



DEVELOPMENT COMMITTEE  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
On the  
Transfer of Real Resources to Developing Countries)



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**DC/2000-10**

**April 15, 2000**

**PROGRESS REPORTS ON HEAVILY INDEBTED POOR COUNTRIES (HIPC)  
AND  
POVERTY REDUCTION STRATEGY PAPERS (PRSPs)**

Attached are Progress Reports on HIPC and PRSPs. They have been prepared by the staff of the International Monetary Fund and the World Bank as background for item 2.B of the Provisional Agenda for the April 17, 2000 meeting of the Committee. There is also a cover note to the Committee from the President of the World Bank and the Acting Managing Director of the International Monetary Fund. Ministers are encouraged to address this subject in their prepared statements.

THE WORLD BANK GROUP

INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

MEMORANDUM

**DATE:** April 14, 2000

**TO:** Members of the International Monetary and Financial Committee  
Members of the Development Committee

**SUBJECT:** **Heavily Indebted Poor Country Initiative and  
Poverty Reduction Strategy Papers-Progress Reports**

The attached reports summarize the progress we have made in these closely linked efforts since the Annual Meetings. When Ministers endorsed the enhanced Heavily Indebted Poor Country (HIPC) Initiative in the fall, we all emphasized that faster, deeper and broader debt relief should be linked to poverty reduction. To achieve faster growth and poverty reduction, we proposed the Poverty Reduction Strategy Paper (PRSP), a country-owned action plan, developed through a participatory process, in which poverty-reducing measures are integrated into a coherent, growth-oriented macroeconomic framework. We linked debt relief under the HIPC Initiative and access to concessional lending by the Bank and the Fund to the preparation and implementation of such poverty reduction strategies.

We recognized then the inevitable tension between the delivery of debt relief and the pace at which effective, country-owned poverty reduction strategies can be prepared in a participatory process. To reduce this tension, as a transitional measure, our Boards have agreed that an interim PRSP will be sufficient for a country to reach the decision point and that the timing of the completion point for retroactive cases (which had already reached their decision points under the original Initiative) can be decided on a case-by-case basis, taking into account the overall progress in poverty reduction and economic performance and the preparation of PRSPs. The five country cases which have already reached their decision points under the enhanced HIPC Initiative reflect the application of the above framework.

Achieving our ambitious timetable for debt relief will require, first and foremost, continued progress by the HIPC countries themselves in implementing reforms needed for sustained growth and poverty reduction. It will also require close coordination among the partners involved. For our part, we must continue to do everything in our power to implement the Initiative as speedily as possible. To this end, we have established a joint implementation committee (JIC) to ensure the smooth implementation of both the HIPC Initiative and the PRSP process. The JIC will provide regular updates and informal briefings to the Boards on the timetable for implementation of country cases and will coordinate Bank and Fund implementation of this process.

We need your full support to ensure that all the elements of this initiative are implemented: effective poverty reduction strategies prepared and implemented by low-income countries through a participatory process; additional funding to finance the enhanced HIPC Initiative; the full participation of all creditors in the HIPC Initiative; and the full involvement and participation of bilateral and multilateral agencies in the PRSP process at the country level.

James D. Wolfensohn

Stanley Fischer

Attachments

# **HIPC Initiative—A Progress Report**

Prepared by the Staffs of  
the World Bank and the International Monetary Fund

April 14, 2000

## **I. INTRODUCTION**

1. In September 1999, the Development and Interim Committees endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework to provide deeper, faster and broader debt relief for countries pursuing sound policies and committed to reform. The lower debt sustainability thresholds and earlier calculation of assistance under the enhanced framework will more than double the amount of debt relief provided by the HIPC Initiative compared to the original framework. The World Bank and the IMF have been moving forward with the implementation of the enhanced framework. Since the Annual Meetings, missions visited about 20 countries to prepare debt sustainability analyses and to help countries initiate the Poverty Reduction Strategy Paper (PRSP) process. To date, five countries—Bolivia, Mauritania, Mozambique, Tanzania, and Uganda—have reached their decision points under the enhanced framework. In addition, the debt relief package for Senegal has been prepared based on agreements with the outgoing government and staffs hope, after consultations with the incoming administration, to be in a position to submit this package to the Boards shortly. Furthermore, two preliminary HIPC documents on Honduras and Guinea have been presented to the Executive Boards of the IDA and the IMF discussing relief under the enhanced Initiative. In moving forward, much work remains to be done to identify sufficient resources to finance the increased costs of the enhanced HIPC Initiative.

## **II. IMPLEMENTATION TO DATE**

### **A. Retroactive Cases**

2. With the endorsement of the enhanced HIPC Initiative in place, staffs proceeded to reassess the retroactive cases—i.e., those countries that had already reached their decision points under the original framework—to determine additional assistance under the enhanced HIPC Initiative. Of the four countries that had already reached their completion points under the original framework, Uganda and Bolivia reached their new decision points under the enhanced framework in February 2000, while Mozambique's debt relief package was approved in April 2000.<sup>1</sup> A key requirement for reaching the floating completion points for these countries is the adoption of a fully developed PRSP and its broad endorsement by the

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<sup>1</sup> Guyana, the fourth country that had already reached its completion point under the original HIPC framework is expected to reach its decision point under the enhanced HIPC Initiative once it reaches an agreement on a program under the second annual PRGF arrangement. Additional debt relief under the enhanced HIPC Initiative will be estimated in the context of the revised debt sustainability analysis currently in progress.

Executive Boards of the IDA and the IMF as a context for assistance from IDA and the IMF. For Uganda, the completion point document under the enhanced HIPC Initiative has been issued to the Boards of the Fund and IDA for discussion at a forthcoming meeting. As part of a wider response to the severe rains and floods which have hit Mozambique, IDA and the IMF have acted to accelerate the delivery of debt relief, covering Mozambique's debt service to the Bretton Woods Institutions during the next 12 months, coinciding with the expected interim period. Debt service relief from the HIPC Initiative for these three countries will total around US\$8.4 billion, or US\$4.3 billion in net present value (NPV) terms. Table 1 provides details of the status of country cases considered thus far under the Initiative, and the likely amounts of assistance by major creditor.

3. Senegal's debt was considered sustainable under the original HIPC Initiative framework. With the lower thresholds and targets under the enhanced framework, Senegal would qualify for assistance. The debt relief package has been prepared and will be circulated to the Boards as soon as the new government has confirmed its commitment to the economic and social policies underpinning the proposed HIPC package. Other retroactive cases—including Benin, Burkina Faso, and Mali—will be coming up for reassessment in the coming months.

## **B. New Cases**

4. Four new cases have been considered by the Executive Boards of IDA and the Fund under the enhanced HIPC Initiative since the annual meetings. Two of these cases reached their decision points, and the Executive Boards of IDA and the Fund discussed Preliminary HIPC Documents for the other two cases.

5. The Executive Boards of IDA and the IMF agreed in early 2000 that Mauritania is eligible for assistance of US\$1.1 billion in nominal terms under the fiscal criterion (US\$622 million in NPV terms). In April 2000, the Executive Boards of the IMF and IDA agreed that Tanzania had reached its decision point under the enhanced HIPC Initiative and approved assistance of US\$3 billion in nominal terms (or about US\$2 billion in NPV terms). Between the decision and completion points, IDA and the Fund will provide interim relief.

6. In these new cases the "floating" completion point would be triggered by the successful implementation of a set of pre-defined reforms in the macroeconomic, structural and social domains. In particular, both Mauritania and Tanzania will (i) prepare, in broad consultation with civil society, a fully developed PRSP, which is endorsed by the Executive Boards of IDA and the IMF as a context for assistance from IDA and the IMF (ii) produce an annual progress report on its implementation,<sup>2</sup> (iii) maintain a stable macroeconomic environment, as evidenced by performance under a PRGF program, and (iv) implement satisfactory structural reforms as defined in the decision point document. The PRSPs will

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<sup>2</sup> On Tanzania, reflecting its long track record of adjustment and reform, Executive Directors noted that this requirement be interpreted flexibly.

serve as a basis for future concessional assistance from the IMF and IDA. In all cases, assistance at the completion point is subject to confirmation of comparable action by other creditors.

7. In December 1999, the Executive Boards of IDA and the IMF discussed preliminary documents on the HIPC Initiative for Honduras<sup>3</sup> and Guinea<sup>4</sup>. Honduras would qualify under the Enhanced HIPC Initiative based on the fiscal criterion, and Guinea would qualify under the exports criterion. The decision points for these two countries could be reached in 2000 subject to: (i) preparation of an interim PRSP and (ii) progress on key macroeconomic and structural reforms as outlined in the preliminary HIPC documents. These countries could potentially receive nominal debt service relief in the order of US\$2 billion.

### **C. Updated Cost Estimates**

8. In December 1999, the staffs of the World Bank and the IMF prepared jointly an update on costing the enhanced HIPC Initiative, including a breakdown of the costs for each multilateral institution. Updated total costs for the HIPC Initiative were estimated at US\$28.2 billion in 1999 NPV terms (see Table 2). Under the enhanced framework, the shares of HIPC Initiative costs for bilateral and multilateral creditors remain roughly equal. In 1999 NPV terms, multilateral cost estimates are as follows: US\$6.3 billion for the World Bank, US\$2.3 billion for the IMF, US\$2.2 billion for the AfDB, US\$1.1 billion for the IaDB, and US\$2.2 billion for other multilateral development banks (MDBs).

## **III. PARTICIPATION OF ALL CREDITORS UNDER THE ENHANCED HIPC INITIATIVE FRAMEWORK AND FINANCING ISSUES**

9. Successful implementation of the enhanced HIPC Initiative will depend on the full participation of multilateral as well as bilateral creditors; and the availability of adequate financing to meet multilateral institutions' costs as the Initiative moves forward. Since the endorsement of the enhanced framework in September 1999, staffs have been working with donor governments and with MDBs to bring these conditions into place.

### **A. Financing and Participation of the World Bank and the IMF**

#### **World Bank Participation and Financing**

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<sup>3</sup> Honduras: Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC), IDA/R99-183 and EBS/99/210, November 23, 1999.

<sup>4</sup> Guinea: Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC), IDA/R99-200 and EBS99/226, December 14, 1999.

10. In its endorsement of the enhancement of the HIPC Initiative framework, the Development Committee agreed that financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Following the Annual Meetings, Bank management, in consultation with donors and the Executive Directors and taking into account both the level and timing of resources projected to be available to the HIPC Trust Fund to support debt relief, developed specific implementation modalities for the provision of debt relief by the World Bank and the operation of the HIPC Trust Fund under the enhanced framework.<sup>5</sup> In January 2000, IDA's Executive Directors approved these modalities and adopted a decision that the forgiveness of a portion of the debt service on IDA credits as it falls due is consistent with IDA's Articles of Agreement.

11. The predominant method of delivering debt relief on IDA debt will be through debt service relief. Because the World Bank component of the HIPC Trust Fund will not have sufficient resources to provide full financing of debt relief commitments at the point the commitment is made, IDA, rather than the HIPC Trust Fund, will assume the responsibility of providing the debt relief at the time of the commitment (i.e., at the decision point). IDA will be reimbursed on a pay-as-you-go basis by the World Bank component of the HIPC Trust Fund (subject to the availability of resources in that component)—the Trust Fund will provide to IDA annual amounts that match the amounts forgiven by IDA during the same period. IDA will deliver, to the extent feasible, its full share of debt relief to the country within 20 years after the decision point. Within this objective, IDA will provide annually relief of not less than 50 percent of IDA debt service due on the amounts disbursed and outstanding at the reference year when HIPC assistance is calculated. IDA debt relief will begin at the decision point, with the maximum level of debt relief provided during the interim period equal to one third of the total NPV to be provided to the country by IDA.

12. For the three countries with significant outstanding IBRD debt (Côte d'Ivoire, Cameroon and Honduras), to the extent that donor funding is not available in the World Bank component of the HIPC Trust Fund, debt relief on IBRD loans will have to be provided by IDA. IDA will during the interim period provide annually supplemental HIPC debt relief grants to cover the debt relief that will be provided on IBRD loans. At the completion point, IDA would provide a single supplemental HIPC debt relief credit to prepay the amount of IBRD debt outstanding required to achieve the remaining NPV relief to be provided on the country's IBRD debt.

13. In keeping with the understanding embodied in the Development Committee communiqué, IDA's debt relief costs will be clearly and separately identified—the amount of debt service that IDA forgives and the amount of IDA supplemental debt relief grants and credits it provides will be known. At this time the resources available in the HIPC Trust Fund fall far short of the total costs that will be incurred by IDA. The IDA 13 replenishment is therefore expected to consider (i) the normal financing requirements for IDA to carry out its

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<sup>5</sup> (IDA/R2000-4), January 10, 2000.

development objectives and (ii) IDA's unfunded HIPC costs. It will then be up to the donors to decide how to fund these separate IDA HIPC Initiative costs and how they will share the burden. The implications of HIPC debt relief for IDA and the process for mobilizing resources will be discussed at the mid-term meeting of IDA Deputies in June 2000.

### **IMF Participation**

14. The IMF provides HIPC debt relief through special operations of the PRGF-HIPC Trust. Following IMF and IDA Board approval of the HIPC Initiative decision point document, and subject to receipt of satisfactory financing assurances from other creditors, the IMF commits to deliver HIPC Initiative assistance in the form of grants which are paid into the country's account, administered by the IMF as Trustee, and used to help meet its debt service payments to the IMF.

15. Beginning in the decision point year, a country may receive as much as 20 percent of total IMF assistance each year between the decision and completion points, up to the total of IMF debt service due by the country to the IMF each year, with interim assistance not to exceed 60 percent of overall IMF assistance. The balance of committed assistance, including interest on amounts committed but not disbursed during the interim period, is delivered at the completion point.<sup>6</sup>

16. The schedule for the use of these grants to meet a country's debt service payments to the IMF is agreed with the country with the objective of easing the country's debt service burden. The delivery profile thus reflects country-specific considerations including the profile of total debt service obligations and the degree of front-loading desired given the state of preparation of a country's PRSP, its poverty reduction spending needs, and its absorption capacity.

### **Status of Financing of PRGF-HIPC Trust**

17. The total cost to the IMF of participation in the HIPC Initiative and the continuation of concessional lending under the Poverty Reduction and Growth Facility (PRGF) is estimated at US\$3.7 billion in end-1999 NPV terms, with the HIPC Initiative accounting for two-thirds of the total. The financing package consists of pledged contributions by member countries of US\$1.5 billion in end-1999 NPV terms and contributions by the IMF of US\$2.2 billion in end-1999 NPV terms.

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<sup>6</sup> The interim period between the decision and completion points may be shorter (or longer) than three years depending on the successful implementation of pre-defined reforms as laid out in the decision point document. The phasing and amounts of grants delivered to the escrow account are set to ensure delivery of the IMF's share in the NPV of total debt relief.



18. On December 8, 1999, the IMF Executive Board took the decisions necessary to enable many bilateral contributors and the IMF to make their contributions to the PRGF-HIPC Trust, including termination of the IMF's Second Special Contingency Account (SCA-2) and approval of off-market gold transactions by the IMF of up to 14 million ounces. Since then, the IMF has made substantial progress in securing the necessary financing. About 60 percent of pledged contributions have either been received or are being contributed on the basis of an agreed schedule of contributions. As to the IMF, the bulk of its contribution, US\$1.7 billion in end-1999 NPV terms, will come from the investment income on the profits generated from off-market gold transactions, which were completed in early April 2000. The IMF will also provide US\$0.5 billion in end-1999 NPV terms from other sources, of which about 40 percent has already been contributed to the PRGF-HIPC Trust.

19. So far, the IMF's Executive Board has authorized the transfer of nine-fourteenths of the investment income on profits from gold sales to be used for the benefit of the HIPC Initiative. The transfer of the remaining five-fourteenths requires a decision by the IMF's Executive Board with an 85 percent majority. Further legislation by the United States Congress is necessary for the Executive Director of the United States to support such a decision. Without these final steps, there will be a shortfall in resources available for debt relief under the HIPC Initiative of about US\$580 million in end-1999 NPV terms.

## **B. Multilateral Development Bank Participation and Financing**

20. In order to facilitate the internal deliberations within individual institutions, staffs have produced detailed estimates for each MDB of their costs, along with illustrative scenarios for delivering their share of assistance. Contacts have continued with individual multilateral creditors on a regular basis. Staffs have held numerous bilateral technical meetings with MDBs<sup>7</sup>, to discuss ways and means of participation in the enhanced framework. The OPEC Fund co-hosted a meeting of Arab MDBs together with the Bank, and the Bank hosted its semi-annual meetings with MDBs in October 1999 and in early April 2000.

21. Overall, a majority of institutions indicated their continued support for the HIPC Initiative, and in addition, the favorable position taken by managements of their institutions with regard to participation in the enhanced HIPC Initiative framework. Besides the World Bank and the IMF, 8 of 17 institutions<sup>8</sup> -- BOAD, CABEI, EIB, EU, IaDB, IFAD, NDF<sup>9</sup>, and

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<sup>7</sup> Including Banque Ouest Africaine de Développement (BOAD), Central American Bank for Economic Integration (CABEI), International Fund for Agricultural Development (IFAD), African Development Bank (AfDB), Inter-American Development Bank (IaDB), Nordic Investment Bank (NIB).

<sup>8</sup> Attending organizations were: African Development Bank (AfDB); Arab Bank for Economic Development in Africa (BADEA); Asian Development Bank (ADB); CARICOM Multilateral Clearing Facility (CMCF); Central American Bank for Economic Integration (CABEI); Central Bank of West African States (BCEAO);

(continued...)

NIB --were able to report confirmation by their decision making bodies of participation in the enhanced HIPC Initiative framework, although several of these will need significant donor assistance in order to deliver their share of debt relief, consistent with their financial integrity.

22. The African Development Bank (AfDB) remains committed to the principles of the HIPC Initiative and has scheduled a Board meeting in April/May to seek approval for its participation in the enhanced HIPC. The OPEC Fund and the Arab Bank for Economic Development in Africa (BADEA) have indicated their agreement in principle to participate in the enhanced framework, subject to the agreement of their governing bodies.<sup>10</sup> CAF reiterated its commitment to the HIPC Initiative and expressed its willingness to explore modalities of participation recognizing its financial limitations and the need for donor participation. Other MDBs, such as the Islamic Development Bank and ECOWAS Fund, are still in the process of exploring their options internally and with their shareholders. However, there are also a couple of multilateral institutions which have not been participating in the MDB process, and more work remains to achieve their full participation in the HIPC Initiative.

23. During the April MDB meetings, the Bank facilitated meetings between MDBs that will likely require assistance to deliver their full share of relief and representatives of potential donor countries. These information-sharing meetings highlighted the predicament of these MDBs in meeting their share of the costs from internal resources while trying to maintain their financial integrity, and were a good starting point for future dialog between donors and MDBs. Collaborative work will continue with MDBs with a view to resolving key participation and financing issues.

### **Status of HIPC Trust Fund Financing for MDBs**

24. During the 1999 Annual Meetings, it was recognized that a number of multilateral creditors would need supplementary financing to enable them to cover their full costs of participating in the Enhanced HIPC Initiative. Since that time the World Bank has continued discussions with existing and potential donors to secure existing pledges and mobilize

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Corporacion Andina de Fomento (CAF); European Commission/ European Union (EC/EU); Fund for Cooperation Compensation & Development of the Economic Community of West African States (ECOWAS); Fund for the Financial Development of the River Plate Basin (FONPLATA); Inter-American Development Bank (IDB); International Fund for Agricultural Development (IFAD); Islamic Development Bank (ISDB); Nordic Investment Bank (NIB); Nordic Development Fund (NDF); OPEC Fund for International Development; West African Development Bank (BOAD).

<sup>9</sup> This is subject to certain amendments to NDF's legal statutes. Although NDF cannot yet undertake a binding financial obligation to participate in the enhanced framework, there is an agreement in principle to participate actively in the enhanced HIPC Initiative.

<sup>10</sup> For BADEA, participation would be on a case-by-case basis, recognizing the financial constraints in securing sufficient resources.

additional contributions.<sup>11</sup> All donors that had pledged during the Annual Meetings have reconfirmed their pledges and additional pledges have been received from Canada, Japan, New Zealand, and Spain. A total of \$2.1 billion in donor pledges have been received bringing overall contributions and pledges to \$2.4 billion (see Table 3). Contribution agreements have been signed or are currently being finalized with Australia, Canada, the European Commission, Germany, Netherlands, New Zealand, and the United Kingdom.

25. In terms of financing the cashflow requirements of the HIPC Initiative, these pledges, and the funding to be made available from the internal resources of the MDBs, need to be converted into a potential annual stream of funding. This resulting stream should then be compared with the financing requirements emanating from the country cases brought forward under the Initiative. The match between these two streams is a function of a number of key variables: the timing of the country cases brought to Decision and Completion points on the one side, and on the other, the timing and fungibility of donor commitments; the capacity of other MDBs to mobilize internal resources to finance debt relief; and the modalities through which they would deliver such relief. All of these need to be further discussed and validated with the institutions concerned, which are still exploring these matters with their own management and shareholders. Under the most favorable set of assumptions, with strong internal resource mobilization on the part of the MDBs, current donor contributions and pledges would cover the initial years of the currently expected debt service costs of the MDBs. However, some donors have indicated that there might be limitations on how flexibly their contributions could be used and a number of MDBs are still concerned about proceeding on a less than full upfront financing basis. If these limitations materialize, aggregate financing problems could arise much sooner: in some scenarios to as early as late 2000. Moreover, should some MDBs facing financing shortfalls, there could be a slowing down of the consideration of specific early country cases.

26. The above reinforces the need to continue to move in a determined fashion to ensure full financing for the enhanced HIPC framework. The international community will need to secure substantial additional resources to make good the political commitments which government leaders have made. The resource mobilization effort will also clearly need to be sustained for a long time. The staff of the Bank and Fund are working with officials of donor countries/agencies and will continue to report on progress in this important area.

### **C. Participation of Official Bilateral Creditors**

27. The Executive Boards have considered the participation of official bilateral creditors in providing debt relief, and in particular the difficulty encountered by HIPCs in securing comparable treatment from non-Paris Club creditors. Since a key principle underlying the HIPC Initiative is that action should be coordinated among all creditors involved with broad

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<sup>11</sup> See IDA/SecM2000-31.

and equitable participation, the inability of most HIPCs to secure comparable relief from non-Paris Club bilateral creditors threatens to compromise the debt sustainability of these HIPCs. The Boards recognized the diversity of creditors and emphasized that such issues should be addressed flexibly on a case-by-case basis in conformity with this general principle. Directors emphasized that it will be important that workable solutions be found to this problem, and encouraged further efforts by donors and other creditors to assist poorer creditors – particularly HIPCs.

#### **IV. NEXT STEPS**

28. While it is expected that potentially up to 20 countries could qualify for debt relief this year, timing depends significantly on progress made toward developing nationally led and outcome-oriented poverty reduction strategies. At the same time, securing sufficient funding to cover the increased costs of the enhanced framework will become more and more urgent. Over the coming year, countries that are expected to reach their completion point are Bolivia (under the enhanced framework), and Burkina Faso, and Mali (under the original framework). Besides those already listed earlier and subject to country specific developments, decision points under the enhanced HIPC Initiative framework could be reached in 2000 for Cameroon, Chad, Guinea-Bissau, Guyana, Malawi, Nicaragua, Rwanda, and Zambia. In addition, staffs expect to bring Cameroon, Chad, Malawi, Niger, Rwanda, and Zambia to the Executive Boards for preliminary assessment of eligibility under the enhanced HIPC framework. Annex 1 provides a background note on the HIPC Initiative Timetable, including a revised timetable for HIPC Initiative country documents through end-2000.

29. Bank and Fund staff will prepare another progress report on the implementation of the enhanced HIPC Initiative for the next Annual Meetings of the Development Committee and the International Monetary and Financial Committee in September 2000.

Table 1: HIPC Initiative: Status of Country Cases Considered Under the Initiative  
April 8, 2000

Country	Decision Point	Completion Point	NPV of Debt-to-Export Target (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value)				World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
				Total	Bilat-eral	Multi-lateral	IMF				
Decision point reached under enhanced framework											
Bolivia				1302	425	876	84	194	30	2,060	
<i>original framework</i>	<i>Sep. 97</i>	<i>Sep. 98</i>	225	448	157	291	29	53			<i>Received</i>
<i>enhanced framework</i>	<i>Feb.00</i>	<i>Floating</i>	150	854	268	585	55	141			<i>Being sought</i>
Mauritania	Feb.00	Floating	137 3/	622	261	361	47	100	50	1,200	Being sought
Mozambique				1,970	1,235	736	141	434	72	4,300	
<i>original framework</i>	<i>Apr. 98</i>	<i>Jun. 99</i>	200	1716	1076	641	125	381			<i>Received</i>
<i>enhanced framework</i>	<i>Apr. 00</i>	<i>Floating</i>	150	254	159	95	16	53			<i>Being sought</i>
Tanzania	Apr. 00	Floating	150	2,026	1,006	1,020	120	695	54	3,000	Being sought
Uganda				1,003	183	820	160	517	40	1,950	
<i>original framework</i>	<i>Apr. 97</i>	<i>Apr. 98</i>	202	347	73	274	69	160			<i>Received</i>
<i>enhanced framework</i>	<i>Feb.00</i>	<i>Apr. 00</i>	150	656	110	546	91	357			<i>Being sought</i>
Completion point reached under original framework											
Guyana	Dec. 97	May 99	107 3/	256	91	165	35	27	24	410	Received
Decision point reached under original framework											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 3/	345	163	182	23	91	6 4/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
<b>Total assistance provided/committed</b>				<b>7,767</b>	<b>3,422</b>	<b>4,344</b>	<b>634 5/</b>	<b>2,146</b>		<b>14,170</b>	
Preliminary HIPC document issued 6/											
Ethiopia	...	...	200	636	225	411	22	214	23	1,300	...
Guinea	...	...	150	638	256	383	37	173	34	1,148	...
Guinea-Bissau	...	...	200	300	148	153	8	73	73	600	...
Honduras	...	...	137 3/	569	208	361	18	85	18	1,024	...
Nicaragua	...	...	150	2,507	1,416	1,091	32	188	66	5,000	...
No assistance required under original framework--to be reassessed under enhanced framework											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana and

Cote d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras and Mauritania a 250 percent ratio was targeted at the decision point.

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 374 million at an SDR/USD exchange rate of 0.744.

6/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change.

Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Tanzania, Guinea, and Honduras, targets are based on the enhanced framework and assistance levels are at the decision point.

**Table 2. HIPC Initiative--Estimates of Potential Costs by Creditor  
(US\$ billion in 1998 and 1999 NPV terms)**

	<b>April Costing Exercise (33 countries)<sup>1/</sup></b>	<b>Updated Costing Exercise (32 countries)<sup>2/</sup></b>	
	1998 terms	1998 terms	1999 terms
<b>Total costs</b>	<b>27.4</b>	<b>26.6</b>	<b>28.2</b>
Bilateral and commercial creditor:	<b>14.2</b>	<b>13.3</b>	<b>14.1</b>
Multilateral creditors	<b>13.3</b>	<b>13.3</b>	<b>14.1</b>
World Bank	5.1	5.9	6.3
IMF	2.3	2.2	2.3
AfDB/AfDF	2.0	2.1	2.2
IaDB	1.0	1.1	1.1
Other	2.9	2.1	2.2

Source: Modifications to the HIPC Initiative IDA/SecM99-475 and EBS/99/138, July 26, 1999; and

HIPC Initiative: Update on Costing the Enhanced HIPC Initiative, IDA/SecM99-679, December 8, 1999.

1/ Excluding Liberia, Somalia and Sudan. Based on the application of retroactivity to historical decision points, as discussed in the July 1999 Modifications paper.

2/ Excluding Ghana, which has not requested HIPC Initiative assistance, and Liberia, Somalia and Sudan. Based on the application of retroactivity to end-1998 data, the latest available at the time of endorsement of the enhanced framework, as discussed in the July 1999 Modifications paper.

**Table 3. Enhanced HIPC Framework: Status of Bilateral Donor Pledges to the HIPC Trust Fund a/**  
(As of April 10, 2000, amounts in nominal US\$ million)

	(1)	(2)	(4)		(5)	(6)
<b>Donor</b>	Contributions (received prior to September 1999) b/	Contributions Pledged Before September 1999	Contributions Pledged During & Subsequent to Annual Meeting EU/EC c/	Others	<b>Total Announced Pledges (Cols 2 thru 4)</b>	Memo Item: Overall Contr/ Pledges to Current&Enhanced Framework (Col.1+5) d/
Australia	5			7 f/	<b>7</b>	12
Austria			19		<b>19</b>	19
Belgium	4	8	28		<b>36</b>	40
Canada	27			75 f/	<b>75</b>	102
Denmark	26		16		<b>16</b>	42
Finland	15		11		<b>11</b>	26
France		21	178		<b>199</b>	199
Germany		27 f/	171	54	<b>252</b>	252
Greece	1		9		<b>9</b>	10
Ireland	15		4		<b>4</b>	19
Italy			92	70	<b>162</b>	162
Japan	10			190	<b>190</b>	200
Luxembourg	1		2		<b>2</b>	3
Netherlands	61		38	70 f/	<b>108</b>	169
New Zealand				2	<b>2</b>	2
Norway	42					42
Portugal	15		7		<b>7</b>	22
Spain	15		43	70	<b>113</b>	128
Sweden	28		20		<b>20</b>	48
Switzerland	30					30
United Kingdom e/	36	135	95	50	<b>280</b>	316
United States				600	<b>600</b>	600
<b>Total</b>	<b>331</b>	<b>191</b>	<b>734</b>	<b>1,187</b>	<b>2,112</b>	<b>2,443</b>

a/ Figures are approximate. Some contributions are in the donor's national currency and in the form of a promissory note.

b/ Includes allocations from the Interest Subsidy Fund (ISF) to the HIPC Trust Fund. Australia is retaining its surplus resources in the ISF (rather than transferring them to the HIPC Trust Fund) but has authorized the World Bank to use them to provide debt relief as necessary under the HIPC Initiative. There remain approximately \$83 million in ISF surplus assets that have not been allocated.

c/ For illustration, exchange rate used is EUR1 - US\$1.

d/ Many donors have also provided debt relief through other initiatives and mechanisms including: the Debt Reduction Facility for IDA-only Countries (providing financing for commercial debt reduction efforts), and specific country-held multilateral debt relief facilities. Most notably, additional debt service relief has also been provided to several Central American countries in the aftermath of Hurricane Mitch through the Central American Emergency Trust Fund. Bilateral donor funding to that trust fund to provide debt service relief to Honduras and Nicaragua includes (in \$ million): Spain - \$30; Norway - \$15; Netherlands - \$12.8; Switzerland - \$15.5; Italy - \$12; United Kingdom - \$16.3; Austria - \$2.7; Canada - \$5.4; Germany - \$13.2; Sweden - \$16.6; United States - \$25; and Denmark - \$10.9 (through a bilateral trust fund administered by IDB). These resources are not included herewith as the debt relief under HIPC is additional to these efforts.

e/ In addition, the United Kingdom has contributed SDR31.5 million to the HIPC Trust Fund for the IMF for debt relief to Uganda

f/ For these donors, contribution agreements have been signed

## **HIPC Initiative—Background Note on Timetable**

### **Introduction**

In December 1999, the staffs of the World Bank and the IMF provided the Boards with an updated costing of the enhanced HIPC Initiative which included a timetable for the early HIPC cases.<sup>1</sup> Subsequently, Bank and Fund staffs issued a news release<sup>2</sup> that summarized the Bank and Fund Directors' views regarding the poverty reduction strategies. In this context, the Directors of the Bank and Fund have also reviewed the status of implementation under the enhanced HIPC framework, and endorsed an updated schedule under which three countries—Bolivia, Uganda and Mauritania—were expected to reach their respective decision points in early 2000. It was also mentioned that depending on policy performance and resolution of outstanding issues, five to eight additional countries, including Mozambique, could potentially arrive at their decision points by early spring.

Steady progress is being made in the preparation of preliminary and decision point HIPC documents. Under the Enhanced HIPC Initiative, five countries have reached their decision points and the completion point document for Uganda has been circulated to the Boards. In addition, the Boards have considered the preliminary documents for two countries and more will be reviewed shortly.

It is expected that potentially up to 20 countries could reach their respective decision point by the end-2000. The actual timing of HIPC Initiative country documents will largely be dependent on performance of reform programs and the pace at which countries are able to prepare their interim-PRSPs.

In response to numerous requests, staffs briefly review the progress made to date in re-assessing the retroactive cases as well as the new country cases for which debt relief packages are either being or will be prepared in 2000.

### **Status of retroactive country cases**

Following the endorsement of the enhanced HIPC framework at the Annual Meetings last fall, staffs proceeded with a reassessment of the assistance required for the nine early HIPC cases (Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, Senegal,

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<sup>1</sup> IDA/SecM99-679, December 8, 1999, and EBS/99/220, December 7, 1999 entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Update on Costing the Enhanced HIPC Initiative".

<sup>2</sup> December 22, 1999.



and Uganda). Missions to update the debt sustainability analysis have been undertaken in seven of these countries where macroeconomic performance was broadly on track.

In January/early February, the Boards approved debt relief packages for Bolivia and Uganda under the enhanced HIPC framework. In March and early April, the Boards also approved the debt relief packages for Tanzania and Mozambique. The status of preparation and expected timing for bringing the remaining countries to their decision points is set out below.

### **Benin**

The authorities have indicated that they wish to seek debt relief under the enhanced HIPC Initiative. Delays in implementing key structural reforms have meant that the review under the second-year PRGF arrangement could not be completed as scheduled. Amongst the outstanding reform issues are the liberalization of the cotton sector (which has a major bearing on the rural poverty alleviation strategy) and the introduction of a performance-based compensation system and a new pay scale for the civil service. In February 2000, Fund and Bank missions visited Cotonou to pursue discussions on an interim-PRSP, a program that could be supported by a new PRGF arrangement, and future IDA assistance. Based on these discussions, it is expected that the second decision point document for Benin could be ready in the second quarter of 2000.

### **Burkina Faso**

The Burkinabè authorities initiated work on a poverty reduction strategy paper immediately after the 1999 Annual Meetings and staff from both the Bank and the Fund, and from a number of other donors, have been assisting them in this endeavor. The authorities plan to present their PRSP to the two Boards at the same time as the review for the Completion Point under the original HIPC Initiative. This is now expected in the second quarter of 2000 and a recent Bank/Fund mission has confirmed that the government's economic and structural program is broadly on track for that schedule. It is therefore expected that a document merging the completion point measures under the original framework with the presentation of the second decision point could be considered by the Boards in May.

### **Côte d'Ivoire**

Political uncertainty and slippages in the reform agenda have slowed down the presentation of Côte d'Ivoire's second decision point document. A constitutional referendum is to be held in April 2000 and general elections are planned before end-October. The government's fiscal targets for end-December were not achieved, and the implementation of structural adjustment measures met with delays, including in the areas of tax reform, privatization, and governance. However, the transition government has taken some positive steps in economic and sector management and started the preparatory work for an interim PRSP. A Fund mission will be in Abidjan in March/April to conduct discussions on the 2000 Article IV consultation and a staff-monitored program covering the period April–September 2000. The presentation of the next structural adjustment operation to the World Bank Board is being

postponed until agreement has been reached on a new macroeconomic framework supported by a PRGF arrangement.

### **Guyana**

Agreement on the Economic and Social framework to be supported by the enhanced HIPC Initiative framework has not yet been reached in Guyana. A Fund mission visited Guyana in December 1999 to continue discussions on a program for 2000 that could be supported by a second-year PRGF arrangement. However, the authorities were not fully prepared to discuss a program and needed more time to firm up the government budget for 2000. Follow-up discussions are expected to take place in April 2000.

The government is seeking a Public Service Reform Adjustment Operation from IDA. However, preparation of this proposed adjustment operation, especially agreeing on the content and timing of measures, is taking more time than initially anticipated. The government is currently preparing an Interim PRSP based on the National Development Strategy. Bank staff are assisting the government with the 1999 poverty data analysis, public expenditure review on social sectors, and labor market analysis. The government expects to complete the interim PRSP in May 2000. Reflecting the delays described earlier, the presentation of the second decision point document for Guyana is now expected no earlier than the third quarter of 2000.

### **Mali**

A joint Bank/Fund mission visited Mali last October to review the progress made in meeting the completion point measures under the original HIPC framework. The mission concluded that the country had not implemented the completion point measures, especially those pertaining to the structural sectors as well as the social sectors. As a result, the first review of the IMF program has not been completed. The joint Bank/Fund mission agreed with the government on a set of measures that need to be implemented in order to reach the completion point. To date, progress in fulfilling these measures has been slower than expected. The implementation process has also been influenced by the change in government in February 2000. A Bank/Fund mission is now planned for April 2000 to assess progress of Mali in reaching the conditions for the completion point. As in Burkina Faso, it is expected that the second decision point document will be merged with the completion point under the original HIPC Initiative framework.

### **Senegal**

Over the last couple of months, staffs have worked closely with the outgoing government on the debt sustainability analysis and the interim PRSP. As a result of this work, the staffs were ready to present the debt relief package for discussion by the Boards. In March, presidential elections were held and resulted in a change of government. The new government will take office in early April. The staffs propose to hold discussions with the new government as soon as possible with a view to finalize economic and social policy agreements, including the

timetable for preparing the PRSP. In light of these discussions, the staffs plan to submit the HIPC decision point document and the interim PRSP to the Boards as soon possible.

## Possible Time Line of HIPC Initiative Country Documents, Q4 1999 to Q4 2000 1/

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
<b>Countries eligible for reassessment 2/</b>					
Bolivia		2nd D.P.		2nd C.P.	
Mozambique			2nd D.P.		
Uganda		2nd D.P.	2nd C.P.		
Benin			2nd D.P.		
Burkina Faso			original C.P. & 2nd D.P.		
Cote d'Ivoire					2nd D.P.
Guyana				2nd D.P.	
Mali				original C.P. & 2nd D.P.	
Senegal			2nd D.P.		
<b>Possible new country documents under the enhanced Initiative</b>					
Cameroon			Prel.	D.P.	
Chad			Prel.		D.P.
Ghana *	DSA				
Guinea	Prel.		D.P.		
Guinea-Bissau				D.P.	
Honduras	Prel.		D.P.		
Malawi			Prel.		D.P.
Mauritania		D.P.			
Nicaragua					D.P.
Niger				Prel.	
Rwanda				Prel.	D.P.
Tanzania		D.P.			
Yemen **			DSA		
Zambia			Prel.		D.P.

1/ Earliest possible timing is shown. Actual timing is subject to country circumstances.

2/ The timing of the second completion points for these countries will need to be decided by the Boards.

\* The authorities have decided not to pursue HIPC Initiative assistance.

\*\* Yemen appears to be sustainable according to the preliminary results of the DSA undertaken in November 1999.

DSA = debt sustainability analysis

D.P. = decision point

C.P. = completion point

Prel. = preliminary HIPC Initiative document

## **Progress Report on Poverty Reduction Strategy Papers (PRSPs)**

Prepared by the Staffs of the World Bank and  
the International Monetary Fund

April 13, 2000

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# **Progress Report on Poverty Reduction Strategy Papers (PRSPs)**

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## **I . INTRODUCTION**

1. The Development and Interim Committees in September 1999 endorsed a framework to strengthen the link between debt relief and poverty reduction and to enhance the poverty focus of all Bank and Fund concessional lending. The new approach is based on poverty reduction strategies prepared by countries and embodied in Poverty Reduction Strategy Papers (PRSPs). PRSPs will provide the context for concessional assistance to low-income countries provided by IDA and by the Fund<sup>1</sup>. Ministers endorsed the proposal to make poverty reduction a key and more explicit element of the Fund's growth-oriented strategy for low-income countries, replacing the ESAF with the Poverty Reduction and Growth Facility (PRGF).
2. This paper describes developments to date with respect to the PRSP program. Since the 1999 Annual Meetings, a great deal of groundwork has been undertaken to bring the program forward. While the process of country implementation is still in its early stages, preparations have begun, and early results are noted below.
3. The program goes well beyond a revision of the way in which concessional financing by the Bank and the Fund is provided. Its underlying goal is to support a comprehensive, country-led effort to help sharpen the poverty focus and effectiveness of development strategies in low-income countries, and of support for those strategies by external partners. The resulting strategies need to focus on policy actions to increase growth and reduce poverty, all within a coherent macroeconomic framework. Poverty reduction strategies are expected to be country-owned and designed in a participatory fashion (taking into account the views of Parliaments

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<sup>1</sup> PRSPs, Interim PRSPs, or annual PRSP progress reports, supported by Joint Staff Assessments (JSAs) and broadly endorsed by the Boards of both the Bank and Fund within the previous 12 months, will be a necessary condition for approval of new PRGF arrangements or reviews of existing arrangements; for HIPC to reach a decision or completion point under the HIPC Initiative; and in the case of all IDA borrowers, at a date to be determined no later than January 1, 2001 in the light of experience during the first year, for a high-case lending scenario and adjustment lending, except in special circumstances such as emergency or crisis situations. In the absence of a PRSP or Interim PRSP broadly endorsed by the two Boards, Bank management would set out in the Country Assistance Strategy (CAS) the rationale for any lending program to be proposed within the CAS period.

In reviewing a country's PRSP, the Bank and the Fund Boards would be asked to consider and broadly endorse the overall strategy as an integrated whole; each institution would focus on those policies and programs it supports in its area of responsibility and as a basis for lending operations. The term "endorsement" is not intended to constitute formal approval of the PRSP, which is a country owned document.

and other democratic bodies, where they exist, the donor community, civil society and specifically the poor themselves); comprehensive in approach (recognizing the multidimensional nature of the causes of poverty and strategies to alleviate it); and based on a medium and long term perspective, including appropriate monitoring indicators against which progress can be measured. PRSPs are also expected to be clearly linked with agreed International Development Goals (IDGs) for poverty reduction, education, health and gender equality.

4. To be effective, PRSPs will need to be built on partnerships with multilateral and bilateral donors to support national poverty reduction strategies. They reflect the principles of the Bank's Comprehensive Development Framework (CDF). Successful implementation of this wider effort will require a joint commitment by member countries and the full range of development partners—multilateral and bilateral donors, the United Nations family, and nongovernmental organizations. In the spirit of a comprehensive, partnership-based approach, the Bank and Fund are committed to seeking the views of member countries and external partners on the PRSP program, and to the need for it to evolve in light of these views and lessons from experience. The paper briefly outlines consultations held to date and the responses from member countries and external partners.

## **II. INITIAL IMPLEMENTATION OF EFFORTS**

5. Following the 1999 Annual Meetings, the Bank and the Fund undertook intensive work to develop proposed approaches to PRSPs. At the center of this effort was an articulation of the elements of a strategy for poverty reduction, based on a comprehensive view of the nature and causes of poverty. It was recognized that rapid economic growth is necessary for sustained poverty reduction, and that policies need to be strengthened to this end. However, growth alone is not sufficient: reducing poverty in all its dimensions depends critically on the pattern of growth, government policies, and institutional and social aspects. Moreover, both the level and pattern of growth are influenced by structural and social factors as well as macroeconomic policies. Hence, poverty reduction strategies would need to take into account the multidimensional elements involved in both the determinants of poverty and efforts to alleviate it. Experience has also shown that there is a two-way linkage between growth and poverty. Rapid growth is essential for reducing poverty, but persistent poverty and inequality can reduce growth potential. Finally, it was recognized that the PRSP process would need to evolve over time: early experience would be evaluated and used to refine the process of strategy implementation on an ongoing basis. A series of meetings, formal and informal, has been held with Executive Directors, for briefing, guidance and approval of the proposed approaches to PRSPs.

6. By the end of calendar 1999, the Bank and Fund had agreed on an approach to PRSPs, recognizing that it will evolve in the light of experience. This is described in "Poverty Reduction Strategy Papers—Operational Issues" (joint Bank-Fund paper R99-241 and SM/99/290, December 10, 1999); "The Poverty Reduction and Growth Facility—Operational Issues" (Fund paper SM/99/293, December 13, 1999); and "Poverty Reduction Strategy Papers—Internal Guidance Note" (Bank paper, R99-239, December 10, 1999 revised as

R99–239/1, January 19, 2000). These documents, together with the concluding remarks by the Chairmen, Bank and Fund, are publicly available on the Bank and/or Fund websites. In the Bank, responsibility for dialogue and support to countries in PRSP preparation rests with the Regional units. In addition, a unit within the Bank’s Poverty Reduction and Economic Management (PREM) Vice Presidency has been specifically designated to support implementation of the PRSP program, including a team of Lead Advisers, who would help staff on PRSP matters. Other Bank units (other Networks, Operations Policy and Strategy) are actively supporting the process. Organizational changes in the Fund’s Policy Development and Review and Area Departments have also been made in support of the new approach. The IMF Institute and the World Bank Institute are also developing new training activities in support of the process.

7. Simultaneously, staff began working with countries at the operational level to support country preparation of PRSP documentation. It was recognized that the preparation of a full, country-owned, participatory PRSP would involve substantial time and effort on the part of countries. Hence in order not to delay progress with respect to the Enhanced HIPC Initiative or the provision of Bank and Fund concessional financing, it was decided that countries might initially prepare “Interim PRSPs” (I-PRSPs; see below, paras. 8–12) that would have a simpler format and content, and could be relatively short. Early in 2000, the Boards of the Bank and Fund considered the first country-owned I-PRSP, for Bolivia, and HIPC documents with I-PRSP content for Mauritania and Uganda; the Boards agreed that these countries could qualify for their decision points under the Enhanced HIPC Initiative<sup>2</sup>. More recently, the Boards have considered I-PRSPs for Mozambique and Tanzania. Uganda has prepared the first full PRSP. While timing of I-PRSPs and PRSPs will depend on countries’ own processes, some 25–35 additional countries are likely to have prepared PRSP documentation by the end of calendar 2000.<sup>3</sup> A table showing possible country timelines for I-PRSPs and PRSPs—which are highly tentative and subject to change—is attached.

#### **A. Interim PRSPs**

8. As already noted, full PRSPs will take time—one to two years depending on individual country circumstances—for countries to prepare. Thus there is an unavoidable tension between the principle of government-owned PRSPs prepared with the participation of a broad spectrum of stakeholders on the one hand, and the need to avoid delays in bringing as many countries as possible to their HIPC decision points within a timeframe appropriate to their need for debt relief, or in providing needed PRGF or IDA assistance, on the other. To deal with this problem, the Boards of the Bank and Fund have agreed that countries may initially prepare I-PRSPs.

9. As with full PRSPs, there is no single prescription for I-PRSPs. At a minimum, however, they should include a statement by the government of its commitment to poverty reduction; a description of the main elements of its existing poverty reduction strategy consistent with available diagnostics; and a three-year macroeconomic framework and policy matrix, both focusing on poverty reduction and specifically noting that outer year commitments

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<sup>2</sup> PRSPs or Interim PRSPs will be required for all future HIPC Initiative decision points.

<sup>3</sup> These include both countries reaching HIPC Initiative decision points or completion points and other countries presenting I-PRSP/PRSPs for a PRGF arrangement or a review thereunder.



and targets are tentative and would be revised as necessary in the full PRSP. I-PRSPs should also contain a timeline and a plan for preparing a PRSP, including a description of the participatory process the government plans to adopt, and an outline of the diagnostic and analytical work required. Depending on a country's prior experience in developing poverty reduction strategies and on the time available to prepare an I-PRSP, some I-PRSPs would be expected to be more comprehensive than the minimum described above.

10. Experience from the I-PRSPs for Bolivia, Mozambique and Tanzania indicates that countries are addressing key proposed program elements.

- With respect to poverty diagnostics, while the quality of data has been variable, all the countries concerned have been able to provide estimates of poverty which give a concrete sense of the order of magnitude of the problems countries face, both absolutely and in terms of meeting International Development Goals. In Bolivia, for example, it is estimated that 70 percent of households live below the national poverty line. In Tanzania this proportion is about 50 percent, while in Mozambique it is about 69 percent.
- Countries have also provided quantified long-term objectives for poverty reduction (in Bolivia, for example, from 55 to 45 percent of the urban population, and from 80 percent to 68 percent of the rural population by 2010; in Mozambique, the objective is to reduce poverty to about 60 percent by 2004, and about 50 percent by 2009).
- With respect to macroeconomic developments, countries in the group are targeting rapid GDP growth based on strong macroeconomic policies over the proposed 3-year time horizon.
- All countries have identified key structural areas for reforms focused on poverty reduction; not surprisingly, there has been a high degree of commonality, with sustainable economic growth and social sectors (education and health) generally prominent, along with institutional reform, infrastructure, and agriculture; several countries have also identified improvements in the business environment, especially for small and medium enterprises.
- Finally, all country documentation has provided information on how to incorporate participatory processes into the program, building on existing arrangements and, in several cases, proposing well-defined and timebound expansion of the process (Bolivia and Tanzania).

11. Because different countries start from different levels and traditions of participation and need to prepare I-PRSPs under different time constraints, there will be no minimum threshold expected for consultation on an I-PRSP. Nonetheless, governments are encouraged to begin the participatory process as early as possible. As the program goes forward, it is increasingly likely that governments will be able to include some degree of participation in the preparation of the I-PRSP. Bank and Fund staff should not be prescriptive with respect to participatory processes, which must be developed by the governments concerned. Bolivia was able to benefit from the existence of a National Dialogue since 1997, which produced a document on "Proposals Against Poverty" as early as September 1998. Ghana, Honduras and Senegal,

among others, provide examples of draft I-PRSP preparation in close consultation with civil society and the donor community. Nicaragua has already been involved in consultations with civil society in developing its own poverty reduction program, and this will be reflected in its I-PRSP.

12. While it is too early to draw firm conclusions, experience to date from Africa and Latin America suggests that countries are strong in laying out a poverty profile and a general strategy for addressing broad issues, but they are less well equipped to prepare quantified targets, to cost the strategy, and to evaluate trade-offs under conditions of limited resource availability. This indicates the importance of timely technical assistance to countries which are preparing poverty reduction strategies. Issues also have arisen with respect to the time needed to develop an appropriate domestic dialogue and hence the potential trade-off between the quality of that dialogue and the timely completion of a PRSP document. Concerns have also been expressed about the risk that participatory processes may promote divisions rather than consensus at the national level and with respect to donor coordination and the perceived dominance of the Bank and the Fund in the process. These issues will need to be carefully handled as the PRSP program evolves.

## **B. Full PRSPs: Approach and Content**

13. There is no single blueprint for PRSPs. They are expected to reflect individual country circumstances, and to evolve in light of experience and countries' and partners' views. Nonetheless, some core components are likely to be common across countries. An analysis of the causes and dimensions of poverty is the starting point, based on existing data, but also noting data gaps where additional information is needed.<sup>4</sup> This analysis will lead into a description of the macroeconomic, structural, social and institutional obstacles to faster growth and poverty reduction, and of priority objectives and policies for a poverty reduction strategy. Sustained poverty reduction will not be possible without rapid economic growth; macroeconomic stability, structural reforms and social stability are required to move countries to sustainable higher growth. Consistency between an appropriate macroeconomic framework, sectoral policies aimed at poverty reduction, and costed poverty reduction actions, along with associated outcome indicators and their relationship to domestically agreed and IDG goals, should be an objective of the PRSP. Achieving consistency between the macroeconomic framework and costed poverty reduction programs will require significant preparatory work, including poverty diagnostics and public expenditure reviews.<sup>5</sup>

14. Because outcomes may only emerge over a relatively long period of time, intermediate or proxy objectives and indicators (such as net primary educational enrollments for overall improvements in literacy) would need to be specified. The Uganda Poverty Eradication Action

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<sup>4</sup> In many instances, data on poverty and intermediate indicators of progress towards poverty reduction are inadequate and need improvement.

<sup>5</sup> The possible core components of a PRSP outlined here are described more fully in the Joint IMF/World Bank Paper on Poverty Reduction Strategy Papers: Operational Issues, December 10, 1999. The Boards agreed that these guidelines would be reviewed in light of experience. This review will need to consider the appropriate balance between standardization of core components of PRSPs and flexibility to adapt to country needs and facilitate country ownership. It will also consider the appropriate level of analytical detail in what needs to be a strategic document.

Plan (PEAP), which forms the basis for the Uganda PRSP, illustrates several of the key elements noted above, including its use of poverty data and diagnostics and links between poverty outcomes and public expenditures. Coordination of donors' activities to develop sector-wide approaches would be helpful in formulating coherent strategies. Experience in Mozambique during I-PRSP preparation illustrates the potential in this area.

15. The PRSP should provide an account of the main aspects of the participatory process adopted in its formulation. Information on partnership activities and needs with respect to external financial and technical assistance would also be included. Finally, it would describe how the implementation of the strategy will be monitored, including provision for the involvement of key stakeholders. For instance, the Uganda PEAP is notable for its reliance on participatory processes. Guyana's draft National Development Strategy, which lays out, among other things, a poverty-oriented strategy for development, also uses a strongly participatory approach. PRSPs and the Comprehensive Development Framework (CDF) share the same principles—notably those of country ownership, participatory design, comprehensiveness of approach, and a medium- to long-term time horizon. For this reason, countries in the CDF pilot group, such as Bolivia, Ghana and Uganda, tend to be at relatively more advanced stages of PRSP preparation in these areas.

16. PRSPs are expected to be prepared on a three-year cycle, with annual progress reports in intervening years, all embedded within a continuing long term overall framework for poverty reduction. While country ownership is central to the PRSP process, the Bank and Fund will provide support as needed to countries through joint and separate missions. It is also hoped that the full range of development partners, including multilateral and bilateral donor agencies, will provide support for the poverty reduction strategy process and be encouraged to base their assistance on the PRSP (see below, section III) . Finally, the Bank and Fund recognize that country conditions vary widely; it would therefore be counterproductive to lay down a rigid, "one size fits all" approach to PRSPs. While wishing to share the benefits of international experience as appropriate, both institutions are mindful of the need for countries to develop and take ownership of their own approaches to poverty reduction.

### **C. Bank-Fund Collaboration on the PRSP Program**

17. The process of PRSP development will involve a high level of collaboration between the Bank and Fund<sup>6</sup>, within the overall framework of wider collaboration among development partners. The Bank and Fund will each support countries' PRSP formulation as appropriate in its traditional areas of expertise, taking into consideration assistance available from other external partners. Fund staff will focus on areas of its traditional mandate and responsibility. This would include promoting: prudent macroeconomic policies; structural reforms in related areas, such as exchange rate and tax policy; and better fiscal management, budget execution, fiscal transparency, and tax and customs administration. Bank staff will focus on the necessary diagnostic work such as poverty assessments and their monitoring, the design of sectoral strategies, reforms that assure more efficient and responsive institutions, and the provision of social safety nets; and in helping the authorities to cost the priority poverty-reducing expenditures designed to achieve particular outcomes. Bank staff would also advise on how to

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<sup>6</sup> See "Report of the Managing Director and the President on Bank-Fund Collaboration," September 1998.

improve the effectiveness and poverty-orientation of public expenditure (through Public Expenditure Reviews and the like) and in other structural reforms such as privatization and regulatory reform. Some areas will need to be shared between the two staffs, such as trade liberalization, and financial sector development.

18. In addition to joint work on the framework for the PRSP program as a whole, Bank and Fund operational cooperation has already been extensive in recent months. In Latin America, for example, there have already been nine joint missions to four countries in support of their efforts to prepare I-PRSPs. A Joint Staff Assessment (JSA) for Bolivia and a draft JSA for Honduras have been prepared; the I-PRSP for Bolivia has already been discussed by the Boards, and three others are in various stages of preparation. In Africa, there have been joint Bank-Fund missions to about ten countries. JSAs have been finalized for Mozambique, Sao Tome and Principe, Tanzania, and Uganda.

19. Taking advantage of the framework for close cooperation between the Bank and Fund, the new approach will allow for a reduction in overlapping conditionality. There is a presumption that, as PRSPs are developed, PRGF- and IDA-supported programs will cover only areas within the mandate of the Fund and the Bank, respectively. However, if the Fund (the Bank) judges that a particular measure within the other institution's mandate would have a direct and critical impact on the PRGF-supported (IDA-supported) program—such that the program would be derailed if the measure were not implemented—then they would address this measure in the PRGF-supported (IDA-supported) program, after close consultation and subject to agreement with each other. Further information on Fund and Bank mandates is contained in the papers noted in paragraph 6.

#### **D. Information Resources and Training**

20. The Bank and Fund have been gearing up to meet the challenge of implementing the PRSP program through expanded knowledge management and training efforts. A Bank-Fund PRSP “Sourcebook” is being prepared for country participants and staff counterparts likely to be engaged in developing PRSPs<sup>7</sup>. The Sourcebook is designed as a compilation of useful resources and international best practices rather than as a “how to” guide for PRSP preparation, since there can be no single blueprint for a good PRSP. It covers three broad themes—core techniques for PRSP development; macro and sectoral approaches; and cross-cutting issues (such as governance, gender and environment).

21. A full-scale PRSP training event for Bank and Fund staff is planned for April 24–26, 2000. Staff from other development institutions, selected counterparts from member countries and NGOs have also been invited. The event is expected to attract over 250 participants; cover the goals, content and processes of a PRSP; provide an opportunity to discuss with development partners questions of capacity building and aid coordination; and form the basis for launching a broader learning program focused on PRSP countries. The first effort associated with this learning program will take place in Abidjan on June 12–16, focusing on 10–12 African countries, and will be followed by similar events in other regions.

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<sup>7</sup> Components of the Sourcebook have been posted for comment on the Bank's external website (<http://worldbank.org/poverty/strategies/sourcons.htm>).

## **E. Communications**

22. The Bank and the Fund are using their websites to enhance the transparency of the PRSP process. As noted above, key documentation on the program framework has already been posted on the institutions' websites, as has a brochure that answers frequently asked questions on the program; the joint Bank-Fund paper on Operational Issues and the brochure have been posted in French and Spanish as well as English. The Bank's website also contains the chapters of the PRSP Sourcebook (see footnote 4), and hosts an online consultation on its content. For NGOs and other civil society groups, the Bank has established a special website, complete with slide presentations, notes from consultations with NGOs, and news from PRSP countries. Once an I-PRSP or PRSP is complete, it will generally be published by the country before it is discussed by the Bank and Fund Boards. After Board consultation, each I-PRSP, PRSP and JSA will also be posted on the Bank and Fund websites, together with a press release describing the views of the Boards.

## **III. PARTNERSHIPS, CONSULTATIONS AND RESPONSES**

### **A. Partnerships**

23. The concept of partnership is at the core of the PRSP program. Ideally, all donors and multilateral development institutions will support countries by contributing to the poverty reduction strategy's design and consultative processes, identifying their specific participation, and making up-front commitments in support of that participation. To that end, it is important for country authorities to bring development partners fully and early into the process, and Bank and Fund staff will encourage them to do so. A well-designed, partnership-oriented poverty reduction strategy will allow donors to plan their aid commitments and to lend their expertise to recipient governments and civil society, based on the country's own strategy. Finally, greater and more coordinated participation by the entire donor community will help track progress toward the International Development Goals.

24. More specifically, while country ownership is critical for the effectiveness of poverty reduction strategies over time, and many HIPC and IDA/PRGF-eligible countries already have strategies for poverty reduction, these strategies can vary widely in terms of scope, depth and the nature of the participatory process. Hence, in some cases appropriate support from partners—including United Nations agencies, the multilateral development banks, bilateral donors, NGOs and private sector bodies, and the Bank and the Fund—may be needed to help country authorities to strengthen their capacity to devise a successful poverty reduction strategy. The efforts at consultation described below (para. 26) aim to ensure that all partners are informed well and in a timely manner, so as to secure the support and harmonization necessary to facilitate the donor coordination effort at the country level. However, in this connection, it will be important to establish in practice the principle that it is the government concerned that has the responsibility for coordinating the use of external assistance, and that partnerships need to be formed on the basis of a country-driven process.

25. The Tanzania I-PRSP is a good example of this process, and specifically of the integration of donor assistance into the overall poverty reduction strategy through the government-led Tanzania Assistance Strategy. In the case of Ghana, the government was able to manage strategy development effectively as a result of a number of factors, including the existence of a national strategy document (“Ghana-Vision 2020”); the successful initiation of the first United Nations Development Assistance Framework (UNDAF); and strong collaboration among members of the UN family. This has put Ghana in a good position with respect to PRSP preparation.

## **B. Consultations**

26. Bank and Fund staff have undertaken a wide-ranging effort since the 1999 Annual Meetings to inform and consult with partners with respect to PRSPs. Operational discussions are underway with a number of developing country partners on the possible content and timing of PRSPs as part of the ongoing country dialogue. These discussions have focused particularly, but not exclusively, on early HIPC Initiative cases. In addition, a series of meetings has taken place with member countries and with the international development community (multilateral institutions, bilateral donors and NGOs), designed both to present PRSP concepts to interlocutors and to obtain feedback from them. These meetings have included:

- A meeting of African Heads of State in Libreville, Gabon, in January, 2000, which endorsed the PRSP approach;
- Two workshops that focused on discussing the PRSP framework and its links to Bank and Fund concessional lending were held in Addis Ababa, Ethiopia (March 9–10, 2000) and Abidjan, Cote d’Ivoire (March 13–14, 2000). These workshops included presentations by several African countries on their progress in formulating and implementing their poverty reduction strategies. Similar workshops are expected to follow in other regions;
- Meetings have been held in Copenhagen with some HIPCs and donor representatives; in Paris under the auspices of the Strategic Partnership with Africa; and in Brussels with European Community (EC) officials;
- Consultations have also been held with other members of the UN family (UNDP, FAO, ILO) and with the ECOSOC ambassadors;
- An informal Working Group has been established with the multilateral development banks (MDBs), coordinated by the Asian Development Bank, and the heads of the MDBs were briefed on progress to date with the PRSP program at their February, 2000 meeting in Manila;
- A series of briefings has been held with bilateral donors (including the United States, Canada, and a number of European governments); and

- Meetings have taken place with European and US NGOs and NGO umbrella organizations, with African NGOs in Addis Ababa, and with Nordic NGOs in Stockholm.

### **C. Responses**

27. The consultation process has created a constructive dialogue that has helped to inform and refine the PRSP program. The dialogue has been very positive, although it has raised issues that will need to be resolved as the process proceeds.

28. Countries that are in the process of preparing I-PRSPs or PRSPs have raised a range of important issues with respect to PRSP content and processes. With respect to content, points of emphasis have included the following: growth and macroeconomic stability are critical for poverty reduction, but cannot be considered as ends in themselves; poverty reduction strategies need to be comprehensive in nature, and are not simply about social programs; explicit links need to be made between public policy and poverty reduction, between poverty reduction strategies and the macroeconomic framework, and between the latter and sectoral programs. Countries have also noted that strategies should address the composition and efficiency of public expenditure, should deal with the issue of cost recovery, and should put special emphasis on job creation and questions of more equitable income distribution. They have also raised issues with respect to capacity to prepare PRSPs, including the need for technically sound poverty diagnostics and for donor support with PRSP formulation and implementation (but without undermining country ownership).

29. With respect to processes, countries' views have centered on issues of participation, ownership and donor relations. These have included the nature and extent of the participatory process and specifically how best to consult with the poor; the need to put PRSP-based participatory processes appropriately in the context of national political processes, and to avoid undermining political legitimacy or letting powerful interest groups dominate the process; and the need to develop effective feedback and monitoring systems. On ownership, countries have noted the potential tension between the time needed to build country ownership on the one hand and the requirement for timely PRSP preparation on the other.

30. In the area of donor relations, countries have noted that donors may need to consider new patterns of assistance consistent with PRSP priorities, specifically including longer term support consistent with the long term time horizon of poverty reduction strategies, together with greater emphasis on budgetary support (rather than project aid) as the most efficient way of supporting comprehensive country strategies. They have also raised the issue of donors' willingness to realign their procedures and interventions in line with national poverty reduction strategies. Specifically with respect to the Bank and Fund, they have noted the need for change on both sides—the Bretton Woods Institutions (BWIs) need to give countries space to design their own programs, and countries need to allow the BWIs to make professional assessments of those programs. Countries have also asked about the potential for deriving more streamlined and less detailed Bank and Fund conditionality from the PRSP process, and about linkage between BWI Boards' endorsement of PRSPs and mobilization of assistance from other

donors. Finally, they noted the potential tension between the concept of country ownership and the provision that PRSPs be broadly endorsed by the Boards (see footnote 1).

31. Other development partners have also been supportive of the PRSP approach, but have raised some questions about implementation. Several have noted that the PRSP concept fits well with their own development strategies' emphasis on the centrality of poverty reduction, the partnership approach, and the inclusion of civil society as well as governments in program design. Others have noted the potential of the process for helping to achieve the IDGs, the importance of the country-driven approach and country ownership embedded in the PRSP process, and the emphasis placed on results orientation and monitoring. Their main concerns have been similar to some of those expressed by low-income countries—namely, the time and capacity needed to formulate PRSPs, the specific need to use I-PRSPs in order not to delay debt relief under the HIPC initiative, the need for flexibility and careful consideration of individual country conditions in program implementation, and the question of how best to organize participatory processes. Some development partners have also noted that issues of good governance and transparency will be critical for the success of the PRSP program, and have emphasized the importance of dealing with questions of equity and asset allocation in the context of poverty reduction. Finally, they have noted the importance of partners' early engagement in discussions with countries as they frame their strategies.

32. The consultation process has been of great value and will continue into the future. These and other issues arising from it will continue to require attention as the program proceeds and will need to be handled within the collaborative, responsive, learning-by-doing framework planned for the program as a whole.



**Note:** These estimates are in some cases highly tentative and all are subject to change. PRSPs and Interim PRSPs are prepared by the countries. The estimates shown have been prepared by Bank and Fund staffs in consultation with the country authorities concerned, but ultimately the timing of PRSPs and Interim PRSPs will necessarily reflect the countries' own circumstances and decisions. Furthermore, the timing estimates assume that countries' Fund- and Bank-supported programs remain on track, and that understandings are reached on new programs without major interruptions. Experience indicates, however, that some and perhaps many of these dates will unavoidably slip, and the timing of new programs is particularly subject to delay.

April 10, 2000  
**Tentative and  
Subject to Change**

**Possible Country Timelines for Poverty Reduction Strategy Paper (PRSP), Interim PRSP, Country Assistance Strategy (CAS), Poverty Reduction and Growth Facility (PRGF), and HIPC Decision and Completion Point in 2000**  
(Possible Timing of Board Discussions as Estimated by Bank and Fund Staff in Consultation with the Country Authorities)

Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec
Albania	S	I, R	...	...	Lesotho	...	...	...	I, F
Armenia	...	I, F	...	S, R	Macedonia, FYR	...	S	I, F	...
Azerbaijan	...	I, F	...	R	Madagascar	...	R	...	I, R
Benin	...	I, F, D	S	...	Malawi	...	I, F	...	S, R, D
Bolivia	I, D	R	P, C	S	Mali	...	...	I, R, D, C	S
Bosnia and Herzegovina	...	S	...	...	Mauritania	D	R	...	P, R
Burkina Faso	...	P, S, R, D, C	...	R	Moldova	...	...	I, F	...
Cambodia	S	...	R	I, R	Mongolia	...	R	I, S, F	...
Cameroon	...	S, R	I, D	F	Mozambique	R	I, S, D	...	R
Central African Republic	...	I, R	...	R	Nepal	...	...	I, F	...
Chad	...	...	I, S, R	P, D	Nicaragua	...	...	R	I, R, D
Côte d'Ivoire	...	...	...	I, R, D	Niger	...	I, F	...	R
Djibouti	...	R	...	I, R	Pakistan	...	...	I, S, R	...
Ethiopia	...	...	...	I, F	Rwanda	...	...	R	I, R, D
Gambia, The	...	R	...	I, R	Sao Tomé and Príncipe	...	I, F	...	R
Georgia	...	...	I, F	...	Senegal	...	I, R, D	R	...
Ghana	S	I, R	...	R	Sierra Leone	...	...	...	I, F
Guinea	...	I, R, D	...	R	Sri Lanka	...	...	I, F	...
Guinea-Bissau	...	...	I, F, D	R	Tajikistan	...	...	I, R	R
Guyana	...	...	I, R, D	...	Tanzania	...	I, F, D	P, R	...
Haiti	...	...	...	I, F	Uganda	D	P, S, R, C	...	R
Honduras	...	I, R, D	...	R	Vietnam	...	...	I, S, F	...
Kenya	...	...	I, F	...	Yemen, Republic of	...	I, R	R	...
Kyrgyz Republic	...	R	I, R	P	Zambia	...	I, R	...	R, D
Lao, PDR	...	...	I	F					

<b>I -- interim PRSP</b>	F -- new PRGF 3-year arrangement	D -- HIPC decision point under enhanced Initiative	S -- Country Assistance Strategy
<b>P -- PRSP</b>	R -- review of PRGF arrangement, or new annual arrangement	C -- HIPC completion point, enhanced or original Initiative	