of the PRSP. In all countries there was a significant delay between official launch of the PRSP, official approval and “approval” (of the JSA) by the IMF/WB.

**Have they been implemented?**

PRSP Annual Progress Reports have been prepared only for three of the five countries that are implementing PRSPs (a) the Azerbaijan report is only available in draft (b) the Kyrgyz Republic APR has a JSA, and (c) Tajikistan. Even in those countries with progress reports it is difficult to identify implementation as noted in the JSA of the APR in the Kyrgyz Republic “Progress in implementing such strategies has been mixed and, where necessary, the original strategy is being modified. However, the Report fails to discuss adequately this body of work as well as the key policy actions for the

⁹ The PRSP has been informally approved by the World Bank as the basis for its lending programme but not by the IMF
coming year. Thus, the Report fails to convey a clear impression of the state of play regarding the implementation of the poverty reduction strategy.”

For the other countries (ie those without progress reports) it is more difficult to see if the actions contained in the PRSP have been implemented. At the same time it is difficult to determine what percentage of the PRSP actions implemented would have been implemented anyway (for example if they were included in existing sectoral programmes)

The second element of PRS implementation (as used in this document and set out in section 2) is whether the PRS has been revised as a result of feedback from the actions implemented. This may also be difficult to identify as it may not be reflected by a revision of the PRSP as a whole but by amendments to sectoral strategies or parts of those strategies. This element of implementation also requires that the appropriate M&E systems are in place that will allow informed revision of the PRS based on the actual results of the actions implemented. In the Kyrgyz Republic, for example, the Monitoring System is still being developed to allow more informed revision of the PRS over time. (JSA of APR)

The next sections of this chapter (4.3-4.x) will overview the factors that affect implementation in the context of the NISs. The next sections will look at how the features have been developed and how the factors have influenced them

4.3 INSTITUTIONAL FRAMEWORK

what are the key weaknesses, if any, in the institutional set-up which hamper the implementation of the PRSP (including annual and medium-term budgetary processes)? How does the institutional set-up facilitate or challenge the identification of priorities for implementation?

The Institutional set-up in the NIS has been reasonably uniform with the exception of Uzbekistan where the institutional framework is as yet unclear. The basic model of a permanent PRSP management unit supplemented by a coordination or steering committee of some kind together with sectoral coordination and consultation mechanisms such as working groups. The location of the management unit has varied

In two countries it is in the President’s Administration (Kyrgyz Republic, Tajikistan)
In three countries it is in the main planning ministry (Azerbaijan, Georgia, Moldova)
In only one country it is in the ministry responsible for the budget (Armenia)

<p>| Table 4: Overview of Management and Coordination Arrangements | 32 |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Management Unit</th>
<th>Coordination (eg Steering Committee)</th>
<th>Sector planning (eg Sector WGs)</th>
</tr>
</thead>
</table>
| Armenia         | PRSP Secretariat | (a) PRSP Steering Committee (abandoned after the PRSP was adopted) (b) PRSP Working Group – coordinates implementation process (c) PRSP Coordination council? ???????  
This arrangement will work until August 2004 when a new institutional framework will be established |                                  |
| Azerbaijan      | Initially a PRSP Secretariat under the Ministry of Economic Development. the SPPRED Secretariat was re-formed under the Ministry of Economic Development in May 2003, and has since been coordinating the monitoring of the implementation process. | Line ministries are responsible on implementation of the policy actions within Policy Matrix of the SPPRED and to provide a quarterly report on the implementation status to the Secretariat. | 15 SWGs                        |
| Georgia         | EDPRP Department in the Ministry of Economy |                                                                                                                |                                 |
| Kyrgyz Republic | CDF Secretariat in the Economic Policy Department of the President’s Administration. Headed by the CDF Coordinator. Staff of 5 | - National Council on the CDF chaired by the President of the Kyrgyz Republic  
- Economic Policy Council chaired by the Prime Minister | - 23 SWGs  
- Ministry of Finance responsible for costing and budgeting for PRSP |
| Moldova         | PRSP Implementation Monitoring Unit in the Ministry of Economy | PRSP National Council for Sustainable Development and Poverty Reduction headed by the President | Participation Council and Working Groups (to be established) |
| Tajikistan      | PRSP Monitoring Department (PRSPMD) in the President’s Office |                                                                                                                | 9 SWGs. Expert Consultative Group (ECG) inter-ministerial and NGOs |
| Uzbekistan      | At this state in the PRS process the institutional framework is still unclear |                                                                                                                                                                      |                                 |

It is interesting to note that the development of the institutional framework for the implementation of the PRSP process as a whole has been fluid in some countries. In Armenia and Georgia, the institutional frameworks have been reformed significantly some time after the approval of the PRSP document. The recent Tajikistan Progress reports sets out reforms in the institutional framework.

But this focus on the institutional framework does not allow a discussion of a more comprehensive reform and the establishment of the appropriate public administration structures and procedures that will also the development of a comprehensive development planning framework. It is such a framework that is required not tinkering with the organisational framework.

### 4.4 POLITICAL COMMITMENT

What is the level of will among the political leadership to support the implementation of the PRSP, and to what extent is this commitment effectively translated into action? How broad is the ownership – is it centralised or broad across central and local government as well as the private sector and civil society?
In terms of rhetoric and symbolism political commitment at the highest level appears to be strong in the region. Statements by senior officials indicate such commitment and the lack of alternative planning frameworks make inter-government rivalries less likely. It is difficult to rigidly identify how stakeholders see the PRS process, whether for resource mobilisation or as an integral part of the planning framework.

Presidential approval is seen as evidence of political commitment at the highest level. High political commitment in the Kyrgyz Republic as the whole process is fully supported by the President. The President is the “champion” of the overall CDF process which is guiding reform in the country. The reform agenda is, however, far from complete and many necessary decisions still need to be made in order to ensure achievement goals of the PRS process. These decisions will necessarily affect many vested interests and require politically painful measures. In practice, political commitment is not always sufficiently large enough to overcome these interests or bear short-term political losses caused by the potentially unpopular reforms. Another factor strengthening the commitment to PRS implementation in the Kyrgyz Republic is the continuing dialogue with the World Bank, IMF and other donors. Their interest in this strategy and the political leverage these organizations possess (structural adjustment and investment loans, other forms of aid and, importantly, their voice at the Paris Club meeting scheduled now for spring 2005) contribute to keeping the level of the Government’s commitment high.

Equally in Azerbaijan, the presence of the President at the official launch of the PRSP document in October 2003 was seen as an important symbol of approval and therefore commitment to the process. The process was launched by Presidential Decree and the PRSP approved by one. In Tajikistan the PRSP was also introduced by Presidential Decree. In Armenia, the fact that the Government formed after general elections in 2003 declared poverty elimination as its highest priority stressing the importance of PRSP implementation is seen as evidence of political commitment. At the same time, the PRSP was presented to the National Assembly, as a background for 2004-2006 MTEF and the 2004 Annual Budget. Parliamentary parties outside government, and parties not represented in the parliament, however, do not show strong commitment to PRSP; moreover, there are number of reported incidents of questioning the seriousness and credibility of the PRSP. In case of Local Governments that were not actively involved in the PRSP development and current implementation process, lacks political commitment to the PRSP implementation. This fragmented picture does not contribute to an increase in confidence in the PRSP.

Amongst the desk reviews, Georgia was a case study for a recent ODI investigation into Politics and the PRSP Approach and it reveals the most about the influence of politics in the process.
Table 5: Politics and the PRSP Process in Georgia

<table>
<thead>
<tr>
<th>Context</th>
<th>Impact on PRSP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historical and Ideological Factors</strong></td>
<td>EDPRP has brought ‘poverty’ into the light map and offers a chance for a more strategic approach, particularly at sector level; there has been no real policy change as yet. The lack of focus on governance issues in the EDPRP is a concern. There is no evidence yet that the process has been able to undermine a robust culture of government built on vested interests in the status quo.</td>
</tr>
<tr>
<td>Poverty is a recent phenomenon. There is no history of government-sponsored pro-poor initiatives. Parties have not made poverty a political issue and there is no obvious social mobilisation apparent around poverty issues. Nationalism is more powerful. Clan-based allegiances and patronage are powerful.</td>
<td>The President initiated the PRSP and assigned responsibility to a trusted political ally in the State Chancellery, who has stayed the course. It is difficult to build ownership in other Ministries, where trust is weak internally and externally, and in Parliament, where opposition to the President is openly expressed.</td>
</tr>
<tr>
<td><strong>The Impact on Formal Policy Structures on PRSPs</strong></td>
<td>The President is less able to develop a platform around the PRSP and there are limited incentives or parties to do so. The PRSP is seen as a document of the executive and the international community. Aside from the importance of external finance, the PRSP appears to have no ‘political legs’.</td>
</tr>
<tr>
<td>The current political system is not fully established (the second chamber is not operational). The President is elected independently from Parliament. The presidential party (Citizens’ Union of Georgia) is divided into factions. There is centralisation of power in State Chancellery but limited presidential control over or trust in ministers – no Cabinet operates.</td>
<td>This is the final term in office for the President, decreasing his political relevance and increasing divisions in Parliament, including in the presidential party, which is divided in factions.</td>
</tr>
<tr>
<td><strong>The Timing of PRSPs</strong></td>
<td></td>
</tr>
<tr>
<td>This is the final term in office for the President, decreasing his political relevance and increasing divisions in Parliament, including in the presidential party, which is divided in factions.</td>
<td>The President initiated the PRSP and assigned responsibility to a trusted political ally in the State Chancellery, who has stayed the course. It is difficult to build ownership in other Ministries, where trust is weak internally and externally, and in Parliament, where opposition to the President is openly expressed.</td>
</tr>
<tr>
<td><strong>The Timing of PRSPs</strong></td>
<td>The President is less able to develop a platform around the PRSP and there are limited incentives or parties to do so. The PRSP is seen as a document of the executive and the international community. Aside from the importance of external finance, the PRSP appears to have no ‘political legs’.</td>
</tr>
</tbody>
</table>


The above represents the situation before the recent elections which resulted in a change in government. Initially, it was thought that the new government may revise the priorities within the EDPRP. However, after meeting with international donor organisations, it was decided that the basic elements of the EDPRP should remain the same. Nonetheless, the government presented a newly drawn up strategic vision with financing priorities for the period (2004-2006) at a donors’ conference held in Brussels from June 16-17, 2004, organised by the European Commission and the World Bank.

Commitment in Moldova seems high even though there was a change in government that slowed the PRS process. It should also be noted that towards the end of the PRSP development process in Moldova the focus was on presentation rather than content. Lack of commitment is only really evident in Uzbekistan where there has been significant resistance to engagement with the PRS process. While this seems to have changed, the degree to which Uzbekistan is committed and the degree to which it is simply going through the motions to attract donor and IFI resources is unclear.

4.5 INTRA-GOVERNMENT COORDINATION

*What has been the level and quality of interaction between different governmental bodies, and has this been adequate given the scope of the PRSP? What have been the actual and potential roles of local government (regional and sub-regional) in implementation of the PRSP?*
In general intra-government coordination at the central and local levels was facilitated during the PRSP preparation phase largely through the institutional framework and also the consultation process. As already noted, most countries introduced a mechanism for improved intra-government coordination during preparation of the PRSP. Such mechanisms were often a combination of a high level steering or coordination group together with a number of sectoral working groups that would bring together different stakeholders including different government agencies. Some countries face specific problems in this respect. For example in the Kyrgyz Republic, the division of responsibility between the President’s Administration and the Prime Minister’s Office is not always clear. Intra-government relationship may not be good across the board. For example, in Moldova the Ministry of Economy, the ministry responsible for the PRSP has a very good relationship with the ministry responsible for labour issues but the relationship is weaker with the Ministry of Agriculture.

In Armenia, a decree assigns the heads of relevant ministries and agencies to report to the MoFE on the pace of PRSP implementation within 15 days after each quarter. This report should also contain information on various parties and stakeholders who expressed an interest in taking part in respective measures and programs. The MoFE is expected to summarize these reports and submit them to the Government, the PRSP Working Group and other stakeholders. An annual report on PRSP implementation is also to be prepared and published. Some but not all ministries have appointed staff to monitor PRSP implementation in their ministries. Relevant assignments have also been given to the regional bodies. The latter are viewed as co-implementers and line ministries are the principal actors, who are also responsible for the coordination of the activities of regional bodies in their respective fields. Currently, the Government is preparing amendments to the legislation that will define the interrelations between the regional bodies and local governments in this process.

While such mechanisms can help intra-government coordination they are not as important as full integration of the PRSP process in a comprehensive national development planning framework. In the Kyrgyz Republic there has been an attempt to develop one integrated system of national development planning that includes short, medium and long-term instruments. It is not complete, for example the decentralisation process is still continuing. But the more comprehensive and holistic approach seems to be working even if they still need to solve some fundamental issues.

4.6 CAPACITY

where are the key gaps in financial and human resources available to national governments for implementing priority reforms, and is the PRSP process sufficiently relayed at sub-national political and/or administrative levels
Capacity issues are clearly and inevitably extremely important for all countries in the region. This is inevitable as the PRSP process involves a radical change in the way things are done and, if optimal, the introduction of a completely new national planning framework and associated systems. As already noted, the implementation of the full PRS process is in many senses a major governance reform addressing economic, administrative and political governance issues.

The Kyrgyz case study, however, noted the fact that capacities should be neither under nor over-estimated. Despite donor support, the PRSP had been prepared locally, in participatory way with contributions from all government agencies, civil society organizations and experts. This makes the Kyrgyz situation different from some other PRSP countries, where representatives of IFIs wrote the whole document. At the same time, large gaps exist in the implementation capacity of all stakeholders.

Capacity building takes time especially when new approaches or new systems are introduced. The lack of an existing comprehensive national planning system has been considered a bonus for the NIS in terms of implementing the PRS process but it also means that many of the systems and instruments are new to the countries. Some of the approaches are equally new such as consultation and need not just new capacities at individual, organisational and societal levels but also changes in attitudes. While capacity building at the central level presents its own challenges, scaling up for capacity building across the whole country is also challenging. Where there is at least a degree of decentralisation then new approaches such as participation and consultation (plus other CDF principles) need to be introduced at local government levels. This is a major process. Given the relative youth of civil society organisationS in the NIS it is not surprising that building capacity of such organisations is an additional major challenge in the region. The IMF IEO evaluation identified a number of issues in Tajikistan that may well be important elsewhere in the region, namely a serious brain drain and low pay and high turnover leading to corruption and rent-seeking as a livelihood sustaining strategy. Moral is also a major problem in some countries.

Capacity building is not just important for all stakeholders in the PRS process but for all areas of the process as well, whether PEM reform or development of effective M&E systems, producing prioritised well-costed sectoral plans or consulting with stakeholders. Institutionalising the capacity building process is also a challenge and one that donors needs to address in partnership with government.

4.7 CONSULTATION WITH OTHER STAKEHOLDERS
what has been the level and quality of the interaction between different stakeholders, and has this been adequate and effective given the scope of the PRSP? What role does parliament play in prioritisation of PRSP interventions though its discussion and subsequent approval of medium-term budget instruments (for example a MTEF)? To what extent are key donors willing and/or able to draw on the PRSP framework in their own programmes and how key donors in this region are – or will be – supporting the implementation of the PRSPs.

While all countries in the region engaged in a consultative process (of varying quality) during the process of preparing the PRSP document, the degree to which this consultation has continued during implementation varies considerably. Azerbaijan is an example of where the broad consultative process undertaken during preparation is being continued with some success. In Georgia the consultation process has continued after approval of the PRSP. In Tajikistan the media has been increasingly involved in discussion of the PRS process.

In many countries (for example, Tajikistan) parliament has had little role since the approval/discussion of the PRSP document. Although a mechanism was designed to support interaction it has not been functioning well. Members of Parliament receive information on PRSP implementation only in final reports. In Georgia the political changes taking place during the development of the first PRSP exacerbated the poor participation of the national parliament in the PRSP process.

All/most countries are engaging in the CG process and by default consult with the donor community on a regular basis. Change in government in Georgia has changed the aid relationship and will have a positive effect on dialogue.

Box 3: Continued Stakeholder Discussions in the Kyrgyz Republic

Very strong civil society interest in formulating and monitoring poverty reduction initiatives continues to characterize the NPRS process in the Kyrgyz Republic. The Report lists a number of events that have been organized by the authorities to share with civil society information on the implementation of the NPRS and seek their feedback on how the strategy may be modified to further poverty reduction objectives. In addition to such special events, participation of government officials in frequent kurultai, or public meetings, has become a regular feature of the communication between the government and the public on the NPRS. It is particularly commendable that the authorities and the parliament have sought to open up the budget process to the public. Public hearings on budget proposals have become a regular feature of the annual budget cycle and the staffs, in their discussions with NGOs, have been informed that representatives of all local communities are invited to these hearings. The NPRS was posted on the external website of the Comprehensive Development Framework (CDF) Secretariat, and regular newsletters informing of progress in implementation is also posted there. The Annual Progress Report will also be posted on the external website of the CDF Secretariat. Data on the most important indicators, including quarterly budget execution data, is also routinely available to the public.

Source: IDA/IMF JSA on Annual Progress Report
5. PRSP IMPLEMENTATION IN THE NIS – KEY CHALLENGES

5.1 DEPTH OF INTEGRATION OF THE PRS INTO THE BUDGET SYSTEM

The Nature of the Budget Process in the NIS

All seven countries being examined have seen a radical shift in the budgeting process since independence. Apart from reforming the annual budget process new instruments have been introduced such as Public Expenditure Reviews (Armenia, Azerbaijan, Georgia and Moldova) and MTEFs (introduced in all the countries apart from Uzbekistan). While MTEF processes have been instigated, however, only in Armenia and the Kyrgyz Republic does the process have the momentum, commitment and capacity to be effective. Moreover, the quality of the budget system indicates that the reform process still has some way to go in the region. The recent IMF/WB update on the CIS-7 initiative (IMF/World Bank 2004) notes that while the countries have continued their progress in improving budget execution and audit, other budget management functions have not received sufficient attention. It notes the following (direct quotation from the text):

- At least one third of total public expenditures in the CIS-7 are outside the budget, including extra budgetary funds, externally financed project expenditures, and quasi-fiscal deficits.
- Ex-ante public expenditure plans do not fully reflect government priorities, while expenditure allocations tend to be largely based on the updating of allocations from previous budgets.
- Use of the budget as a public policy tool is undermined by frequent within-year adjustments
- The quality of budgetary outcomes is often poor, with pervasive cash rationing and arrears as a result of (i) macroeconomic shocks leading to revenue shortfalls that require cuts in budget expenditures; (ii) unrealistic revenue projections and volatile revenue flows, deriving from political and governance factors and uncertainties of donor financing; (iii) institutional weaknesses in budget planning; and (iv) budget control systems that are not fully effective in cash management.

The Kyrgyz case study identified a number of other technical issues which are probably also important elsewhere in the region. For example, technical problems were also blamed for poor integration. Current budgeting systems have been inherited from the old system and are built around inputs not results. These mechanisms are rigid in that they do not provide line agencies with any flexibility with regards to the composition of inputs most suitable for achieving the PRSP goals. A second problem related to accounting for private funds which are becoming an increasingly important complement to public funds for joint financing of infrastructure projects.
Status of Integration in the Case Study Countries

The degree to which the PRS process is integrated into the budget system varies significantly in the region as indicated in the summary set out in Table 6 below. Most make statements, either in the original PRSP (e.g. Azerbaijan) or in subsequent APRs, on the importance of integration but in practice the degree of integration is limited in most.

Table 6: Status of PRSP Integration in Budget System

<table>
<thead>
<tr>
<th>Country</th>
<th>Budget System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>The process of preparing the 2005-2007 MTEF revealed the lack of coordination between the bodies charged with MTEF development and PRSP coordination (p25)</td>
</tr>
</tbody>
</table>
| Azerbaijan       | • Explicit statement that the MTEF is an integral part of the PRSP (both in PRSP doc and in first PRSP Annual Progress Report)  
                    • MTEF an appendix to the PRSP and MTEF annual report an appendix to PRSP APR                                                       |
| Georgia          | Existing linkages are weak but government has plans to strengthen them (p21) through the ongoing reform programme.                          |
| Kyrgyz Republic  | JSA of PRSP notes need to improve linkages between PRSP and new MTEF but explicit statement of integration in APR (2004) JSA (para 7)          |
| Moldova          | MTEF (2005-07) clear about linkages with PRSP but (WB cover letter)                                                                           |
| Tajikistan       | APR (2004) notes poor linkages between budget and PRSP                                                                                         |
| Uzbekistan       | No linkages in draft document                                                                                                                 |

Source: Various national documents

Box 5 below sets out the set of issues in the case of Tajikistan as well as the government actions to address them

Box 4: Progress in Tajikistan: The GRT acknowledges that the pace and the depth of the implementation of PRSP reforms have been below the level of initial expectations. In public expenditure management, the links between PRSP and the state budget are weak. The creation of a strategic policy group such as a Budget Commission would provide the institutional framework to implement the medium-term budget framework (MTBF). The budget’s current expenditures and capital investments are not yet fully prioritized according to the PRSP. The MTBF for the budget is not yet implemented. The proposed Public Investment Program 2004-2006 is within the external borrowing limit of 3% of GDP only for 2004. The GRT will revise annual external borrowing levels in accordance with the changing economic conditions. The broader participation of and the accountability to the stakeholders in the use of public funds remain elusive. However, the GRT has taken measures to increase transparency in budget execution, transparency in privatizations, transparency in public procurement, and to improve the standards of auditing institutions. The reasons for the slow adjustment to structural reforms are various. The existing legislations, which were designed in the service of PRSP, are not enforced well and remain, in general, ineffective. The lack of financial resources required in the broad approach to all policies has been a hard constraint on the Government’s efforts. In this light, further prioritization of poverty reduction strategies becomes very important.

Source: Tajikistan Progress Report p6

The nature of the budget systems in the region raises some questions - Do governments want to integrate PRSPs in sub-optimal budget? How beneficial is integration of the PRSPs into them? At what stage would it become counterproductive? Since all of the countries have flaws in their budget systems and are in the process of reform what can be done in terms of integration? What is clear is that
it is not just a case of integrating the PRSP into the annual budget and MTEF. Rather it is a case of integrating the PRS process with the process of reforming the budget system. In this respect the PRSP should outline the budget system reform process. In the case of the Kyrgyz Republic the PRSP clearly sets out elements of budget system reform including the move to programme budgeting and the introduction of the MTEF.

**Factors Affecting the Situation**

- **Institutional Set-Up** The nature of the institutional set-up has had a major impact on the degree of budget integration. In Kyrgyz different bodies are responsible for PRSP and PEM but one body (the Economic Policy Council chaired by the Prime Minister) is responsible for approval of both PRSP and the main instruments of PEM (budget, MTEF and PIP). This institutional set-up facilitates greater integration of the PRSP into the PEM system. By contrast, in Georgia the fact that the Ministry of Finance and the Ministry of Economy (where the PRSP management unit is placed) are working separately hampers integration of the PRS and budget processes. In order to ensure effective implementation of the EDPRP, it has been suggested that an Interdepartmental Government Commission be established with the participation of the Ministries of Economy and Finance. The commission will be composed of those representatives from both ministries responsible for preparation, implementation and monitoring of EDPRP and budgeting within relevant fields.

- **Political Commitment.** The degree of political commitment and its impact on PRSP integration in the budget system is difficult to ascertain. Ironically in Tajikistan the placement of the PRSP Unit in the President’s administration is seen as a sign of commitment by the government to the PRSP process IMF/IEO (even if it has resulted in less integration that would be ideal)

- **Intra-Governmental Coordination.** The problem of integrating TA projects into the PRSP is made worse through lack of intra-government coordination (Kyrgyz 76).

- **Capacity.** There are two capacity issues. First for integration and second for developing a sound budget system. Both needs to be addressed but if the budget system is well designed and the reforms well implemented then integration of the PRS process will not be problematic. The capacity problems with be the budget system reform itself at both central and local levels, as well as among civil society of it is to engage in the budget process.

- **Consultation With Other Stakeholders.** Budget hearings in the Kyrgyz Republic have been a major step forward in increasing accountability and transparency of the budgeting process. The JSA of the Kyrgyz 2004 APR notes that “It is particularly commendable that the authorities and the parliament have sought to open up the budget process to the public. Public hearings on budget proposals have become a regular feature of the annual budget cycle and the staffs, in their discussions with NGOs, have been informed that representatives of all local communities are
invited to these hearings.” Elsewhere consultation mechanisms still need to be implemented. For example, in Armenia the awareness of the Members of the National Assembly is insufficient. It is also reportedly limited to the ruling coalition parties preventing active participation by the opposition parties (p26).

Challenges

All the countries face the complex challenge of reforming the budgeting systems. This ongoing reform process coincides with the introduction of the PRS process. Inevitably the budget reform process is incomplete and this is a major reason for the poor degree of integration. The challenge is therefore to ensure that the reform of the budget system goes hand in hand with the development of a national planning framework surrounding the PRS process. That cannot be seen as separate activity.

5.2 SECTOR STRATEGIES/WORKPLANS WITH CLEAR PRIORITIES

Only in the Kyrgyz Republic is the PRS Process, and therefore the PRSP, firmly based within a comprehensive national planning framework. But even here, while the instruments may be in place the development of the framework is far from finished. In all other countries in the region, the PRS process has been developed in parallel with existing processes and procedures that while not forming a comprehensive development planning framework nonetheless mean that parallel systems are in place.

The scope of the PRSPs also varies but is generally comprehensive recognising the multi-dimensional nature of poverty (a key element of the PRS approach) and the fact that this needs a multi-sectoral response. Of the competed PRSPs in the NIS:

- All include macro-economy as this is a pre-requisite for the Bank and Fund. All include governance reforms generally including the judiciary and generally PEM reforms
- There are some gaps or weaknesses in some PRSPs, for example the Azerbaijan PRSP and environmental issues.
- Security issues not considered but Georgia socio-economic situation in post conflict zones and Azerbaijan the major issue of IDPs cannot be ignored. Foreign policy concerns beyond trade and other commercial issues not included.

Situation In The NIS

Clear responsibilities with a timeframe The basic implementation tool is the plan of action that is contained in the PRSP document. The basic principle is the same, to use this tool to indicate the public actions that stem from the strategies set out in the text of the main document. These plans of action vary significantly:
• Basic version (Armenia and Georgia) – Activity, Responsibility and timing plus possibly an indication of the objective of the planned intervention. Armenia has a list of 186 actions (with no sectoral or thematic breakdown) while Georgia has 105 (with some actions being divided into several sub-actions). No costs are associated with these actions.
• Fuller version (Azerbaijan, Kyrgyz Republic, Tajikistan) include (partial?) costings in the table, usually indicating external financing needs. The Kyrgyz one only includes external financing needs.

**Costing and Prioritization** The issues of costing and prioritisation were a major problem in the PRSPs in all five of the implementing countries in the region. The JSAs of the PRSP in all identified problems in these areas:

Armenia “Further efforts are envisaged during the implementation phase and subsequent updates, including……enhancing prioritization of the actions contained in the three year matrix of reforms…..”

Azerbaijan “Further progress is also needed in the areas of costing and prioritization of policy actions presented in Appendix I…..”

Georgia “During implementation the authorities will need to develop a prioritisation of the EDPRP’s spending recommendations”

Kyrgyz “Significant progress is also needed in the areas of costing and prioritisation of policy actions…..”

Tajikistan “An important next step for successful implementation of the PRSP will involve the prioritisation of proposed expenditures outlines……”

Since approval some efforts have been made to improve the situation but often progress in this area has been very slow. Rather than an important part of the PRSP preparation process, prioritisation has been “relegated” to a key part of the post-approval implementation process. As already noted the detailed prioritisation could be undertaken through the MTEF process.

*Adequately communicated to all stakeholders.* The issue of clarity of document has already been raised. Poor communication is affecting the integration of the PRSP in the budgeting process. The Tajikistan Progress report notes that “The PRSP priorities have not been explicitly communicated to the MoF, other ministries and local authorities in a manner to link the budget allocation and the PRSP”(p16)

**Factors Affecting Situation**

• *Institutional Set-Up* The institutional arrangements have had a major impact on the development of appropriate sectoral strategies largely though the extent to which the sectoral agencies have
been engaged in the PRSP process. All countries have a sectoral coordination committee of some kind? Does it not work? Why have the changes been made?

- **Political Commitment** Given the high degree of political commitment that seems to be in place for the NIS implementing the PRSP.
- **Intra-Governmental Coordination** In some cases the sectoral policies set out in the PRSP do not correspond with the policies being implemented by the relevant ministry (Armenia p26). In the case of Armenia the conflict between PRSP policies and those of sectoral ministries was largely because the Ministries did not fully participate in the PRSP development Process (p26)
- **Capacity** Lack of capacity is the key constraint in this area, especially regarding accurate costing.
- **Consultation with Other Stakeholders** Since the Ministries in Georgia played a limited role in the development of the PRSP, linking sectoral plans with the PRSP is weak. Specifically there is a need to increase the depth of sectoral analysis and make definite links with the PRSP.

Another political reasons may be that governments are not brave enough to articulate priorities in public? Consultation affects communication

**Key Challenges**
The development of a comprehensive national development planning framework with the PRSP at the centre. TA needs to be refocused from direct support to the development of the PRSP document to the development of a comprehensive national development planning framework. This is almost a comprehensive governance reform programme (apart from elements related to political governance eg elections and strengthening judiciary). It is certainly part of a comprehensive public administration reform programme including issues related to PEM and decentralisation. This is extremely ambitious and will take some time.

5.3 **INDICATORS, MONITORING AND FEEDBACK ARRANGEMENTS**

The extent to which indicators, monitoring and feedback arrangements have been put in place and utilized effectively

Attempts to link the PRSP process with the MDGs have varied in the region. At the simplest level the goals and indicators for the PRSP are consistent with the MDGs. This is the case in (for example in Armenia and Azerbaijan). While this is important for the development of an integrated and comprehensive monitoring system it is to a large extent inevitable as the MDGs cover the usual range of social indicators. More important is for the PRSP to have a range of indicators that go beyond those measured in the MDGs.
All countries face problems with indicators – both economic and social. For example in the Kyrgyz Republic adverse incentives in the system of data collection mean that the quantitative indicators of school enrolments need to be complemented with qualitative studies to get a true picture of the situation. The JSA of the first Kyrgyz APR noted that while core indicators are consistent with the present monitoring capacity, their gradual expansion along the lines suggested in the PRSP JSA will allow the government to evaluate and adjust the NPRS policies in a more informed manner. As noted earlier, the plans of action in the PRSPs do not generally include outcome indicators. These need to be complemented by adequate intermediate targets which will guide governments in understanding which elements of the programmes are succeeding and which ones need to be adjusted (for example in Georgia).

Related to issues (a) above, Azerbaijan has linked MDG reporting with the PRSP reporting process thus reducing burden on government as well as civil society organisation engaged in monitoring progress with the MDGs as well as implementation of the PRSP. One report covering both PRSP implementation and progress towards the MDGs will be produced on an annual basis – role of CSO in the report. There are also linkages between the M&E system and the programme/output budgeting systems being introduced in some countries in the region. One system should be implemented not parallel ones.

Factors Affecting the Situation

Institutional Set-Up Changes to the institutional frameworks in Georgia have effected the M&E system

Political Commitment. Political commitment is essential to ensure utilisation of the information coming from the monitoring and evaluation system.

Intra-Governmental Coordination

Capacity Where improvements are needed in the development of indicators, it is recognised that they must be in line with capacity. Efforts to strengthen household surveys have been undertaken in all/most of the case study countries and these efforts have been increased during the PRSP process.

Consultation With Other Stakeholders This has certainly been important in the Kyrgyz Republic where there has been strong civil society interest in monitoring and evaluation of the PRS process. The authorities have arranged a number of events to share information and consultation and have placed relevant information concerning PRS implementation on the web. Such consultation mechanisms have been important feedback mechanisms which can complement more formal monitoring systems.

5.4 THE ROLE OF DONORS IN THE PRS PROCESS IN THE NIS
The final challenge is for both donors and the recipient governments engaging in the PRS process and concerns the role of the donors in the process and the effectiveness of their support. All the countries in the region have received, and continue to receive, significant flows of Official Development Assistance (ODA)\(^\text{10}\) since independence as indicated in Table 9.1 below. In all countries the majority of ODA has been bilateral although the range is from 51% in the Kyrgyz Republic to 89% in Uzbekistan. This reflects to some extent the willingness of the recipient to be a “good pupil” of the IFIs and as a result “rewarded” with concessional multilateral flows. In terms of intensity of aid flows, the levels are comparatively high using both the % of GNI and per capita measures. Tajikistan, the Kyrgyz Republic and Armenia had levels of ODA/GNI over 10% in 2002 with Georgia and Moldova nearly reaching that threshold in earlier years. Even relatively resource-rich Azerbaijan has been the recipient of high relative levels of ODA in recent years. Only Uzbekistan has a relatively low intensity aid regime, largely reflecting its “bad pupil” status with the IFIs.

<table>
<thead>
<tr>
<th>Country</th>
<th>Net ODA (US$ mil.)</th>
<th>Bilateral Share of gross ODA (%)</th>
<th>Net ODA % GNI</th>
<th>Net ODA/Capita (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>293</td>
<td>57</td>
<td>12.0</td>
<td>94.5</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>349</td>
<td>69</td>
<td>6.1</td>
<td>42.6</td>
</tr>
<tr>
<td>Georgia</td>
<td>313</td>
<td>67</td>
<td>9.3</td>
<td>60.2</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>186</td>
<td>51</td>
<td>11.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Moldova</td>
<td>142</td>
<td>65</td>
<td>8.0</td>
<td>33.0</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>168</td>
<td>68</td>
<td>14.2</td>
<td>26.7</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>189</td>
<td>89</td>
<td>2.0</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: OECD/DAC

The pattern of donors is also interesting. In 2001/2002 the USA was the largest supplier of ODA in 5 of the 7 countries being examined. Japan and Germany are the other major bilateral donors in the region in terms of the size of their programmes. The World Bank and the Asian Development Bank (apart from Moldova, Georgia and Armenia) are the major multilateral development banks (MDBs). The UN development family and the EU also play an important role in the region.

The patterns of support for preparation of the PRSPs in the NIS were similar to those in other countries:

*Analytical work* – in all countries the donor community supported analytical work. Typically the World Bank and UNDP were the most active contributors (eg Kyrgyz) but others also provided support. Coordination, specifics eg poverty assessments

---

\(^{10}\) ODA includes official concessional flows that are developmental in intent. It does not include humanitarian flows or flows directly from developmental NGOs.
Management Support – in all countries donors supported the management of the process including support to the PRSP Unit in the form of equipment as well as training of its staff. Similarly support was given to conduct the consultative processes.

Direct Input into Document: Donors also provided extensive commenting on the draft documents. This kind of support has continued with implementation with the addition of direct support for implementation of activities. The main issue concerns how closely the donors are aligned to the PRSP process.

Donor alignment with the PRSP
As noted in Chapter 3, there is considerable donor rhetoric about the importance of aligning with the PRSP approach at the headquarters level but in the field the situation is somewhat different. There also seems to be a significant variation in approach by donors who either see the process as a great opportunity for greater aid and development effectiveness or sees it as a Bank/Fund tool for imposing conditionality and as a result attempts not to be co-opted into the process.

Direct Support for process management
Direct support was extremely important in the preparation of the documents and continues to be so in their implementation. Most countries benefited from the dedicated financing arrangements such as the World Bank’s PRSP Trust Fund as illustrated in Table 8 below which also indicates the kind of support provided by the donor community for process management.

<table>
<thead>
<tr>
<th>Country</th>
<th>Description of PRSTF Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Strengthening Poverty Monitoring and Reforming Labour Market Regulations</td>
</tr>
<tr>
<td>Georgia</td>
<td>Support for finalization of PRSP (PREGP)</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Institution building under the PRSP (NSPR)</td>
</tr>
<tr>
<td>Moldova</td>
<td>Strengthening Analytical Capacity and Participation for PRSP</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Capacity Building in Implementation and M&amp;E of the PRSP</td>
</tr>
</tbody>
</table>

Azerbaijan is a good example of where support has been more programmatic and therefore better coordinated. UNDP, WB and ADB have been brought together by the PRSP Secretariat in a coordinated manner……to help implement one programme of direct technical assistance to the PRSP process. Kyrgyz an example where some support was wasted and not used. Timing is a problem. Ownership etc

The PRSP and coordination
The PRSP should be able to coordinate both donors (i.e. end overlap of activities and support cooperation between them) and aid (integration of external assistance into national programme, plans and strategies). Aid coordination is therefore closely akin to the concept of alignment and with proper
alignment and the government in the driving seat, donor overlap should be avoided. At the same time the PRS process allows greater opportunities for donor cooperation. Not all efforts to improve coordination through the PRS process have worked. For example in Tajikistan efforts to improve coordination have led to a proliferation of units with responsibilities that include liaison with donors.

IMF/IEO Para 61. One good example is Azerbaijan where the major donors supporting the management of the PRSP processes (ADB, WB and UNDP) signed a Memorandum of Understanding with the Government to ensure a more coordinated and effective approach to supporting the process. The Kyrgyz Republic has also had good experience of improved coordination and utilisation of external assistance as a result of the PRS (and CDF) process as illustrated by box 5 below.

**Box 5: Donor coordination has improved significantly** International donors are very actively involved in all aspects of the poverty reduction strategy and many areas are characterized by the involvement of multiple donors. Although the Kyrgyz authorities have also made efforts to coordinate the work of donors, the significant recent improvements have resulted largely from donors’ initiatives. The Kyrgyz Republic was chosen as a pilot country at the Rome High Level Forum on Harmonization (of Donor Assistance) and donors have made significant efforts to fulfill their obligations thereunder. Guided by a Steering Committee of Donors and the Government chaired by a Vice Prime Minister, and led by a Working Group chaired by the Ministry of Finance, key efforts in donor coordination include work in progress to harmonize financial management and procurement procedures, and coordination in developing sectoral strategies, notably in education, energy, health, SME development and governance. In addition, the Asian Development Bank and the World Bank, the two largest donors active in the public investment program, recently conducted a joint review of their portfolios to better mesh their activities with the country’s priorities. A donor website has also been set up to share readily information on the activities of all donors (http://www.donors.kg). Work on policy harmonization is also underway in a number of sectors, including governance, education and health. Much work is also needed to improve coordination within the Government if harmonization efforts are to achieve their full effect. In particular, closer coordination between the Ministry of Finance and the President’s Administration vis-à-vis the interface between the CDF/NPRS and the MTBF is essential, as is improved coordination between line Ministries, the Ministry of Finance, and project implementation units.

Source IDA/IMF JSA of PRSP APR 2004
6. CONCLUSIONS: LESSONS LEARNED AND RECOMMENDATIONS

6.1 KEY FINDINGS AND LESSONS LEARNED FROM GLOBAL EXPERIENCE

The lessons from global experience are well documented and a few general lessons and findings are described here as an introduction to those from the region.

(a) Implementation of the PRS process has generally been weak. The process is extremely complex, probably more so than originally thought by most participants, and a significant additional burden. It represents a comprehensive reform of governance affecting administrative and economic governance as well as elements of political governance such as consultation and participation plus states relationship with civil society, parliament etc. The PRS process needs to be designed with this in mind.

(b) In terms of implementing the public actions included in the PRSP documents, many of these have come from existing sectoral strategies and programmes and would have been implemented anyway (at least in the first iteration of the PRSP process). In terms of adding value, the process seems to have resulted in a greater focus on poverty but it is too early to see if that change in focus will have an impact on the poor.

(c) While the importance of the three key features/challenges identified in the ToRs is known, their implementation is not well advanced. Getting to the stage where these features are in place represents a major challenge for the PRSP countries. The three challenges should be the focus of both the recipient countries as well as their partners in the donor community. What is clear is that none of the challenges can be overcome quickly and that it requires a process that may only be finished after several iterations of the PRSP.

(d) All five sets of issues identified in the ToRs have an important impact on the implementation process but their importance varies significantly. Addressing some issues may lead to greater effectiveness but not necessarily better implementation. The majority of studies reveal that the primary issue in relation to implementation concerns capacity building including civil society, parliament and government at the local level.

(e) Context is also important and will ultimately dictate whether addressing the challenges and issues referred to above will be enough to ensure implementation on a sustainable basis. Most PRSPs do not present alternative strategies that will take into account the change in the context especially when that change is the result of factors that cannot be controlled by national government.
In many cases the PRSP has introduced management systems (PRSP management units, working groups, reporting mechanisms etc) that parallel to existing ones which has led to some confusion and may have had a negative impact on implementation. The process has also been a heavy burden on many countries. At the same time, there is also a degree on consensus (among the donor community at least) as to what makes a good planning framework. At a technical level it consists of a number of instruments, approaches and processes. It has a long-term element based on the MDGs that guides the main medium-term planning tool, in broad terms a PRSP, which is implemented through sector/thematic programmes and the MTEF/budget. An effective M&E system and feedback mechanism ensures that there is appropriate information to ensure all instruments can be amended (both content and process). But it is not just a technical process it is also a political one, a process that establishes better accountability mechanisms and opportunities for participation in the development process. Elements of the framework are being implemented and different donors have interests in different parts of it. For example, the BWIs will push the PRSP while the UNDP will support the development of a longer term framework based on the MDGs. What is missing in many countries is a clearly articulated and comprehensive planning framework together with a roadmap to implement it.

For the PRS process to be effectively implemented the donor community needs to undertake a reform process that is almost parallel to that of the recipient. This relates not just to instruments and technical processes but also to approaches and the aid relationship itself, a relationship that is both technical and political. Technical in that such a framework presents an opportunity to be more effective and efficient, for example through better coordination or instruments and processes that result in reduced transaction costs. It is also a political relationship in that it can support greater ownership, partnership and mutual accountability.

6.2 KEY FINDINGS AND LESSONS FROM NIS STUDIES

Many of the findings and lessons from the NIS reflect those of the global studies. This is not surprising and reveals some of the fundamental issues related to the PRSP process across all countries.

Implementation of the PRS process in the five countries with approved PRSPs is also weak both in terms of (i) undertaking the priority reforms and interventions and (ii) amending the document. It should be noted that it is difficult to tell because of the nature of reporting and because many activities included in the PRSP were already ongoing.
(g) The three features are not in place and the three challenges therefore remain for NIS governments. The PRS process is not well integrated into the budget system and the budget systems themselves are weak. The budget systems in all countries are, however, undergoing significant reform and the new instruments such as MTEFs have only recently been introduced. Development of well-costed, prioritised sector strategies is also weak and existing strategies are not always well integrated into the process. Monitoring and evaluation systems are weak, especially with respect to the development of the right indicators and utilisation of the information coming from the M&E system.

(h) All of the five sets of issues are important and impact on the features/challenges. While political commitment to the PRS process seems to be adequate in all the countries now implementing the PRS process (and it is particularly difficult to ascertain), capacity is a major problem in all. This is at both central and local government levels as well as among civil society. Capacity building needs are not fully integrated into the PRS itself.

(i) The fact that none of the countries had comprehensive national planning frameworks at the start of the PRS process is a major advantage compared with countries that had such frameworks already in place and found the PRS process introducing new development management systems. Even if no comprehensive development planning and management system is in place (apart from perhaps the Kyrgyz Republic) this is not to say that processes and procedures for development management were not already in place. These may not have been coherent or even effective but they did, and still do, exist. It could be argued that he development of the PRS process should incorporate the existing frameworks this has generally not been the case and the NIS have also suffered from the development of parallel systems. Poor integration into existing systems is a key feature of many of the countries. Donors have not integrated into the PRS process well although this may take some time for donors to adjust their programme to the PRS framework.

(j) For the countries in the NIS this is a major change and a complete way of doing business, especially from a political perspective. The process will take some time and (a) should be part of the PRSP and (b) should be supported by the coordinated help of the donor community It should not be considered just part of the PRSP process is PRSP focussed support is unnecessary.

6.3 RECOMMENDATIONS FOR COUNTRIES IMPLEMENTING PRSPS

The findings and lessons outlined above and taken from the desk, case and comparative studies lead to some important recommendations for the countries implementing PRS process. Many of these apply to
all the countries in the region now implementing the process but where appropriate specific countries and recommendations are identified. At this stage it is worth stating that many of the principles of the PRSP and of development effectiveness are not repeated here. It is assumed that recommendations to improve ownership, partnership and result-orientation are well-known and redundant in their most general forms.

(f) Put the PRSP in the centre of the planning process. Using existing institutions where possible, design a comprehensive national development planning framework in both a technical and political sense not just elements of one. Most PRSPs address the multi-dimensional nature of poverty but in so doing need to address all public interventions including areas often not considered as important for poverty such as justice and security. But the latter two have important impact on the poor (ref voices of the poor) and the PRS process needs to encompass them. So the PRS process needs to be the core of the national development planning framework that covers everything not just a thematic programmes that covers a number of sectors that are considered to be important to the poor.

(g) Look towards the longer term in this process – don’t expect miracles from the PRSP process but recognize that it may take several versions in the process before the capacities are in place to be truly effective.

(h) Develop mechanisms to ensure greater mutual accountability between government and the donor community (in addition to the accountability mechanisms for the citizens that should also satisfy the donors)

(i) Greater focus needs to be placed on communicating the role of the PRS process in the overall development planning framework and the roles of the various stakeholders. The first part of this will be facilitated by the development of the planning framework itself.

(j) Revise the donor-recipient relationship according to the principles of the PRSP and demand greater accountability for actions.

6.4 RECOMMENDATIONS FOR COUNTRIES ABOUT TO START PRSP IMPLEMENTATION

While most, if not all, of the above recommendations will apply to those countries yet to start implementation of the PRSP, there are some specific recommendations that relate to Uzbekistan
countries in the region. These “latecomers” in the process have the advantage of being able to learn from the experiences of their neighbours and to undertake PRS processes that are not only well implemented but more importantly have better results in terms of poverty reduction. In relation to the scope of this report, the following are recommendations for one or both of the countries:

(c) For Uzbekistan at its early stage of the PRSP process, there are a number of recommendations stemming from the finding that the development of the PRSP itself has an impact on the success of its implementation. For example, the degree to which line ministries are involved in the development of the PRSP will help determine their engagement in implementation.

(d) The most important recommendation is for the government to avoid the development of an island of a PRSP management unit and a single parallel PRSP framework. Rather it should use this opportunity to develop a national development planning framework that is based around a three-year planning tool which for the purposes of IMF/WB financing will be a PRSP.

6.6 RECOMMENDATIONS FOR DONORS

The recommendations for donor partners largely reflect those for the countries implementing the PRSPs.

(f) End the dichotomy between direct and indirect support. In other words, to implement the PRS process a broad range of support is needed beyond that based around a PRSP secretariat or management unit. The whole process of public administration reform and reorientation of the state (for example in its relationship with its citizens) is required for effective PRS implementation and this will require some time.

(g) Provide assistance to the strengthening of the public administration in a programmatic way. The PRSP itself should include such a reform programme. While it is often difficult to manage the inter-ministerial cross-cutting programmes of governance reform it needs to be done in line with the PRSP process. Once a strategy for the development of the planning framework is in place, a comprehensive programme of TA can be identified. From here multi-donor support can be coordinated. New approaches such as pooling of funds by donors and generally taking a more programmatic country led approach will be appropriate. Lessons from Azerbaijan can be used in this respect.
(h) Where public administration systems are adequate increase the use of budget support (as proposed by DfID). Even if conditions are not right now there should be a move towards getting those conditions right and a trigger for moving from technical assistance to budget support.

(i) Introduce new mutual accountability mechanisms where the donor is accountable to recipient citizens in the same that it is accountable to its own (citizens or funders). The PRSP/MDG should be developed as a framework not only for coordination and alignment but also for accountability.

(j) Support for regional information sharing in a process that is not driven by the donor community but can if necessary include their full participation. Eg donor poor funds to a regional committee that decided what events should take place and what information/experience sharing initiatives should be implemented.

While the general recommendations for donors apply equally to the EU, there are a number of specific ones that will be added here.

Although the EU has engaged with the PRS process across the region it has not been seen as one of the main players supporting governments in the process. That is not necessarily a bad thing as already noted indirect support for the process may be as important as the direct support to actions labelled “PRSP”. Equally support for implementation of the priority actions contained in the PRSP document may be as important as direct and indirect support for the PRS process as whole. The answer is a balance between the two. Identify a trigger to move emphasis from TA to budget support.

There is probably a role for the EU to play in balancing the influence of the World Bank and the IMF. The UN has attempted to play this role in the in the area of policy advice but has often failed partly as it does not have the resources and the corresponding influence among recipient governments. This is not to say that the EU should encourage one perceived fallacy (for example IMF macroeconomic policy) to be replaced by another (potentially worse in it is impact) but that it should facilitate the identification of clear alternative policies. This is essential if the PRS process is to be truly country driven and unlike the UN, the EU has the financial weight (if perhaps not the neutrality), to support this approach.

6.7 COUNTRY SPECIFIC RECOMMENDATIONS

Specific Recommendations for Armenia
(a) With regard to the PRSP implementation, it is crucial that it be reflected in the budgetary process. Efficient tools to provide for this are the organization of discussions between bodies responsible for PRSP implementation and MTEF development and their reciprocal participation in activities of both. MTEF application instructions should also contain sectoral policies mentioned in the PRSP and measures of their implementation.

(b) Discussions on Annual Budget and MTEF should provide for more participation, especially, with regard to the decision-making on MTEF target indicators. Here attention should be paid to ensuring participation of the Members of the National Assembly by providing them with information about PRSP policies, priorities and target indicators.

(c) In order to endure efficient implementation of PRSP program measures for 2004 it is important to identify financing sources for them. That can be achieved through efficient collaboration of line Ministries and stakeholder international organizations and will provide for the efficient use of donor assistance.

(d) It is necessary to organize discussions with stakeholders with the aim of identifying a separate format for the provision of funding in the Annual Budget for PRSP measures. This could be presented in a separate Appendix.

(e) A possible solution to better incorporate the results of assessments and research on the possible impacts of designed policies on the social situation and poverty in the policy implementation phase, could be a legislative amendment, which will require the Government to discuss programs only upon submission of the poverty and social impact assessments (PSIA) document attached to each proposal.

(f) In order to ensure continuity of the PRSP monitoring system and improvement of the monitoring function within the government bodies, it is necessary to include relevant clauses in the Charters of the Ministries. The Head of each agency should appoint the groups in charge of monitoring and lay out their annual task schedules.

(g) The Government should maintain the PRSP implementation process as the focus of its Ministries and agencies by appointing units and defining the scope of their responsibilities. This will ensure that the government bodies will pro-actively participate in the PRSP reviews and adjustments.

(h) In order to ensure utilization of local and regional capacities it is necessary to disaggregate PRSP policies to municipal levels. This, however, should be accompanied by capacity strengthening measures in local government bodies.
Specific Recommendations for Azerbaijan

(a) An overall planning framework needs to be clearly defined, as does the role of the PRSP within it. This may not happen in the next phase of the PRS but should be established before the third iteration. Work needs to start now and additional donor support should be provided. Establishment of such a framework should be the priority of government and donors alike.

(b) The next PRSP must be designed for the needs of government in the first instance and to comply to the demands of the IFIs should not be the primary concern.

(c) Donors need to start thinking of triggers to move towards budget support once the framework is in place

(d) Donors need to be more programmatic in their support and to see the PRS process not just as a stand-alone activity but as an integral part of the overall development planning and management framework. This is especially important for those donors who do not engage with public administration reform and my therefore support parallel structures through the PRS process.

Specific Recommendations for Georgia

(a) Building Institutions Good governance and democratic consolidation remains a major challenge for Georgia as does accountability in financial and economic management. Therefore capacity building and promotion of the rule of law, building democratic institutions and promotion of human rights require particular attention.

(b) Government and Bureaucratic Management Intra-governmental coordination and the balance of power is quite important. The government institution responsible for the management of the EDPRP must have the power to manage other line ministries and departments, while at the same time ensuring that there is a fair amount of participation by other stakeholders. This is quite a challenge in practice and it is hoped that the changes in the coordination of the EDPRP will have a positive effect on the overall implementation of the program.

(c) Resource Mobilisation Apart from improvements in revenue collection and management, the government needs to find ways of bringing informal sector into the tax net by introducing some
minimal form of taxation that is not prohibitive for small business (vendors fees, market fees etc). Reduction of bureaucratic requirements may also encourage formal registration of business.

(d) **Financial and Technical Support** The success of the EDPRP depends on timely, predictable donor financing. Given the problems that the Georgian government has had in raising adequate domestic revenue, it is quite clear that the country will require significant amounts of financial support for its programmes. However, there are concerns raised about the unpredictability of donor funding. Additionally, external assistance should be largely grant-based, and consistent with the commitments made with respect to attainment of the MDGs. Georgia has limited access to international financial institutions and therefore will continue to rely on concessional official external financing.

(e) Technical assistance will also continue to be important in the medium term. However, there should be recognition that unlike many countries undertaking PRSPs, the levels of education in Georgia are relatively high. It is estimated that Georgia has a literacy level of between 75 and 85 per cent as a result of the positive impact of Soviet education policies. It is assumed that the quality of civil servants reflects this. Therefore, the task is mainly one of retraining people in the management of a market oriented economy and the level of government involvement that goes with this. The Government of Georgia has prepared a project proposal for financing support to the implementation of the EDPRP. The emphasis of the proposal is for the provision of financing to engage experts in the various sectors that will manage the implementation process. The German government has already provided technical assistance to the Ministry of Economy for EDPRP implementation. This may provide encouragement for other donors to follow.

(f) **Donor Coordination** The establishment of the Donor Framework Group for the preparation of the EDPRP should form the basis of coordination for implementation as well. Apart from ensuring that the donors’ individual programmes are in tune with the EDPRP, it also provides a contact point for the Georgian government and reduces pressure on government officials that are responsible for aid coordination and management.

(g) **Building National Ownership** While there is much rhetoric about building partnerships and ownership, donors are sometimes reluctant to give full responsibility for implementation to recipient governments particularly in cases, such as Georgia, where there have been problems of corruption and lack of accountability in some areas. Nonetheless, it is important to emphasise that the country is ultimately responsible for its own progress and development.

---

11 Oxfam (2004), From Donorship to Ownership ?, p45
Georgia presents a particular challenge in the implementation of the EDPRP given its turbulent political environment. The EDPRP was created by the previous Government with broad participation of society, but after the “rose revolution” and there was some concern about the continuation of the EDPRP. Fortunately, the EDPRP has been acknowledged as development framework for the country. Nonetheless, there is much cause for optimism. The determination of the new government to fight corruption and establish a stable government is commendable. The country is moving towards building a market based economy and the strategic position of the country in the region places it in a favourable position for investment.

Georgia successfully completed the first stage of the creating the EDPRP document and will slowly begin implementation. It is expected that institutional change in the structure of the ministries and the legal framework, will enhance effectiveness and implementation of the EDPRP. The government of Georgia understands that governance reforms and improving the economic environment is one of the ways of achieving the objectives of economic growth and poverty reduction. The government is now focusing on the institutional changes and reforms that will build the civil society and donor confidence in the state.

At present Georgia is in the stage of institutional reform but there is a need to develop accountability, transparency, collaboration and effective involvement of the civil society. A mutual appreciation of the challenges of poverty and clear understanding of the government policy will create an institutional environment that will help the new government to implement the EDPRP.

Specific Recommendations for the Kyrgyz Republic: The following issues have to be considered in the process of the NPRS implementation:

(a) A clear message should be sent that the NPRS is not strictly a Government-donor deal and that the participation and feedback of other stakeholders is mandatory; for example, an annual implementation report has to be complemented by a summary of consultations on its content with the civil society; this summary could also describe the lessons, which the Government learnt from these consultations;

(b) More attention could be paid to the link between the poverty analysis and the action plan in the strategy; for every priority activity area in the strategy there should be a description of the mechanism transmitting the activities into poverty reduction with all the assumptions clearly defined;

(c) The issue of costing is also very relevant as it is impossible to prioritise without good cost estimates, and the Government requires support in this area; it is important that the capacity of all major stakeholders – the Ministry of Finance, line ministries, regional authorities and local self-governments – be improved;
There is a need not only for prioritised sectoral plans, but also for a well-developed regional component of the strategy, describing all the approaches and links between resources and activities of the Government and the sub-national (including local) authorities.

**Specific Recommendations for Tajikistan:** The following recommendations emerge on the basis of the identified challenges to the implementation of the PRSP in the Tajikistan:

(a) Switch the mindset from treating the PRSP as a document for the donors by the government. Rather, it should be treated as a document for the people, by the people with enhanced participation and feedback from various stakeholders. The absence of a publicly available progress report is indicative of the shortcomings in the mechanism to monitor implementation and its completion must be treated as a priority and indeed, essentially inbuilt part of the implementation process in the future.

(b) There is a need for prioritised sector plans and for improving the capacity of line agencies to implement these plans successfully. The PRSP does not discuss either of these issues in detail and the specific mechanisms surrounding each strategy need to be clearly laid out.

(c) Technical capacity and capacity to carry out poverty analysis needs to be enhanced and better linked to the action plan described in the strategy. As in the case of the line agencies and required actions, in this case too there should be a specific description of the way in which the problem identified in the PRSP will be addressed during the implementation phase. This can be accomplished by paying more attention to the link between the poverty analysis and the priorities laid out in the PRSP.

**Recommendations for Countries about to Start PRSP Implementation:** While most, if not all, of the above recommendations will apply to those countries yet to start implementation of the PRSP, there are some specific recommendations that relate to Uzbekistan countries in the region. These “latecomers” in the process have the advantage of being able to learn from the experiences of their neighbours and to undertake PRS processes that are not only well implemented but more importantly have better results in terms of poverty reduction. In relation to the scope of this report, the following are recommendation for one or both of the countries:

(a) For Uzbekistan at its early stage of the PRSP process, there are a number of recommendations stemming from the finding that the development of the PRSP itself has an impact on the success of its implementation. For example, the degree to which line ministries are involved in the development of the PRSP will help determine their engagement in implementation.
(b) The most important recommendation is for the government to avoid the development of an island of a PRSP management unit and a single parallel PRSP framework. Rather it should use this opportunity to development a national development planning framework that is based around a three-year planning tool which for the purposes of IMF/WB financing will be a PRSP.
1. INTRODUCTION

The Poverty Reduction Strategy Paper (PRSP) has become the primary institutional framework for poverty reduction in developing countries. PRSPs were originally introduced by the World Bank and the International Monetary Fund in 1999, as a means of linking financial assistance to poverty reduction in developing countries. Since then, the total number of PRSPs has reached 32, with another 21 countries embarking on the PRSP process.\(^{12}\)

Of the 12 countries of the former Soviet Union, 7 are required to draw up PRSPs in order to have access to World Bank and IMF concessional lending: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. All but Uzbekistan have developed Interim PRSPs. 5 states – Armenia, Georgia, Kyrgyz Republic, Tajikistan and Azerbaijan – have already succeeded in completing full PRSPs.

Completion of a full PRSP should only be the start of a process. Government priorities need to be further refined by means of action plans, and should be reflected in each country's budget and implemented by the relevant ministries. In addition, monitoring systems, including poverty indicators, need to be developed, and full PRSPs should be reviewed, and if necessary adjusted, every year.

There is a general consensus among most donors that PRSPs should play a central role in determining priorities for donor assistance. There exists little analysis of the key challenges for PRSP implementation for countries in Eastern Europe, Central Asia and the Caucasus, however, and what supporting PRSPs will mean in practice in this region.

Aside from the World Bank and the IMF, a number of donors are active in the region, including the EC, USAID, UNDP and DfID. The EC’s Tacis programme, which was established in 1991 to promote transition towards democratic societies and market economies in the former Soviet Union, plays a major role. Since 1991, Tacis has been providing grants, mainly in the form of technical assistance, to 13 countries in Eastern Europe, the Caucasus and Central Asia (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).\(^{13}\)

As statements of the governments' priorities over the coming years, PRSPs are essential for formulating the Community’s Country Strategies, in particular for shaping assistance priorities. The suggested study would provide useful insights to be used in the policy dialogue with partner governments on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

2. PURPOSE OF THE STUDY

The purpose of the study is to provide input to policy dialogue with partner governments on PRSPs, as well as to the preparation of Indicative and Action Programmes.

3. SCOPE OF THE STUDY

The study consists of the following elements:

\(^{12}\) See IMF and IDA, PRSPs: Progress in Implementation, September 2003.

\(^{13}\) Assistance to Mongolia will be transferred from the Tacis programme to the Asia/Latin America programme as of 2004.
a) to assess the full PRSPs in the 5 countries that have developed them, examine the actions taken after the launching of the PRSP in these 5 countries, and to compare this experience with that of Moldova and Uzbekistan in developing PRSPs;

b) to draw on lessons from other regions implementing PRSPs.

4. THE ASSIGNMENT

4.1 Assessment of the PRSPs

The consultants should identify the key challenges facing NIS governments in implementing full PRSPs. Where there are country-specific challenges, the main ones should also be identified for each of the countries concerned.

In identifying bottlenecks for implementation of the PRSPs, the following key issues should be studied in particular:

a) depth of integration of the PRSP in the budget process;

b) the existence of sector strategies/work plans with clear priorities in the PRSP framework;

c) the extent to which indicators, monitoring and feedback arrangements have been put in place and utilized effectively.

With respect to each of these issues, potential underlying constraints in the following domains should be examined:

a) institutional set-up – what are the key weaknesses, if any, in the institutional set-up which hamper the implementation of the PRSP (including budgetary processes);

b) political commitment/ownership - what is the level of will among the political leadership to support the implementation of the PRSP, and to what extent is this commitment effectively translated into action;

c) intra-governmental coordination – what has been the level and quality of interaction between different governmental bodies, and has this been adequate given the scope of the PRSP;

d) capacity – where are the key gaps in financial and human resources available to national governments for implementing priority reforms, and is the PRSP process sufficiently relayed at sub-national political and/or administrative levels;

e) consultation with other stakeholders (such as parliament, NGOs and donors) – what has been the level and quality of the interaction between different stakeholders, and has this been adequate and effective given the scope of the PRSP?

Reference should also be made to the extent that key donors have been willing and/or able to draw on the PRSP framework in their own programmes.

4.2 Other regions’ experience

The consultants should identify a set of general lessons for achieving effectiveness and efficiency in PRSP implementation, by drawing on the experiences of other regions that are ahead of the NIS in the PRSP process (notably Africa). Attention should in particular be paid to lessons with respect to the key issues and underlying constraints identified in section 4.1. These general lessons should be compared with the experience of the NIS in PRSP implementation.

4.3 Conclusions and Recommendations
The consultants should compare the experiences of the 7 NIS countries, taking into account the lessons identified in 4.2, and highlight future implementation issues that can usefully be addressed by governments tackling the challenges posed by PRSP implementation.

The study should focus on ways in which governments can best achieve effective PRSP implementation. Consideration has to be given to the governments’ own resource-raising capacity. The study should identify the main priority assistance needs which are linked to the bottlenecks in implementation, as identified in 4.1. Secondary consideration should also be given to comparing these assistance needs with how key donors in this region are – or will be – supporting the implementation of the PRSPs.14

5. DEFINITIONS, METHODS, TIMETABLE AND RESOURCES FOR THE STUDY

The study should be based on a review of relevant documents and fieldwork in the Eastern Europe, Caucasus, and Central Asia region.

For tasks under 4.1, the consultants should undertake a desk study, as well as two case studies based on fieldwork in the target region. One case study should examine PRSP implementation in Armenia, the other should be selected from the Central Asia region. The Armenian case study should take into account the conclusions reached by a recent EC study on PRSP monitoring and impact in Armenia.15 Fieldwork should take the form of interviews with key governmental, non-governmental and donor stakeholders. These interviews should reflect the diverse range of stakeholders involved, and the government’s lead, in the PRSP process.

An in-country presentation of preliminary findings is to be held at the Delegation accredited to each of the countries selected for fieldwork. This should take place before the consultants leave the country where the case study has been carried out.

For the comparative tasks under 4.2, the consultants are expected to carry out a desk study. The consultants should elaborate on a methodology for the study and present it in an inception report of no more than 5 pages in length. Both the desk study and the two case studies should build on relevant work already produced by major donors active in the region, notably the World Bank16, the UNDP, and DFID.

A small team of external consultants is to carry out this evaluation. The team should possess relevant social and political science competence, as well as competence in economics. One or more of the team should have region-specific expertise. Expertise in supporting the preparation, implementation and monitoring of PRSPs would be useful. To be able to assess how different agents interact during the PRSP process, one or more of the consultants should have experience in management and organisational issues.

To maximize diverse stakeholder participation in interviews, at least one member of the team should have good Russian language skills, and at least one member should have excellent oral and drafting skills in English.

14 This could usefully be set out in an annex to the report.
15 Study on PRSP monitoring and impact for EU/EC-programming in Armenia, commissioned by Delegation of the EC for Georgia and Armenia. The draft final report, which is expected in late November 2003, is to be provided to consultants by the EC.
The EC will provide some help to the consultants in identifying interviewees and key documents. In general, the responsibility for setting up meetings, finding documents, copying etc. rests with the consultant.

The study should be completed during the first half of 2004, although priority will be given to consultants that can offer an early start date. The scope of work is envisaged to require an estimated 20 person weeks.

The tentative time schedule for the study is the following:

- Date of signature of contract (date ‘n’): start date
- n plus 2 weeks: Submission of inception report
- n plus 10 weeks: Submission of draft report
- n plus 14 weeks: Submission of final report

6. REPORTING

The following reporting requirements will apply:

a. An inception report shall be presented to Deloitte & Touche no later than two weeks after the start date. The inception report should set out the team’s interpretation of the terms-of-reference as regards the proposed approach and methods. The inception report should also propose a detailed work plan for the assignment.

b. A draft report is to be submitted to Deloitte & Touche no later than n plus 10 weeks. The report will be circulated by Deloitte & Touche to the European Commission, Directorate-General External Relations, Unit E1 for comments.

c. Within 4 weeks after receiving the compiled comments from Deloitte & Touche on the draft report, a final version will be submitted to Deloitte & Touche. The study shall be written in English and should not exceed 80 pages, excluding annexes.

7. BUDGET

The budget will be maximum 50,000 Euros.
<table>
<thead>
<tr>
<th>ANNEX 2: DOCUMENTS REVIEWED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moon, Allister (????) PEM Capacity and PRSPs in ECA PRSP Countries. Summary Piece. World Bank, Washington DC</td>
</tr>
</tbody>
</table>


Possing, Susanne (2003) Between Grassroots and Governments: Civil Society Experience with the PRSPs – A Study of Local Civil Society Response to the PRSPs. Danish North-South Coalition.


ANNEX 3: MAP OF THE COMMONWEALTH OF INDEPENDENT STATES